NORTHERN MARIANAS COLLEGE

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

YEAR ENDED SEPTEMBER 30, 2005

NORTHERN MARIANAS COLLEGE

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2005 AND 2004

Deloitte.

Deloitte & Touche
P.O. Box 500308
Saipan, MP 96950-0308
Tel: (670) 322-7337/0860/0861
Fax: (670) 322-7340
www.deloitte.com

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), a component unit of the Commonwealth of the Northern Mariana Islands, as of September 30, 2005 and 2004, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the College's management. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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.

Because of inadequacies in the accounting records and internal control, we were unable to determine that property, plant and equipment and depreciation expense were fairly stated as of and for the years ended September 30, 2005 and 2004.

As discussed in note 6, the College elected not to record certain buildings, leasehold interests and obligations as of September 30, 2004. Had the transaction been recorded, property, plant and equipment would be increased by $7,500,000, liabilities would be increased by $4,000,000 and nonoperating revenues would be increased by $3,500,000 as of and for the year ended September 30, 2004. Additionally, depreciation expense of the properties was not determinable for the year ended September 30, 2004.

Member of
Deloitte Touche Tohmatsu

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had the propriety of property, plant and equipment been determinable and had buildings, leasehold interests and obligations been recorded 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 Northern Marianas College as of September 30, 2005 and 2004, and its changes in net assets and its 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 8 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 Northern Marianas 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 supplementary information. However, we did not audit such information and we do not express an opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2006, on our consideration of internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Deloitte & Touche LLC

June 28, 2006

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

Overview of the Financial Statements and Financial Analysis

The Northern Marianas College (the College) presents it financial statements in accordance with accounting principles generally accepted in the United States of America. These 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.

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. Further, it attempts to provide the reader with insight on the major accomplishments and challenges the institution was faced with during financial year ended September 30, 2005.

Statement of Net Assets

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

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

Net assets are divided into three major categories. The first category, investment in capital assets, provides the institution's equity in property, plant and equipment owned by the College. The next category is restricted net assets, which is divided in to two categories, nonexpendable and expendable. The corpus of the nonexpendable restricted assets is only available for investment purposes. Expendable restricted assets are available for 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.

A Land Grant Institution accredited by the Accrediting Commission for Community and Junior Colleges and by the Senior Commission for Colleges and Universities of the Western Association for Schools and Colleges

Summary Statement of Net Assets

	2005	2004
ASSETS:		
Current assets	$ 4,842,330	4,915,584
Capital assets, net	8,448,390	9,051,805
Other assets	3,659,044	3,256,145
Total assets	$ 16,949,764	$ 17,223,534
LIABILITIES:		
Current liabilities	$ 2,434,957	$ 3,498,142
Non-current liabilities	203,033	288,953
Total liabilities	2,637,990	3,787,095
NET ASSETS:		
Invested in capital assets	8,448,390	9,051,805
Restricted – non-expendable	3,000,000	3,000,000
Restricted – expendable	1,721,291	976,724
Unrestricted	1,142,093	407,910
Total net assets	14,311,774	13,436,439
Total liabilities and net assets	$ 16,949,764	$ 17,223,534

Total assets as evident above, decreased by approximately $274K. This decrease is attributable to approximately $605K in depreciation expense net of the increase in the College's Endowment Fund which appreciated in value by approximately $402K during the year.

Total liabilities for the year decreased by approximately $1.15M, which is attributable primarily to a concerted effort on the College's part to payoff outstanding liabilities in a timely and efficient manner, when cash is available for such purposes. Such payoff included substantial sums of funds paid out to clear accrued annual leave liabilities to employees. Further, as a result of reduced levels of full time personnel, related accruals at year end for salaries and wages were also reduced.

Statement of Revenues, Expenses and Changes in Net Assets

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

Generally speaking, operating revenues are received for providing services to the various customers and constituencies of the College. Operating expenses are those expenses paid to acquire or produce the services provided in return for operating revenues, and to carry out the mission of the College. Nonoperating revenues are revenues received for which services are not provided. For example, CNMI appropriations (representing 51.89% and 51.39% of total operating and nonoperating revenues in 2005 and 2004, 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

	2005	2004
Operating revenues	$ 8,108,780	$ 8,581,134
Operating expenses	16,815,902	18,053,528
Operating loss	(8,707,122)	(9,472,394)
Nonoperating revenues	9,582,457	9,496,572
Increase (Decrease) in net assets	875,335	24,178
Net assets - beginning of year	13,436,439	13,412,261
Net assets – end of year	$ 14,311,774	$ 13,436,439

The Statement of Revenues, Expenses and Changes in Net Assets reflect a positive outcome for the financial year 2005 with an overall increase in net assets of approximately $875K. It is noted however that due to the fact that a comprehensive inventory of the College's fixed assets was not completed as of September 30, 2005 and as a result related depreciation may not be accurately recorded, this amount may be misstated. Despite a net increase in assets for the financial year, the College posted a net operating loss of approximately $8.7 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 decreased by approximately $318K as a result of decreased student enrollment. Such is attributed to the general decline in student enrollment between FY2004 and FY2005, which is assumed to be the result of the Pell status in FY2004 and FY2005. GASB Statements 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.

- Federal, state and private grants and contracts increased by approximately $650K, which is primarily attributable to new grants received in FY2005 and increased levels of expenditures for several U.S. federal grant assistance programs at the College. It is noted however that the level of federal Pell grants increased slightly over that received in FY2004 as a result of our efforts to timely process grant applications.

- Rental income from the La Fiesta Shopping Center was reduced substantially as such properties were returned to the CNMI Government in FY2005.

- Expenses decreased in fiscal year 2005 due to reduced levels of personnel costs and the return of the La Fiesta properties to the CNMI Government.

- Appropriations from the CNMI remained consistent with FY2004. The College received a supplemental budget of $518K in FY2005 for its summer programs and its Nursing program. Further, proper accounting of the 2% deficit reduction and 1% OPA fee withholding made against our annual appropriations and the utilities expenses which are forwarded to the CNMI Government was also made.

- The College's Endowment Fund investments posted a net gain in fair value of approximately $402K for the year.

Statement of Cash Flows

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

Summary Statement of Cash Flows

	2005	2004
Cash Provided By (Used In):		
Operating activities	$ (8,275,725)	$ (8,749,781)
Noncapital financing activities	8,951,662	9,290,540
Capital and related financing activities	(1,509)	(4,887)
Net change in cash and equivalents	674,428	535,872
Cash and equivalents, beginning of year	1,049,330	513,458
Cash and equivalents, end of year	$ 1,723,758	$ 1,049,330

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.

Major Accomplishment and Challenges in FY2004

La Fiesta Shopping Center

As noted in prior financial years' Management Discussion and Analysis write-up's, in FY2003, the College acquired the La Fiesta Shopping Center located in San Roque, Saipan for a total of $7.5 million. The College paid $3.5 million of the purchase amount through a grant from the Office of the Governor with the remaining $4 million due in annual installments for $200K. The original plan was to convert this facility into a College campus and use such to launch the Pacific Gateway Project which aimed to recruit large numbers of international students primarily from Asian countries to the College. The College officially took over the operations of the La Fiesta Shopping Center. Upon taking over the operations of the facility, the College realized that it was incurring material deficits on a monthly basis, which the College was not in a position to subsidize. The College's accrediting body, the Western Association of Schools and Colleges (WASC), also raised concerns regarding this building deficit, the long term liability of $4 million remaining on the purchase price, and the anticipated cost of renovating the facility into an environment conducive to learning.

The College approached the Office of the Governor (Governor Babauta's Administration) with the above concern and through direct financial assistance from the Governor's Office was able to recoup all losses incurred at the facility. Additionally, the College was able to convince the Office of the Governor that it did not have the resources to operate the facility or the funding deemed necessary to covert such into a college campus.

The Office of the Governor (Governor Babauta's Administration) agreed to take the facility and related liabilities back from the College, the conditions of which are summarized in a Memorandum of Agreement (MOA) dated September 15, 2004. Due to the fact that the transfer needed to be approved by the original sellers of the property, the official transfer did not occur until January 7, 2005. The College has elected not to record this property and related liabilities as of September 30, 2004 as all related transactions would need to be reversed due to the subsequent event. Rather the College has elected to disclose this information in the notes to the financial statement, which are attached hereto.

The College elected not to record the La Fiesta properties as of September 30, 2004. The attached audit report, which covers financial years 2004 and 2005, refers to related transactions and related disclosures are made in the notes to the financial statements.

Resolution of Questioned Costs

One of the major financial challenges the institution was faced with for many years was the large amount of unresolved questioned costs outstanding (approximately $1.8 million as of September 30, 2003). The College did not have the financial resources to repay this amount should the costs be ultimately disallowed by the federal grantor agencies. This was another concern raised by WASC. The College launched a comprehensive effort to resolve these questioned costs with the grantor agencies in financial years 2004 and 2005. As a result of these efforts, the College was able to reduce the level of outstanding questioned costs to $137,405 as of September 30, 2005. The College continues to work with the federal agencies and expects to address the remaining questioned costs during FY2006. As a result of our continued efforts in complying with federal rules and regulations the FY2005 audit report did not identify any additional questioned costs, a first in the College's history.

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's 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 the new CNMI Administration focusing its efforts in reviving this industry. The garment industry, another major source of revenue for the CNMI, has also declined compounding the Commonwealth's economic woes. The current CNMI Administration of Governor Fitial has made economic recovery and revival a primary concern and is working toward this end. The fruits of these efforts are expected to be realized in the coming years.

As a result of the dwindling resources available for appropriations CNMI wide, the College's budget from appropriations was reduced by approximately $1.5M in FY2006. The College took several actions to ensure that this budget reduction would not result in the College operating in a deficit. The continuing economic challenges may result in further budget reductions in FY2007.

NORTHERN MARIANAS COLLEGE

Statements of Net Assets
September 30, 2005 and 2004

	2005	2004 (As Restated)
Assets:		
Current assets:		
Cash and cash equivalents	$ 1,723,758	$ 1,049,330
Accounts receivable and unbilled charges, net	1,422,403	2,034,386
Due from grantor agencies	1,062,247	1,572,647
Due from CNMI	227,896	-
Inventories	400,512	253,707
Prepaid expenses	5,514	5,514
Total current assets	4,842,330	4,915,584
Noncurrent assets:		
Investments	3,659,044	3,256,145
Property, plant and equipment, net	8,448,390	9,051,805
Total noncurrent assets	12,107,434	12,307,950
Total assets	$ 16,949,764	$ 17,223,534
Liabilities:		
Current liabilities:		
Accounts payable	$ 1,016,405	$ 1,544,289
Accrued salaries and benefits payable	405,629	712,053
Compensated absences	319,378	475,799
Deferred revenue	693,545	766,001
Total current liabilities	2,434,957	3,498,142
Noncurrent liabilities:		
Compensated absences, net of current portion	203,033	288,953
Total noncurrent liabilities	203,033	288,953
Total liabilities	2,637,990	3,787,095
Contingencies		
Net assets:		
Investment in capital assets	8,448,390	9,051,805
Restricted for:		
Nonexpendable	3,000,000	3,000,000
Expendable	1,721,291	976,724
Unrestricted	1,142,093	407,910
Total net assets	14,311,774	13,436,439
Total liabilities and net assets	$ 16,949,764	$ 17,223,534

See accompanying notes to financial statements.

NORTHERN MARIANAS COLLEGE

Statements of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2005 and 2004

	2005	2004 (As Restated)
Operating revenues:		
U.S. federal grants	$ 5,805,641	$ 5,156,965
Student tuition and fees (net of scholarship discounts and allowances of $1,771,586 and $1,605,257 in 2005 and 2004, respectively)	813,464	1,131,638
Rental	273,929	575,102
Private gifts, grants and donations - restricted	93,820	32,021
Other	1,121,926	1,685,408
Total operating revenues	8,108,780	8,581,134
Expenses:		
Salaries	7,732,677	8,410,525
Services	2,430,428	3,524,488
Benefits	2,267,200	2,403,624
Insurance, utilities and rent	1,154,592	1,389,475
Supplies	572,381	359,388
Depreciation	604,924	603,857
Miscellaneous	2,053,700	1,362,171
Total operating expenses	16,815,902	18,053,528
Operating loss	(8,707,122)	(9,472,394)
Nonoperating revenues (expenses):		
CNMI appropriations	9,179,558	9,290,540
Investment income, net of expenses	111,736	66,623
Change in fair value of investments	291,163	139,409
Total nonoperating revenues	9,582,457	9,496,572
Increase in net assets	875,335	24,178
Net assets, beginning of the year	13,436,439	13,412,261
Net assets, end of the year	$ 14,311,774	$ 13,436,439

See accompanying notes to financial statements.

NORTHERN MARIANAS COLLEGE

Statements of Cash Flows
Years Ended September 30, 2005 and 2004

	2005	2004 (As Restated)
Cash flows from operating activities:		
Student tuition and fees	$ 953,685	$ 158,497
U.S. federal grants	6,316,041	5,517,744
Other revenues	1,552,567	2,636,354
Payments to employees	(10,548,642)	(10,730,217)
Payments to suppliers	(6,549,376)	(6,332,159)
Net cash used in operating activities	(8,275,725)	(8,749,781)
Cash flows from noncapital financing activities:		
CNMI appropriations	8,951,662	9,290,540
Net cash provided by noncapital financing activities	8,951,662	9,290,540
Cash flows from capital and related financing activities:		
Purchases of property, plant and equipment	(1,509)	(4,887)
Net cash used in capital and related financing activities	(1,509)	(4,887)
Net increase in cash and cash equivalents	674,428	535,872
Cash and cash equivalents, beginning of year	1,049,330	513,458
Cash and cash equivalents, end of year	$ 1,723,758	$ 1,049,330
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	$ (8,707,122)	$ (9,472,394)
Adjustments to reconcile operating loss to net cash used in operating activitiies:		
Depreciation expense	604,924	603,857
Provision for (recovery of) delinquent receivables	336,414	(245,225)
Changes in assets and liabilities:		
Accounts receivable and unbilled charges	275,569	(598,816)
Due from grantor agencies	510,400	360,779
Inventories	(146,805)	18,968
Accounts payable	(527,884)	529,620
Accrued salaries and benefits payable	(306,424)	70,104
Compensated absences	(242,341)	13,828
Deferred revenue	(72,456)	(30,502)
Net cash used in operating activities	$ (8,275,725)	$ (8,749,781)

Noncash transaction:

The College recorded a net increase in fair value of investments of $291,163 and $139,409 in 2005 and 2004, respectively.

The College recorded noncash contributions from the CNMI Government related to utility subsidy amounting to $534,735 and $604,795 in 2005 and 2004, respectively.

See accompanying notes to financial statements.

(1) Organization

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

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

The College has been granted initial accreditation by the Accrediting Commission for Community and Junior Colleges, Western Association of Schools and Colleges, at its meeting on June 11, 1985. The College undergoes periodic re-evaluations and approval of its accreditation. The College was re-evaluated and approved most recently in 2004.

(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.

Concentrations of Credit Risk

Financial instruments which potentially subject the College to concentrations of credit risk consist principally of cash demand deposits and investments.

At September 30, 2005 and 2004, the College has cash deposits and investments in bank accounts that exceed federal depository insurance limits. The College has not experienced any losses in such accounts.

Cash and Cash Equivalents

GASB Statement No. 3 previously required government entities to present deposit risks in terms of whether the deposits fell into the following categories:

Category 1 Deposits that are federally insured or collateralized with securities held by the College or its agent in the College's name;

(2) Summary of Significant Accounting Policies, Continued

Cash and Cash Equivalents, Continued

Category 2 Deposits that are uninsured but fully collateralized with securities held by the pledging financial institution's trust department or agent in the College's name; or

Category 3 Deposits that are collateralized with securities held by the pledging financial institution's trust department or agent but not in the College's name and non-collateralized deposits.

GASB Statement No. 40 amended GASB Statement No. 3 to in effect eliminate disclosure for deposits falling into categories 1 and 2 but retained disclosures for deposits falling under category 3. Category 3 deposits are those deposits that have exposure to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the College's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized, or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name. The College does not have a deposit policy for custodial credit risk.

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, 2005 and 2004, cash and cash equivalents were $1,723,758 and $1,049,330, respectively, and the corresponding bank balances were $1,187,621 and $975,120, respectively, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2005 and 2004, 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. Accordingly, the deposits are exposed to custodial credit risk.

Investments

GASB Statement No. 3 previously required government entities to present investment risks in terms of whether the investments fell into the following categories:

Category 1 Investments that are insured or registered, or securities held by the College or its agent in the College's name;

Category 2 Investments that are uninsured or unregistered for which the securities are held by the counterparty's trust department or agent in the College's name; or

Category 3 Investments that are uninsured and unregistered with securities held by the counterparty, or by its trust department or agent but not in the College's name.

GASB Statement No. 40 amended GASB Statement No. 3 to eliminate disclosure for investments falling into categories 1 and 2, and provided for disclosure requirements addressing other common risks for investments such as credit risk, interest rate risk, concentration of credit risk, and foreign currency risk. GASB Statement No. 40 did retain and expand the element of custodial risk in GASB Statement No. 3.

(2) Summary of Significant Accounting Policies, Continued

Investments, Continued

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

General:

- Any pertinent restrictions existing under the laws of CNMI with respect to the College, that may exist now or in the future, will be the governing restriction.
- U.S. and non-U.S. equities, ADRs (American Depository Receipts), convertible bonds, preferred stocks, fixed-income securities, mutual funds and short-term securities are permissible investments.
- No individual security of any issuer, other than that of the United States Government, shall constitute more than 5% (at cost) of the Total Fund or 10% (at cost) of any Investment Manager's portfolio.
- No investment may be made in the securities of a single corporate entity in excess of 15% (at market) of any individual Investment Manager's portfolio, without prior approval.
- Holdings of any issuer shall constitute no more than 5% of the outstanding securities of such issuer.
- Investments in a registered mutual fund managed by the Investment Manager are subject to prior approval.
- The following securities and transactions are not authorized without prior written approval: letter stock and other unregistered securities; non-negotiable securities; commodities or other commodity contracts; options; futures; short sales; and, margin transactions.
- An Investment Manager's portfolio shall not be excessively over weighted in any one industry (as compared to respective benchmark index) without prior approval by timely reporting and advice to the Regents and Directors.

U.S. Fixed Income:

- All fixed income securities held in the portfolio shall have a Standard & Poor's credit quality rating of no less than "BBB", or an equivalent credit quality rating from Moody's (Baa) or Fitch (BBB). U.S. Treasury and U.S. Government agencies, which are unrated securities, are qualified for inclusion in the portfolio and will be considered to be of the highest rating.
- No more than 20% of the market value of the portfolio shall be rated less than single "A" quality, unless the Investment Manager has specific prior written authorization from the Regents and Directors.
- Total portfolio quality (capitalization weighted) shall maintain a credit quality rating of no less than "A".

(2) Summary of Significant Accounting Policies, Continued

Investments, Continued

Equities:

- Consistent with the desire to maintain broad diversification, allocations to any economic or industry sector should not be excessive.
- Equity holdings shall be restricted to readily marketable securities of corporations that are actively traded on the major exchanges and over the counter.
- The Investment Managers shall have the discretion to invest a portion of the assets in cash reserves when they deem appropriate. However, as per the Investment Policy Statement, they will be evaluated against their peers on the performance of the total funds under their direct management.
- Common stock and preferred stock of any institution or entity created or existing under the laws of the United States or any other country are permissible investments.

Cash/Cash Equivalents:

- Cash equivalent reserves shall consist of cash instruments having a quality rating of Standard & Poor's A-1, Moody's P-1, or their equivalent. U.S. Treasury and Agency securities, Bankers Acceptances, Certificates of Deposit, and Collateralized Repurchase Agreements are also acceptable investment vehicles. Custodial Sweep Accounts must be, in the judgment of the Investment Managers, of credit quality equal or superior to the standards described above.
- In the case of Certificates of Deposit, they must be issued by FDIC insured institutions. Deposits in institutions with less than $10,000,000 in assets may not be made in excess of $100,000 (or prevailing FDIC insurance limit), unless the Deposit is fully collateralized by U.S. Treasury Securities.
- No single issue shall have a maturity of greater than two (2) years.
- Custodial Sweep Account portfolios must have an average maturity of less than one (1) year.

GASB Statement No. 40 requires entities to provide information about the credit risk associated with their investments by disclosing the credit quality ratings.

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, the College will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The College's investments are held and administered by trustees in accordance with negotiated trust and custody agreements. Based on these agreements, all of these investments were held in the College's name by the College's custodial financial institutions at September 30, 2005 and 2004.

(2) Summary of Significant Accounting Policies, Continued

Investments, Continued

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of debt instruments. As of September 30, 2005 and 2004, investments at fair value are as follows:

	2005	2004
Fixed income securities:		
Domestic fixed income	$ 1,321,704	$ 1,336,685
Other investments:		
Domestic equities	$ 2,192,415	$ 1,858,603
Other	144,925	60,857
	2,337,340	1,919,460
	$ 3,659,044	$ 3,256,145

The following is a listing of the College's fixed income securities at September 30, 2005 and 2004:

2005

		Investment Maturities (In Years)				
Investment Type	Fair Value	Less Than 1	1 - 5	6 - 10	More Than 10	Rating
U.S. Treasury notes	$ 954,460	$ 13,981	$ 742,648	$ 197,831	$ -	AAA
U.S. Treasury bonds	143,400	-	-	-	143,400	AAA
Corporate bonds	50,504	-	-	50,504	-	A
Corporate bonds	37,805	-	-	24,404	13,401	A+
Corporate bonds	11,064	-	11,064	-	-	AA-
Corporate bonds	18,150	-	-	18,150	-	AAA
Corporate bonds	44,190	-	-	18,621	25,569	BBB
Corporate bonds	24,125	-	13,123	11,002	-	BBB-
Corporate bonds	38,006	-	-	12,241	25,765	BBB+
	$ 1,321,704	$ 13,981	$ 766,835	$ 332,753	$ 208,135	

2004

		Investment Maturities (In Years)				
Investment Type	Fair Value	Less Than 1	1 - 5	6 - 10	More Than 10	Rating
U.S. Treasury notes	$ 101,227	$ -	$ 25,864	$ 75,363	$ -	AAA
U.S. Treasury bonds	182,329	-	-	-	182,329	AAA
Other U.S. government obligations	518,053	64,967	271,576	131,916	49,594	AAA
Corporate bonds	29,969	-	29,969	-	-	A
Corporate bonds	28,336	-	-	28,336	-	A/Watch Neg
Corporate bonds	124,074	-	62,778	22,018	39,278	A+
Corporate bonds	29,884	-	29,884	-	-	AA
Corporate bonds	92,464	-	92,464	-	-	AA-
Corporate bonds	56,540	-	24,781	31,759	-	AA+
Corporate bonds	89,509	-	89,509	-	-	AAA
Corporate bonds	84,300	25,740	32,675	25,885	-	No rating available
	$ 1,336,685	$ 90,707	$ 659,500	$ 315,277	$ 271,201	

(2) Summary of Significant Accounting Policies, Continued

Endowment Fund

The College administers an endowment fund through the NMC Foundation Board of Directors. The fund was established through a contribution of $3,000,000. Principal of this fund is nonexpendable while investment income is available for operations subject to approval by the Foundation Board. Investment income is accounted for as expendable restricted revenues of the College. Fundraising activity of the Foundation Board is accounted for as unrestricted revenue of the College. All activities of the Foundation Board are accounted for within the College's financial statements.

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.

Allowance for Doubtful Accounts

The allowance for doubtful accounts is stated at an amount that management believes will be adequate to absorb possible losses on accounts receivable that may become uncollectible based on evaluations of the collectibility of these accounts and prior collection experience. The allowance is established through a charge to bad debts.

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.

(2) Summary of Significant Accounting Policies, Continued

Compensated Absences

The College recognizes cost for accrued annual leave at the time such leave is earned. As of September 30, 2005 and 2004, the College recorded accrued annual leave in the amount of $522,411 and $764,752, respectively, which is included within the statements of net assets as compensated absences.

Retirement Plan

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

Plan members are required to contribute 6.5% and 9.0% of their annual covered salary for Class I and Class II members, respectively, and the College is required to contribute at an actuarially determined rate. The current rate is 26.4% of annual covered payroll. The contribution requirements of plan members and the College are established and may be amended by the Fund's Board of Trustees. The College's contributions to the Fund for the years ended September 30, 2005, 2004 and 2003 of $1,908,335, $2,008,861 and $2,006,979, 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.

(2) Summary of Significant Accounting Policies, Continued

Net Assets, Continued

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

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

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

Classification of Revenues

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

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

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

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

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards

For fiscal year 2005, the College implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures (an amendment of GASB Statement No. 3)*. GASB Statement No. 40 addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. As an element of interest risk, GASB Statement No. 40 requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates.

In November 2003, GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. GASB Statement No. 42 establishes standards for impairment of capital assets when its service utility has declined significantly and unexpectedly. The provisions of this Statement are effective for periods beginning after December 15, 2004. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the College.

In July 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Post employment Benefits Other Than Pensions*. GASB Statement No. 45 establishes standards for the measurement, recognition, and display of other post employment benefits expense/expenditures and related liabilities, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The provisions of this Statement are effective for periods beginning after December 15, 2008. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the College.

In June 2005, GASB issued Statement No. 47, *Accounting for Termination Benefits*. GASB Statement No. 47 establishes guidance for state and local governmental employers on accounting and financial reporting for termination benefits. These benefits include incentives for voluntary terminations (e.g., early retirement window programs) and severance payments with respect to involuntary terminations. The provisions of this Statement are effective for periods beginning after June 15, 2005. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the College.

(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, would 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 last three years.

(4) Accounts Receivable and Unbilled Charges

Summarized below is the College's accounts receivable and unbilled charges as of September 30, 2005 and 2004:

	2005	2004
Student tuition and fees	$ 3,389,610	$ 3,602,287
Auxiliary enterprises	209,485	240,096
Other activities	77,074	109,355
	3,676,169	3,951,738
Less allowance for doubtful accounts	(2,253,766)	(1,917,352)
Net accounts receivable and unbilled charges	$ 1,422,403	$ 2,034,386

(5) Property, Plant and Equipment

Summarized below is the College's investment in property, plant and equipment and changes at September 30, 2005 and 2004:

	Estimated Useful Lives	Balance at October 1, 2004	Additions	Deletions	Balance at September 30, 2005
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	1,199,168	1,509	-	1,200,677
Vehicles	5 years	241,748	-	-	241,748
Computers	3 - 5 years	1,523,211	-	-	1,523,211
		14,729,754	1,509	-	14,731,263
Less accumulated depreciation		(5,677,949)	(604,924)	-	(6,282,873)
Net investment in plant		$ 9,051,805	$ (603,415)	$ -	$ 8,448,390

	Estimated Useful Lives	Balance at October 1, 2003	Additions	Deletions	Balance at September 30, 2004
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	1,194,281	4,887	-	1,199,168
Vehicles	5 years	241,748	-	-	241,748
Computers	3 - 5 years	1,523,211	-	-	1,523,211
		14,724,867	4,887	-	14,729,754
Less accumulated depreciation		(5,074,092)	(603,857)	-	(5,677,949)
Net investment in plant		$ 9,650,775	$ (598,970)	$ -	$ 9,051,805

(6) Leasehold Interests

During the year ended September 30, 2004, 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. Under these agreements, the total price for the assignment of the leasehold interests and transfer of ownership interest in the properties located thereon was $7,500,000. Of the total price, $3,500,000 was paid by the CNMI Governor's Office, while the remaining $4,000,000 was payable in annual installments of $200,000 due on or before the last day of business in October of each year. On January 1, 2004, the College officially acquired ownership to the buildings, located on the real properties, and assignment of the leasehold interests for the real properties on which the buildings are located.

On September 15, 2004, the College entered into a Memorandum of Agreement (MOA) with the CNMI Governor's Office to transfer the buildings, leasehold interests and obligations and operations of the facilities to the CNMI Governor's Office as of October 1, 2004. The MOA is contingent upon the approval of the original sellers of the real property and facilities/improvements.

The College elected not to record the buildings, leasehold interests and obligations as of September 30, 2004 based on the potential transfer through the MOA.

On January 7, 2005, the original sellers of the real property and the facilities/improvements, related to the College's leasehold interests, consented to the assignment of the rights and obligations of the College to the CNMI Governor's Office. On the same date, title to the real property and assignment of contract rights were transferred to the CNMI Governor's Office.

(7) Long-Term Obligations

Changes in long-term obligations for the years ended September 30, 2005 and 2004, are as follows:

	Balance October 1, 2004	Additions	Reductions	Balance September 30, 2005	Due Within One Year
Compensated absences	$ 764,752	$ -	$ 242,341	$ 522,411	$ 319,378

	Balance October 1, 2003	Additions	Reductions	Balance September 30, 2004	Due Within One Year
Compensated absences	$ 750,924	$ 13,828	$ -	$ 764,752	$ 475,799

(8) CNMI Contributions

To ensure that the College receives its full accreditation by the Western Association of Schools and Colleges, and meets educational and the vocational needs of the community, the College receives annual appropriations from the CNMI Government. During the years ended September 30, 2005 and 2004, the College received approximately $8,951,662 and $9,290,540, respectively, in cash or in College expenses paid for by the CNMI Government.

(9) Natural Classifications With Functional Classification

For fiscal years prior to 2005, 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 2005 and 2004. The following table shows natural classifications with functional classifications:

	2005							
	Salaries	Benefits	Services	Supplies	Insurance, Utilities and Rent	Depreciation	Miscellaneous	Total
Instructional	$ 7,717,369	$ 2,267,200	$ 322,288	$ 77,775	$ -	$ -	$ 6,408	$10,391,040
Administration	-	-	556,829	494,606	1,154,592	-	2,047,292	4,253,319
Student expense	-	-	131,354	-	-	-	-	131,354
Student services	15,308	-	1,004,085	-	-	-	-	1,019,393
Operation and maintenance	-	-	415,872	-	-	604,924	-	1,020,796
	$ 7,732,677	$ 2,267,200	$ 2,430,428	$ 572,381	$ 1,154,592	$ 604,924	$ 2,053,700	$16,815,902

	2004							
	Salaries	Benefits	Services	Supplies	Insurance, Utilities and Rent	Depreciation	Miscellaneous	Total
Instructional	$ 8,392,638	$ 2,403,624	$ 313,971	$ 135,455	$ -	$ -	$ 7,896	$11,253,584
Administration	-	-	876,567	223,933	1,389,475	-	1,354,275	3,844,250
Student expense	-	-	279,719	-	-	-	-	279,719
Student services	17,887	-	1,113,782	-	-	-	-	1,131,669
Operation and maintenance	-	-	940,449	-	-	603,857	-	1,544,306
	$ 8,410,525	$ 2,403,624	$ 3,524,488	$ 359,388	$ 1,389,475	$ 603,857	$ 1,362,171	$18,053,528

(10) Encumbrances

The accrual basis of accounting provides that expenses include only amounts associated with goods and services received and liabilities include only the unpaid amounts associated with such expenses. Accordingly, $1,255,595 and $361,087 of outstanding purchase orders and purchase commitments are not reported in the financial statements for the years ended September 30, 2005 and 2004, respectively.

(11) Contingencies

The College participates in a number of U.S. Department of Education assisted grant programs and other various federally assisted grants. These programs are subject to financial and compliance audits to ascertain if Federal laws and guidelines have been followed. Cumulative questioned costs of $137,405 relating to fiscal year 2004 and prior have been set forth in the College's Single Audit Report for the year ended September 30, 2005. There were no reported questioned costs for fiscal year 2005. The ultimate disposition of these questioned costs can be determined only by final action of the respective grantor agencies. Therefore, no provision for any liability that may result upon resolution of this matter has been made in the accompanying financial statements.

(11) Contingencies, Continued

A former employee filed suit against the College for wrongful termination. The eventual outcome of this matter cannot be reasonably predicted by management and, accordingly, no provision for any liability or potential loss that may result from settlement of this claim has been recorded in the accompanying financial statements.

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, 2005 and 2004, is $1,720,229 and $1,933,521, respectively.

(12) Subsequent Event

Appropriations from the CNMI Government were reduced by approximately $1,500,000 in fiscal year 2006. Additionally, appropriations proposed for fiscal year 2007 reduce funding available for personnel expense by approximately $2,000,000 and requires the College to pay for the cost of utilities, estimated at $1,000,000. The College's Board of Regents and administration are working on addressing this situation through internal cost cutting measures and by working with the CNMI Government.

(13) Restatement

The College has elected to record depreciation expense which was previously not recorded for the year ended September 30, 2004. The College has estimated depreciation expense for the year ended September 30, 2004 at $600,000. As such property, plant and equipment has decreased by $600,000 as of September 30, 2004 and depreciation expense has increased by $600,000 for the year ended September 30, 2004.