



NORTHERN MARIANAS COLLEGE

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

YEAR ENDED SEPTEMBER 30, 2006

NORTHERN MARIANAS COLLEGE

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

YEARS ENDED SEPTEMBER 30, 2006 AND 2005

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, 2006 and 2005, 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 paragraph, 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, 2006 and 2005.

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 as discussed in the third paragraph 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, 2006 and 2005, 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.

As discussed in note 2 to the financial statements, the College has not recorded a liability and benefits expense related to an increase in retirement contributions.

The Management's Discussion and Analysis on pages 3 through 9 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 21, 2007, 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.

Debitte J. Touche LLC

June 21, 2007



Northern Marianas College

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Management's Discussion and Analysis
For the Financial Year Ended September 30, 2006

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.

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, 2006. The Management's Discussion and Analysis (MD&A) for the year ended September 30, 2005 is set forth in the College's report on the audit of financial statements, dated Jun 28, 2006. The MD&A explains the major factors impacting the 2005 financial statements and can be obtained from the College's President at P.O. Box 501250, Saipan, MP 96950-1250.

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 into two categories, nonexpendable and expendable. The nonexpendable section of this category has specific restrictions which preclude use of such funds without express consent by the donor or other parties external to the institution. For the purposes of the financial statements attached hereto, 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 the institution determines best serves its ongoing interests in line with its mission.

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Management's Discussion and Analysis
For the Financial Year Ended September 30, 2006

Summary Statement of Net Assets

	<u>2006</u>	<u>2005</u>	<u>2004</u>
ASSETS:			
Current assets	\$ 5,703,612	\$ 4,842,330	\$ 4,915,584
Capital assets, net	7,890,627	8,448,390	9,051,805
Other assets	<u>3,884,199</u>	<u>3,659,044</u>	<u>3,256,145</u>
Total assets	\$ <u>17,478,438</u>	\$ <u>16,949,764</u>	\$ <u>17,223,534</u>
LIABILITIES:			
Current liabilities	\$ 2,771,194	\$ 2,434,957	\$ 3,498,142
Non-current liabilities	<u>146,597</u>	<u>203,033</u>	<u>288,953</u>
Total liabilities	<u>2,917,791</u>	<u>2,637,990</u>	<u>3,787,095</u>
NET ASSETS:			
Invested in capital assets	7,890,627	8,448,390	9,051,805
Restricted - non-expendable	3,000,000	3,000,000	3,000,000
Restricted - expendable	2,498,552	1,721,291	976,724
Unrestricted	<u>1,171,468</u>	<u>1,142,093</u>	<u>407,910</u>
Total net assets	<u>14,560,647</u>	<u>14,311,774</u>	<u>13,436,439</u>
Total liabilities and net assets	\$ <u>17,478,438</u>	\$ <u>16,949,764</u>	\$ <u>17,223,534</u>

Total assets, as evident above, increased by approximately \$529K from FY2005 to FY2006. This increase is attributable primarily to:

- An increase in the College's Endowment Fund market value, which appreciated in value by approximately \$225K during the year.
- A general increase in receivables as a result of delayed approval of USDA CREES funding, which resulted in operations advancing cash to the federal fund.
- An increase in inventory at the College bookstore

Total liabilities for the year increased by approximately \$280K, which is attributable primarily an increase in accounts payable and deferred revenue. The increase in accounts payable is consistent with the change in inventory balances at the book store while the increase in deferred revenue is consistent with the increase in tuition and fees revenues from rate and fee increases.

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.

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Management's Discussion and Analysis For the Financial Year Ended September 30, 2006

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 46.18%, 51.89% and 51.39% of total operating and nonoperating revenues in FY2006, FY2005 and FY2004, respectively) are nonoperating because the Commonwealth Legislature provides them to the College and therefore they are not a direct result of the College's operations.

Summary Statement of Revenue, Expenses and Changes in Net Assets

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Operating revenues, net	\$ 8,023,159	\$ 7,728,780	\$ 8,581,134
Operating expenses	<u>15,077,669</u>	<u>16,435,902</u>	<u>18,053,528</u>
Operating loss	(7,054,510)	(8,707,122)	(9,472,394)
Nonoperating revenues	<u>7,303,383</u>	<u>9,582,457</u>	<u>9,496,572</u>
Increase in net assets	248,873	875,335	24,178
Net assets - beginning of year	<u>14,311,774</u>	<u>13,436,439</u>	<u>13,412,261</u>
Net assets - end of year	\$ <u>14,560,647</u>	\$ <u>14,311,774</u>	\$ <u>13,436,439</u>

The Statement of Revenues, Expenses and Changes in Net Assets reflect a positive outcome for the financial year 2006 with an overall increase in net assets of approximately \$249K. It is noted however, that the College elected not to accrue for its contributions to the CNMI retirement fund at the rate of approximately 36%, as the institution was not provided funding for the increase and the CNMI government and other component units have been forgiven such increase. Additionally, the College's approved budget submission and its approved budget included the rate utilized by the College to calculate the liability included in the accompanying financial statements. The difference between the approximately 24% rate at which the College contributed to the CNMI retirement fund and the new contributory rate of approximately 36% requested by the fund is not reflected in the financial statements attached hereto. In spite of a net increase in assets for the financial year, the College posted a net operating loss of approximately \$7.05 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 \$230K as a result of the tuition and fees increase, implemented in Fall 2006 in spite of an overall decrease in student enrollment. GASB's 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.

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Management's Discussion and Analysis For the Financial Year Ended September 30, 2006

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 decreased by approximately \$81K, which is consistent with the prior year expenditure levels.
- No rental income from the La Fiesta Shopping Center 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 an overall reduction in expenditure levels to absorb the large drop in our funding from CNMI appropriations.
- Appropriations from the CNMI were reduced by approximately \$2.1M over the amount received in FY2005. The College received a supplemental budget of \$518K in FY2005 for its summer programs and its Nursing program and had an overall funding level of approximately \$8M, exclusive of the supplemental \$518K funding. Further, proper accounting of the 2% deficit reduction and 1% OPA fee withholding made against our annual appropriations and the utilities expenses (approximately \$559K and \$604K, FY06 and FY05, respectively) 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 \$225K 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

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Cash provided by (used in):			
Operating activities	\$ (7,319,857)	\$ (8,275,725)	\$ (8,749,781)
Noncapital financing activities	7,222,561	8,951,662	9,290,540
Capital and related financing activities	<u>(1,609)</u>	<u>(1,509)</u>	<u>(4,887)</u>
Net change in cash and cash equivalents	(98,905)	674,428	535,872
Cash and cash equivalents, beginning of year	<u>1,723,758</u>	<u>1,049,330</u>	<u>513,458</u>
Cash and cash equivalents, end of year	<u>\$ 1,624,853</u>	<u>\$ 1,723,758</u>	<u>\$ 1,049,330</u>

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Management's Discussion and Analysis
For the Financial Year Ended September 30, 2006

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, FY2005 and FY2006

La Fiesta Shopping Center

As noted in prior financial years' Management's Discussion and Analysis write-ups, 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. On taking over the operations of the facility, the College realized that such 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 concern 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, 2005. Due to the fact that this transfer needed to be approved by the original sellers of the property, the official transfer however did not occur till 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 reversed again 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.

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Management's Discussion and Analysis
For the Financial Year Ended September 30, 2006

Resolution of Questioned Costs

One of the major financial challenges the institution was faced with for many years now was the large amount of unresolved questioned costs which were 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 also another concern raised by WASC. The College launched a comprehensive effort to resolve these questioned costs with the grantor agencies in financial year 2004 and 2005. As a result of these efforts, the College was able to reduce the level of outstanding questioned costs to \$68,909 as of September 30, 2006. The College continues to work with the federal agencies and expects to address the remaining questioned during FY2007. As a result of our continued efforts in complying with federal rules and regulations, the FY2006 audit report identified a minimal level of additional questioned costs.

Ending Three Consecutive Financial Years on a Balanced Budget

The College ended the three financial years discussed in this MD&A on balanced budget in spite of various financial challenges it faced in each of these financial years. The College in FY2004 and 2005 has to deal with the material financial burden of the management of the La Fiesta properties and fortunately, with the assistance of the CNMI Government, was able to ensure that such did not negatively impact its overall financial condition and ended each of these two financial years with a net surplus of approximately \$24K (FY04) and \$875K (FY05).

In FY2006, the College, not unlike other government agencies, had to absorb a drastic reduction in its appropriations funding from the CNMI Government. This reduction translated into a drop in approximately \$2.1M in funding from the CNMI Government over what the College received in FY2005.

To cope with this downward adjustment in resources, the College immediately implemented a hiring freeze, reduced operational costs and reorganized its governance structure to ensure that in spite of this drastic reduction, it lived within the resources available for FY2006. As a result of these actions, the College actually ended financial year 2006 with an overall surplus of approximately \$249K, subject to any adjustments ultimately deemed warranted for additional contributions levels to the CNMI Retirement Fund.

Increase in the Contribution Rate to the CNMI Retirement Fund

In FY2006, the CNMI Retirement Fund increased the rate of contribution for employers participating in the plan from approximately 24% to 36% but did not apply the increase to the CNMI government or other component units. The College did not comply with this increased rate of contribution and further elected not to accrue such in the financial statements attached hereto for the following reasons:

- This was not a budgeted expense and the College's funding from CNMI appropriations was reduced by approximately \$2.1M from that which was received in FY2005. Had the College elected to accrue for this increase in the contribution rate the net impact would have been an additional \$1.2M in unbudgeted expenses.

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Management's Discussion and Analysis
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- At the advice of the CNMI Government, the College continued, as is the case with other Governmental agencies and the central Government, to contribute at the approximately 24% rate.

The College is working with the CNMI Government to obtain an exemption from this large increase in the employer rate of contribution to the Retirement Fund and the unfunded obligation it creates for the institution.

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 under appropriations was reduced by approximately \$1.5M in FY2006, exclusive of the supplemental appropriation of \$518K it received in FY2005. The College took several actions, noted earlier, to ensure that this budget reduction would not result in the College operating in a deficit. The continuing economic challenges resulted in further budget reductions in FY2007. Again the College is looking at its resource levels to ensure that it adjusts its expense level to be in line with the downward adjustment in its funding from CNMI appropriations.

NORTHERN MARIANAS COLLEGE

Statements of Net Assets
September 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Assets:		
Current assets:		
Cash and cash equivalents	\$ 1,624,853	\$ 1,723,758
Accounts receivable and unbilled charges, net	1,861,104	1,422,403
Due from grantor agencies	1,614,353	1,062,247
Due from CNMI	83,563	227,896
Inventories	514,225	400,512
Prepaid expenses	5,514	5,514
Total current assets	<u>5,703,612</u>	<u>4,842,330</u>
Noncurrent assets:		
Investments	3,884,199	3,659,044
Property, plant and equipment, net	7,890,627	8,448,390
Total noncurrent assets	<u>11,774,826</u>	<u>12,107,434</u>
Total assets	<u>\$ 17,478,438</u>	<u>\$ 16,949,764</u>
Liabilities:		
Current liabilities:		
Accounts payable	\$ 1,187,887	\$ 1,016,405
Accrued salaries and benefits payable	296,400	405,629
Compensated absences	335,236	319,378
Deferred revenue	951,671	693,545
Total current liabilities	<u>2,771,194</u>	<u>2,434,957</u>
Noncurrent liabilities:		
Compensated absences, net of current portion	146,597	203,033
Total noncurrent liabilities	<u>146,597</u>	<u>203,033</u>
Total liabilities	<u>2,917,791</u>	<u>2,637,990</u>
Contingencies		
Net assets:		
Investment in capital assets	7,890,627	8,448,390
Restricted for:		
Nonexpendable	3,000,000	3,000,000
Expendable	2,498,552	1,721,291
Unrestricted	1,171,468	1,142,093
Total net assets	<u>14,560,647</u>	<u>14,311,774</u>
Total liabilities and net assets	<u>\$ 17,478,438</u>	<u>\$ 16,949,764</u>

See accompanying notes to financial statements.

NORTHERN MARIANAS COLLEGE

Statements of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Operating revenues:		
U.S. federal grants	\$ 5,724,628	\$ 5,805,641
Student tuition and fees (net of scholarship discounts and allowances of \$1,446,353 and \$1,771,586 in 2006 and 2005, respectively)	1,043,474	813,464
Rental	-	273,929
Private gifts, grants and donations - restricted	73,194	93,820
Other	<u>1,181,863</u>	<u>1,121,926</u>
Total operating revenues	<u>8,023,159</u>	<u>8,108,780</u>
Provision for delinquent receivables	<u>-</u>	<u>(380,000)</u>
Net operating revenues	<u>8,023,159</u>	<u>7,728,780</u>
Expenses:		
Salaries	7,066,820	7,732,677
Services	2,552,190	2,430,428
Benefits	2,025,940	2,267,200
Insurance, utilities and rent	823,508	1,154,592
Depreciation	559,372	604,924
Supplies	410,661	572,381
Miscellaneous	<u>1,639,178</u>	<u>1,673,700</u>
Total operating expenses	<u>15,077,669</u>	<u>16,435,902</u>
Operating loss	<u>(7,054,510)</u>	<u>(8,707,122)</u>
Nonoperating revenues (expenses):		
CNMI appropriations	7,078,228	9,179,558
Investment income, net of expenses	56,339	111,736
Change in fair value of investments	<u>168,816</u>	<u>291,163</u>
Total nonoperating revenues	<u>7,303,383</u>	<u>9,582,457</u>
Increase in net assets	248,873	875,335
Net assets, beginning of the year	<u>14,311,774</u>	<u>13,436,439</u>
Net assets, end of the year	<u>\$ 14,560,647</u>	<u>\$ 14,311,774</u>

See accompanying notes to financial statements.

NORTHERN MARIANAS COLLEGE

Statements of Cash Flows
Years Ended September 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Student tuition and fees	\$ 995,269	\$ 953,685
U.S. federal grants	5,172,522	6,316,041
Other revenues	1,122,687	1,552,567
Payments to employees	(9,242,567)	(10,548,642)
Payments to suppliers	<u>(5,367,768)</u>	<u>(6,549,376)</u>
Net cash used in operating activities	<u>(7,319,857)</u>	<u>(8,275,725)</u>
Cash flows from noncapital financing activities:		
CNMI appropriations	<u>7,222,561</u>	<u>8,951,662</u>
Net cash provided by noncapital financing activities	<u>7,222,561</u>	<u>8,951,662</u>
Cash flows from capital and related financing activities:		
Purchases of property, plant and equipment	<u>(1,609)</u>	<u>(1,509)</u>
Net cash used in capital and related financing activities	<u>(1,609)</u>	<u>(1,509)</u>
Net (decrease) increase in cash and cash equivalents	(98,905)	674,428
Cash and cash equivalents, beginning of year	<u>1,723,758</u>	<u>1,049,330</u>
Cash and cash equivalents, end of year	<u>\$ 1,624,853</u>	<u>\$ 1,723,758</u>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (7,054,510)	\$ (8,707,122)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	559,372	604,924
Provision for delinquent receivables	-	380,000
Changes in assets and liabilities:		
Accounts receivable and unbilled charges	(438,701)	231,983
Due from grantor agencies	(552,106)	510,400
Inventories	(113,713)	(146,805)
Accounts payable	171,482	(527,884)
Accrued salaries and benefits payable	(109,229)	(306,424)
Compensated absences	(40,578)	(242,341)
Deferred revenue	<u>258,126</u>	<u>(72,456)</u>
Net cash used in operating activities	<u>\$ (7,319,857)</u>	<u>\$ (8,275,725)</u>

Noncash transaction:

The College recorded a net increase in fair value of investments of \$168,816 and \$291,163 in 2006 and 2005, respectively.

The College recorded noncash contributions from the CNMI Government related to utility subsidy amounting to \$637,701 and \$534,735 in 2006 and 2005, respectively.

See accompanying notes to financial statements.

NORTHERN MARIANAS COLLEGE

Notes to Financial Statements September 30, 2006 and 2005

(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, 2006 and 2005, 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;

NORTHERN MARIANAS COLLEGE

Notes to Financial Statements
September 30, 2006 and 2005

(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, 2006 and 2005, cash and cash equivalents were \$1,624,853 and \$1,723,758, respectively, and the corresponding bank balances were \$1,686,460 and \$1,187,621, respectively, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2006 and 2005, 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.

NORTHERN MARIANAS COLLEGE

Notes to Financial Statements
September 30, 2006 and 2005

(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".

NORTHERN MARIANAS COLLEGE

Notes to Financial Statements
September 30, 2006 and 2005

(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, 2006 and 2005.

NORTHERN MARIANAS COLLEGE

Notes to Financial Statements
September 30, 2006 and 2005

(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, 2006 and 2005, investments at fair value are as follows:

	<u>2006</u>	<u>2005</u>
Fixed income securities:		
Domestic fixed income	\$ <u>1,370,951</u>	\$ <u>1,321,704</u>
Other investments:		
Domestic equities	2,401,531	\$ 2,192,415
Other	<u>111,717</u>	<u>144,925</u>
	<u>2,513,248</u>	<u>2,337,340</u>
	\$ <u>3,884,199</u>	\$ <u>3,659,044</u>

The following is a listing of the College's fixed income securities at September 30, 2006 and 2005:

<u>Investment Type</u>	<u>Fair Value</u>	<u>2006</u>				<u>Rating</u>
		<u>Investment Maturities (In Years)</u>				
		<u>Less Than 1</u>	<u>1 - 5</u>	<u>6 - 10</u>	<u>More Than 10</u>	
U.S. Treasury notes	\$ 802,428	\$ 36,682	\$ 544,658	\$ 191,785	\$ 29,303	AAA
U.S. Treasury bonds	78,572	-	-	-	78,572	AAA
Mortgage and asset backed securities	218,545	-	-	-	218,545	AAA
Corporate bonds	17,797	-	-	17,797	-	AAA
Corporate bonds	13,893	-	-	13,893	-	AA-
Corporate bonds	23,886	-	11,905	11,981	-	A+
Corporate bonds	52,655	-	-	52,655	-	A
Corporate bonds	27,599	-	14,000	13,599	-	A-
Corporate bonds	27,522	-	-	27,522	-	BBB+
Corporate bonds	72,754	-	-	37,976	34,778	BBB
Corporate bonds	14,167	-	-	14,167	-	BBB-
Corporate bonds	14,638	-	-	-	14,638	BB
Corporate bonds	6,495	-	-	6,495	-	B
	<u>\$ 1,370,951</u>	<u>\$ 36,682</u>	<u>\$ 570,563</u>	<u>\$ 387,870</u>	<u>\$ 375,836</u>	

<u>Investment Type</u>	<u>Fair Value</u>	<u>2005</u>				<u>Rating</u>
		<u>Investment Maturities (In Years)</u>				
		<u>Less Than 1</u>	<u>1 - 5</u>	<u>6 - 10</u>	<u>More Than 10</u>	
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-
	<u>\$ 1,321,704</u>	<u>\$ 13,981</u>	<u>\$ 766,835</u>	<u>\$ 332,753</u>	<u>\$ 208,135</u>	

NORTHERN MARIANAS COLLEGE

Notes to Financial Statements
September 30, 2006 and 2005

(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.

NORTHERN MARIANAS COLLEGE

Notes to Financial Statements September 30, 2006 and 2005

(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, 2006 and 2005, the College recorded accrued annual leave in the amount of \$481,833 and \$522,411, 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 contribution requirements of plan members and the College are established and may be amended by the Fund's Board of Trustees. Effective October 1, 2005, the current rate increased from 24% to 36.7727% of annual covered payroll.

Pursuant to CNMI Public Law 6-41 (an amendment to certain provisions of CNMI Public Law 6-17), any employer who fails to pay or remit contributions as required by this section shall pay a penalty of 10% per month or part thereof for which the contribution remains unpaid, up to a maximum penalty of 25% of the unpaid contribution.

The College elected not to apply the new rate during the year ended September 30, 2006 as its annual appropriations from the CNMI did not include the effect of the increase in contribution rate and the CNMI government and other component units have been forgiven such increase. Additionally, the College's approved budget submission and its approved budget included the rate utilized by the College to calculate the liability included in the accompanying financial statements. The College's contributions to the Fund for the years ended September 30, 2006, 2005 and 2004 were \$1,727,477, \$1,908,335 and \$2,008,861, respectively. Had the College applied the new rate, retirement contributions in 2006 would have increased by approximately \$1,200,000. Interest assessed on the deficient retirement contribution is approximately \$300,000 as of September 30, 2006. The effects of the deficient retirement contribution and related interest totaling \$1,500,000 are not reflected in the accompanying financial statements.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NORTHERN MARIANAS COLLEGE

Notes to Financial Statements
September 30, 2006 and 2005

(2) Summary of Significant Accounting Policies, Continued

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.

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.

NORTHERN MARIANAS COLLEGE

Notes to Financial Statements
September 30, 2006 and 2005

(2) Summary of Significant Accounting Policies, Continued

Classification of Revenues, Continued

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.

New Accounting Standards

During fiscal year 2006, the College implemented the following pronouncements:

- GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, which establishes standards for impairment of capital assets when its service utility has declined significantly and unexpectedly.
- GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation (an amendment to GASB Statement No. 34)*, which requires that limitations on the use of net assets imposed by enabling legislation be reported as restricted net assets.
- GASB Statement No. 47, *Accounting for Termination Benefits*, which establishes guidance for state and local governmental employers on accounting and financial reporting for termination of benefits.
- GASB Technical Bulletin No. 2004-2, *Recognition of Pension and Other Postemployment Benefit Expenditures/Expense and Liabilities by Cost-Sharing Employers*, which clarifies the requirements of GASB Statement Nos. 27 and 45 for recognition of pension and other postemployment benefit expenditures/expense and liabilities by cost-sharing employers.

The implementation of these pronouncements did not have a material impact on the accompanying 2006 financial statements.

In April 2004, GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. GASB Statement No. 43 establishes uniform financial reporting for other postemployment benefit plans by state and local governments. The provisions of this Statement are effective for periods beginning after December 15, 2007. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the College.

NORTHERN MARIANAS COLLEGE

Notes to Financial Statements September 30, 2006 and 2005

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In May 2004, GASB issued Statement No. 44, *Economic Condition Reporting: The Statistical Section, an amendment to NCGA Statement 1*. GASB Statement No. 44 improves the understandability and usefulness of statistical section information and adds information from the new financial reporting model for state and local governments required by GASB Statement No. 34. 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

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 September 2006, GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfer of Assets and Future Revenues*. GASB Statement No. 48 establishes criteria that governments will use to ascertain whether certain transactions should be regarded as a sale or a collateralized borrowing. The statement also includes a provision that stipulates that governments should not revalue assets that are transferred between financial reporting entity components. The provisions of this Statement are effective for periods beginning after December 15, 2006. 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.

NORTHERN MARIANAS COLLEGE

Notes to Financial Statements
September 30, 2006 and 2005

(4) Accounts Receivable and Unbilled Charges

Summarized below is the College's accounts receivable and unbilled charges as of September 30, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Student tuition and fees	\$ 3,695,941	\$ 3,389,610
Auxiliary enterprises	139,649	209,485
Other activities	<u>279,280</u>	<u>77,074</u>
	4,114,870	3,676,169
Less allowance for doubtful accounts	<u>(2,253,766)</u>	<u>(2,253,766)</u>
Net accounts receivable and unbilled charges	<u>\$ 1,861,104</u>	<u>\$ 1,422,403</u>

(5) Property, Plant and Equipment

Summarized below is the College's investment in property, plant and equipment and changes at September 30, 2006 and 2005:

	Estimated Useful Lives	Balance at October 1, 2005	Additions	Deletions	Balance at September 30, 2006
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	1,200,677	1,609	-	1,202,286
Vehicles	5 years	241,748	-	-	241,748
Computers	3 - 5 years	<u>1,523,211</u>	-	-	<u>1,523,211</u>
		14,731,263	1,609	-	14,732,872
Less accumulated depreciation		<u>(6,282,873)</u>	<u>(559,372)</u>	-	<u>(6,842,245)</u>
Net investment in plant		<u>\$ 8,448,390</u>	<u>\$ (557,763)</u>	<u>\$ -</u>	<u>\$ 7,890,627</u>
	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	<u>1,523,211</u>	-	-	<u>1,523,211</u>
		14,729,754	1,509	-	14,731,263
Less accumulated depreciation		<u>(5,677,949)</u>	<u>(604,924)</u>	-	<u>(6,282,873)</u>
Net investment in plant		<u>\$ 9,051,805</u>	<u>\$ (603,415)</u>	<u>\$ -</u>	<u>\$ 8,448,390</u>

NORTHERN MARIANAS COLLEGE

Notes to Financial Statements
September 30, 2006 and 2005

(6) Long-Term Obligations

Changes in long-term obligations for the years ended September 30, 2006 and 2005, are as follows:

	Balance October 1, 2005	Additions	Reductions	Balance September 30, 2006	Due Within One Year
Compensated absences	\$ 522,411	\$ -	\$ 40,578	\$ 481,833	\$ 335,236

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

(7) 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, 2006 and 2005, the College received approximately \$7,222,561 and \$8,951,662, respectively, in cash or in College expenses paid for by the CNMI Government.

(8) Natural Classifications With Functional Classification

For fiscal years prior to 2006, 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 2006 and 2005. The following table shows natural classifications with functional classifications:

	2006							
	Salaries	Benefits	Services	Supplies	Insurance, Utilities and Rent	Depreciation	Miscellaneous	Total
Instructional	\$ 7,044,383	\$ 2,025,940	\$ 126,010	\$ 62,444	\$ -	\$ -	\$ 23,901	\$ 9,282,678
Administration	-	-	560,565	348,217	823,508	-	1,615,277	3,347,567
Student expense	-	-	567,711	-	-	-	-	567,711
Student services	22,437	-	837,366	-	-	-	-	859,803
Operation and maintenance	-	-	460,538	-	-	559,372	-	1,019,910
	<u>\$ 7,066,820</u>	<u>\$ 2,025,940</u>	<u>\$ 2,552,190</u>	<u>\$ 410,661</u>	<u>\$ 823,508</u>	<u>\$ 559,372</u>	<u>\$ 1,639,178</u>	<u>\$ 15,077,669</u>

	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	-	1,667,292	3,873,319
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
	<u>\$ 7,732,677</u>	<u>\$ 2,267,200</u>	<u>\$ 2,430,428</u>	<u>\$ 572,381</u>	<u>\$ 1,154,592</u>	<u>\$ 604,924</u>	<u>\$ 1,673,700</u>	<u>\$ 16,435,902</u>

NORTHERN MARIANAS COLLEGE

Notes to Financial Statements September 30, 2006 and 2005

(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, \$401,492 and \$1,255,595 of outstanding purchase orders and purchase commitments are not reported in the financial statements for the years ended September 30, 2006 and 2005, respectively.

(10) Contingencies

Financial and Compliance Audits

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 \$68,909 relating to fiscal year 2006 and prior have been set forth in the College's Single Audit Report for the year ended September 30, 2006. 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.

Lawsuits and Claims

The College is involved in various legal actions and possible claims involving three former employees. The eventual outcome of these matters cannot be reasonably predicted by management and, accordingly, no provisions for any liabilities or potential losses that may result from settlement of these claims have been recorded 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, 2006 and 2005, is \$1,103,205 and \$1,720,229, respectively.

Retirement Contribution

As set forth in note 2, the College did not record potential retirement contributions of approximately \$1,500,000, including assessed interest of \$300,000, as of September 30, 2006 as the CNMI government and other component units have been forgiven such increase. The College is subject to a 25% interest penalty by the Fund until its retirement contribution is made current.

(11) Subsequent Event

On January 31, 2007, the College was placed on probation by the Accrediting Commission for Community and Junior Colleges, Western Association of Schools and Colleges (the Commission) due to significant deficiencies with the Commission's eligibility criteria, standards, or policies, or failure to respond to actions and conditions imposed by the Commission. During the probation period, the accredited status of the College continues; however, the College's accreditation will not be reaffirmed until the conditions which warranted the warning are removed.

NORTHERN MARIANAS COLLEGE

INDEPENDENT AUDITORS' REPORTS ON
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2006

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND COMPLIANCE AND OTHER MATTERS 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, 2006, and have issued our report thereon dated June 21, 2007, 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.

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 (pages 11 through 27) as items 2006-1 through 2006-7.

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 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 June 21, 2007.

Compliance and Other Matters

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 as items 2006-4 and 2006-6.

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 LLC

June 21, 2007

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, 2006. 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 27). 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 2006-8 through 2006-14 in the accompanying Schedule of Findings and Questioned Costs, the College did not comply with requirements regarding cash management, procurement and suspension and debarment, equipment and real property management, program income, and reporting 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, 2006.

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 2006-8 through 2006-14.

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, of the reportable conditions described above, we consider item 2006-11 to be a material weakness.

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, 2006, and have issued our report thereon dated June 21, 2007, 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 property, plant and equipment, accrued salaries and benefits payable, and benefits expense 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 LLC

June 21, 2007

NORTHERN MARIANAS COLLEGE

Schedule of Awards Selected for Audit in
 Accordance with OMB Circular A-133
 Year Ended September 30, 2006

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	84.002	Adult Education - State Grant Program	\$ <u>318,297</u>
U.S. Department of Education	84.047	Upward Bound	467,969
	84.044	Talent Search	272,836
	84.042	Student Support Services	<u>245,256</u>
		Subtotal TRIO Cluster	<u>986,061</u>
U.S. Department of Education	84.031	Higher Education Institutional Aid	<u>280,211</u>
U.S. Department of Agriculture	10.203	Payments to Agricultural Experiment Stations Under the Hatch Act	<u>359,778</u>
U.S. Department of Agriculture	10.500	Cooperative Extension Services	<u>796,319</u>
		Total program expenditures tested	\$ <u>2,740,666</u>
		Total federal program expenditures	\$ <u>5,163,168</u>
		% of total federal program expenditures tested	<u>53%</u>

NORTHERN MARIANAS COLLEGE

Introduction to Federal Awards Funds Year Ended September 30, 2006

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, 2006, 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, 2006.

- Direct Grants

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

- Adult Education - State Grant Program
- TRIO - Student Support Services
- TRIO - Upward Bound
- TRIO - Talent Search
- Vocational Education - Occupational and Employment Information State Grants
- Higher Education Institutional Aid
- Minority Science and Engineering Improvement
- New Rehabilitation Training Programs
- NOAA Traditional Fishing Practice

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 2006, the College received one U.S. Department of Health and Human Services grant in a subrecipient capacity.

NORTHERN MARIANAS COLLEGE

Introduction to Federal Awards Funds, Continued
Year Ended September 30, 2006

United States Department of Commerce

- Direct Grants

During fiscal year 2006, the College received one grant directly from the U.S. Department of Commerce.

United States Environmental Protection Agency

- Direct Grants

During fiscal year 2006, the College received one grant directly from the U.S. Environmental Protection Agency.

NORTHERN MARIANAS COLLEGE

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2006

<u>Federal Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Federal Program or Award Amount</u>	<u>Expenditures FY06</u>
<u>U.S. Department of Education</u>			
<u>Direct Programs</u>			
Student Financial Assistance Programs:			
Federal Supplemental Educational Opportunity Grants	84.007	\$ 34,621	\$ 34,601
Federal Work-Study Program	84.033	37,512	34,275
Federal Pell Grant Program	84.063	1,428,094	1,447,393
Subtotal Student Financial Assistance Program		<u>1,500,227</u>	<u>1,516,269</u>
TRIO Programs:			
Student Support Services	84.042	235,689	245,256
Talent Search	84.044	290,272	272,836
Upward Bound	84.047	473,160	467,969
Subtotal TRIO Programs		<u>999,121</u>	<u>986,061</u>
Adult Education State Grant Program	84.002	288,936	318,297
Minority Science and Engineering Improvement	84.120	188,315	209,128
New Rehabilitation Training Programs	84.315c	225,000	157,571
Vocational Education - Occupational and Employment Information State Grants	84.346	103,801	137,168
Higher Education Institutional Aid	84.031	365,000	280,211
NOAA Traditional Fishing Practice	11.452	90,500	53,722
Subtotal U.S. Department of Education		<u>3,760,900</u>	<u>3,658,427</u>
<u>U.S. Department of Agriculture</u>			
<u>Direct Programs</u>			
Payments to Agricultural Experiment Stations Under the Hatch Act			
	10.203	647,604	359,778
Cooperative Extension Services	10.500	866,640	796,319
Subtotal Direct Programs		<u>1,514,244</u>	<u>1,156,097</u>
<u>Indirect Programs</u>			
Grants for Agricultural Research, Special Research Grants	10.200	60,190	40,086
State Administration Matching Grants for Food Stamp Program	10.561	96,475	75,909
Rural Business Enterprise Grants	10.769	14,027	800
Resident Instruction Program	10.308	28,000	19,500

See accompanying notes to schedule of expenditures of federal awards.

NORTHERN MARIANAS COLLEGE

Schedule of Expenditures of Federal Awards, Continued
Year Ended September 30, 2006

<u>Federal Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Federal Program or Award Amount</u>	<u>Expenditures FY06</u>
<u>U.S. Department of Agriculture, Continued</u>			
<u>Indirect Programs, Continued</u>			
Anthropods Survey & Mapping	10.025	15,000	443
Region IX Water Quality Coordination	10.303	24,953	4,404
Western Region SARE Professional Program	10.500	16,000	1,519
Subtotal Indirect Programs		254,645	142,661
Subtotal U.S. Department of Agriculture		1,768,889	1,298,758
<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	165,000	177,378
Subtotal U.S. Department of Health and Human Services		165,000	177,378
<u>U.S. Department of Commerce</u>			
<u>Direct Program</u>			
Learn and Serve America - Higher Education	94.005	15,448	11,919
Subtotal U.S. Department of Commerce		15,448	11,919
<u>U.S. Environmental Protection Agency</u>			
<u>Direct Program</u>			
Water Quality Cooperative Agreements	66.463	70,000	7,686
Subtotal U.S. Environmental Protection Agency		70,000	7,686
Total Federal Programs		\$ 5,780,237	\$ 5,154,168

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, 2006

(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 Agriculture, U.S. Department of Health and Human Services, U.S. Department of Commerce, and U.S. Environmental and Protection Agency 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

For fiscal year 2006, the College has an approved indirect cost rate of 35% for all grant programs, except for U.S. Department of Education programs, which is 8%.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs
Year Ended September 30, 2006

Section I - Summary of Auditor's Results

1. The Independent Auditors' Report on the financial statements expressed a qualified opinion due to our inability to determine the propriety of property, plant and equipment.
2. Reportable conditions in internal control over financial reporting were identified, all of which are considered to be material weaknesses.
3. Two 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, one of which is considered to be a material weakness.
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>
TRIO Cluster:	
TRIO - Upward Bound	84.047
TRIO - Student Support Services	84.042
TRIO - Talent Search	84.044
Adult Education - State Grant Program	84.002
Higher Education Institutional Aid	84.031
Payments to Agricultural Experiment Stations	
Under the Hatch Act	10.203
Cooperative Extension Services	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, 2006

Section II - Financial Statement Findings

<u>Reference Number</u>	<u>Findings</u>	<u>Refer Page #</u>
2006-1	Receivables	13
2006-2	Interfund and Interdepartment Accounts	14
2006-3	Inventories	15 - 16
2006-4	Fixed Assets	17
2006-5	Accrued Leave	18
2006-6	Retirement Expense	19
2006-7	Journal Entries	20

Section III - Federal Award Findings and Questioned Costs

<u>Reference Number</u>	<u>Findings</u>	<u>Questioned Costs</u>	<u>Refer Page #</u>
2006-8	Procurement and Suspension and Debarment	\$ 35,918	21
2006-9	Procurement and Suspension and Debarment	\$ 12,071	22
2006-10	Cash Management	\$ -	23
2006-11	Equipment and Real Property Management	\$ -	24
2006-12	Program Income	\$ -	25
2006-13 - 14	Reporting	\$ -	26 - 27

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2006

Section II - Financial Statement Findings

Receivables

Finding No. 2006-1

Criteria: Receivables should be periodically assessed for validity and collectibility. Additionally, through this process, the adequacy of the allowance for doubtful accounts should be assessed and collection efforts pursued.

Condition: Numerous account balances approximating \$2,100,000 have been outstanding for several fiscal years with little or no subsequent activity. Further, several accounts have negative balances totaling to \$269,922. This condition was corrected through a proposed audit adjustment.

Cause: The cause of the above condition is that supporting documents for these long outstanding balances could not be located and receivable schedules were not reviewed at year end for propriety.

Effect: The effect of the above condition is that the College's receivables are not being collected in a timely manner. Further, 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 receivables for validity and collectibility. Accounts determined to be uncollectible should be written-off. This process should also address the adequacy of the 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 through 2005.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2006

Interfund and Interdepartment Accounts

Finding No. 2006-2

Criteria: Interfund and interdepartment accounts should be reconciled in a timely manner. Further, variances between funds should be investigated and adjusted.

Condition: Interfund accounts for elimination do not agree by \$85,213. Further, interdepartment accounts between the College and the College's Bookstore reflected a variance of \$286,864.

Cause: The cause of the above condition is untimely reconciliation and lack of adequate accounting staff during year 2006.

Effect: The effect of the above condition is a potential misstatement of amounts recorded in the College's financial statements. An audit adjustment was proposed to correct this condition.

Recommendation: We recommend that the College ensure periodic review and monitoring of interfund and interdepartment accounts.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2006

Inventories - Bookstore

Finding No. 2006-3

Criteria: Physical inventory procedures should be established and variances between the general ledger and the subsidiary ledger should be investigated and reconciled in a timely manner. The subsidiary ledger should reflect accurate information as to quantity and cost. Further, costs in the subsidiary ledger should be based on underlying invoices.

Condition:

- a. Our observation of the Bookstore's physical inventory count indicated the following:
 - Verbal inventory instructions were given to the count team, which was composed of student aides. Based on observation, the students were not well informed as to required procedures.
 - Inconsistencies in description and item codes were found in the inventory count sheets.
 - Some of the count records were listed on scratch paper rather than on prenumbered count tags.
 - The case goods inventory was generally stacked in an organized manner. However, the same inventory is sometimes stored at various locations. Since the Bookstore did not prepare an organized layout of the floor space, it became very time consuming to identify all locations where particular inventory is kept. The Bookstore omitted or overcounted certain inventory in their initial counts and was required to recount several times to ensure an accurate count.
 - The Bookstore did not utilize tag controls in its counts. As a result, the Bookstore ran the risk of omitting or double counting floor inventories. This situation worsens, as there are multiple personnel involved. Again, the Bookstore had to recount several times to ensure there was no omission or double counting.
- b. The inventories subsidiary ledger was not reconciled to the general ledger balance resulting in an overstatement of inventories of \$224,869.
- c. For twenty-two of thirty items tested, variances were noted in quantities between year-end inventory test counts and the final inventory listing.
- d. Five of thirty test counts during the year end inventory count could not be traced to the final inventory count. Thus, it appears that the inventory records were not adjusted based on the count performed.
- e. For ten of eighteen items tested, unit costs differ from underlying invoices.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2006

Finding No. 2006-3, Continued

Cause: The cause of the above condition is weak internal controls over inventories.

Effect: The effect of the above condition is untimely completion of inventory counts and reconciliation and misstatement of inventories. Audit adjustments were proposed to correct these conditions.

Recommendation: We recommend that the College establish adequate internal control measures over inventories. Further, we recommend that the College ensure that inventories are properly valued and reconciliation of the inventory general ledger and subledger balances occur on a regular and timely basis.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2006

Fixed Assets

Finding No. 2006-4

Criteria: The College should maintain property records detailing the description, cost, acquisition date and estimated useful life of its fixed assets. Such records should agree to the balances recorded in the College's financial statements. Additionally, periodic physical inventories of all fixed assets should be performed and accounting records should be updated based on the results of those instances.

Condition: A physical inventory of the College's fixed assets has not been performed within the past two years. Additionally, the College was unable to produce a schedule of fixed assets as of September 30, 2006, and original cost data or alternative valuation data is not available.

Cause: The cause of the above condition is non-adherence to the College's established fixed asset capitalization policy and a lack of adequate fixed asset subsidiary records.

Effect: The effect of the above condition is a potential misstatement of amounts recorded in the College's financial statements.

Recommendation: We recommend that the College institute procedures to substantially identify and determine the cost of its fixed assets. Once valuation and identity have been established, we recommend that the College reconcile the balance of actual fixed assets on hand to the balance of assets recorded in its financial statements.

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 through 2005.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2006

Accrued Leave

Finding No. 2006-5

Criteria: The accrued leave subsidiary schedule should be reconciled to the general ledger in a timely manner. Further, leave taken by employees should be supported by approved leave requests.

Condition: The accrued leave subsidiary schedule was not reconciled to the general ledger resulting in an overstatement of \$252,392. Further, leave taken by one employee was not supported by an approved leave request.

Cause: The cause of the above condition is that adjustments to accrued leave only occur at calendar year end.

Effect: The effect of the above condition is a misstatement of the accrued annual leave liability. An audit adjustment was proposed to correct this condition.

Recommendation: We recommend that the College's accrued annual leave schedule be reconciled to the general ledger in a timely manner and leave taken be supported by approved leave requests.

Prior Year Status: Lack of regular and timely reconciliation of the accrued annual leave schedule to the general ledger was reported as a finding in the audit of the College for fiscal year 2005.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2006

Retirement Expense

Finding No. 2006-6

Criteria: In accordance with Public Law 6-17, Section 8342(b), each autonomous agency, instrumentality, or public corporation of the Commonwealth Government shall make contributions to the Northern Mariana Islands Retirement Fund (the Fund) each year on an actuarially funded basis toward the annuities and benefits provided its members. Section 8342(d) requires both employee and employer contributions be remitted to the Fund within five working days following the end of each payroll date. Further, Public Law 6-41 (an amendment to certain provisions of Public Law 6-17), states that any employer who fails to pay or remit contributions as required shall pay a penalty of 10% per month or part thereof for which the contribution remains unpaid, up to a maximum penalty of 25% of the unpaid contribution.

Condition: The Fund increased the retirement contribution rate to 36.7727% effective October 1, 2005. The College elected not to contribute at this rate as the CNMI government and certain other component units were forgiven such an increase. Additionally, the College's approved budget submission and its approved budget included the rate utilized by the College to calculate the liability included in the accompanying financial statements. Had the increase been recorded, accrued salaries and benefits payable and benefits expense would have increased by approximately \$1,500,000 as of and for the year ended September 30, 2006.

Cause: The cause of the above condition is the uncertainty regarding the applicability of the increased rate.

Effect: The effect of the above condition is potential misstatement of amounts recorded in the College's financial statements.

Recommendation: We recommend that the College adhere to the requirements of Public Law 6-17.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2006

Journal Vouchers

Finding No. 2006-7

Criteria: Segregation of duties and an adequate system of internal control require that journal entries be reviewed for validity and accuracy by someone other than the preparer.

Condition: Journal entries are not always reviewed and approved prior to posting. This situation resulted in duplicate posting and several reversing or correcting entries.

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

Effect: The effect of the above condition is that possible errors are not identified in a timely manner, which could result in misstatements of the financial statements.

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

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2006

Section III - Federal Award Findings and Questioned Costs

Procurement and Suspension and Debarment

Finding No. 2006-8

Program	Reason for Questioned Costs	Questioned Costs
U.S. Department of Education / Adult Education - State Grant Program and TRIO Programs / CFDA #s 84.002, 84.042, 84.044 and 84.047 / Federal Award #s V002A050055, P042A051370, P044A020234-05 and P047A030695-05 / Federal Award Periods 07/01/05 - 09/30/06 and 09/01/05 - 08/31/06	<p><u>Criteria:</u> Federal regulations state that small purchase procedures are those relatively simple and informal procurement methods for securing services, supplies or other property that do not cost more than the simplified threshold fixed at 41 U.S.C. 403(11) (currently set at \$100,000). If small purchase procedures are used, price or rate quotations shall be obtained from an adequate number of qualified sources.</p> <p><u>Condition:</u> We noted the following:</p> <ul style="list-style-type: none"> • Of total nonpayroll program expenditures of \$156,877 under the Adult Education - State Grant Program, fourteen items amounting to \$60,148 were tested. Price quotes for the procurement of airfare for two disbursements (check nos. 20376 and 22507) amounting to \$6,336 were not provided for review. This matter is reportable as the projected questioned costs exceed the threshold. • Of total nonpayroll program expenditures of \$334,598 under the TRIO Programs, thirty-five items amounting to \$82,334 were tested. Price quotes for the procurement of airfare for eleven disbursements (check nos. 21814, 20400, 22229, 21814, 22191, 21169, 22028, 22673, 22890, 20375 and 22878) amounting to \$29,582 were not provided for review. 	<p>\$ 6,336</p> <p>29,582</p>
	<p><u>Cause:</u> The cause of the above condition is noncompliance with established federal procurement regulations.</p>	
	<p><u>Effect:</u> The effect of the above condition is noncompliance with federal procurement regulations and possible questioned costs of \$35,918.</p>	
	<p><u>Recommendation:</u> We recommend that the College comply with federal procurement regulations.</p>	

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2006

Procurement and Suspension and Debarment

Finding No. 2006-9

Program	Reason for Questioned Costs	Questioned Costs
<p>U.S. Department of Agriculture / Cooperative Extension Services and Payments to Agricultural Experiment Stations Under the Hatch Act / CFDA #s 10.500 and 10.203 / Federal Award #s 2006-41100-05700 and 2006-31100-06095 / Federal Award Period 10/01/05 - 09/30/06</p>	<p><u>Criteria:</u> Federal regulations state that small purchase procedures are those relatively simple and informal procurement methods for securing services, supplies or other property that do not cost more than the simplified threshold fixed at 41 U.S.C. 403(11) (currently set at \$100,000). If small purchase procedures are used, price or rate quotations shall be obtained from an adequate number of qualified sources.</p> <p><u>Condition:</u> We noted the following:</p> <ul style="list-style-type: none"> • Of the nonpayroll program expenditures of \$231,432 under the Cooperative Extension Services Program, thirteen items amounting to \$48,338 were tested. Price quotes for the procurement of airfare for two disbursements (check nos. 22136 and 22652) amounting to \$4,559 were not provided for review. This matter is reportable as the projected questioned costs exceed the threshold. • Of the nonpayroll program expenditures of \$221,841 under the Payments to Agricultural Experiment Stations Under the Hatch Act, eighteen items amounting to \$64,153 were tested. Price quotes for the procurement of airfare for three disbursements (check nos. 21149, 22707 and 22136) amounting to \$7,512 were not provided for review. This matter is reportable as the projected questioned costs exceed the threshold. <p><u>Cause:</u> The cause of the above condition is the lack of an established policy for the procurement of airfare.</p> <p><u>Effect:</u> The effect of the above condition is noncompliance with federal procurement regulations and possible questioned costs of \$12,071.</p> <p><u>Recommendation:</u> We recommend that quotes be obtained for airfare or that travel agents be procured through a request for proposal.</p> <p><u>Prior Year Status:</u> Lack of established policy with federal procurement regulations was reported as a finding in the audit of the College for fiscal year 2005.</p>	<p>4,559</p> <p>7,512</p>
Total Questioned Costs		\$ <u>47,989</u>

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2006

U.S. Department of Education

Cash Management - Adult Education - State Grant Program and Higher Education Institutional Aid
CFDA #s 84.002 and 84.031, Federal Award #s V002A050055 and P031A020233-05
Federal Award Periods 07/01/05 - 09/30/06 and 10/01/05 - 09/30/06

Finding No. 2006-10

Criteria: The *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments* (the Common Rule) states: "Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used. When advances are made by letter-of-credit or electronic transfer of funds methods, the grantee must make drawdowns as close as possible to the time of making the disbursements."

Condition: We noted the following:

- Check no. 22521 amounting to \$4,367 was released and cleared ninety-five days after cash was received from the grantor agency.
- The supporting invoice, contract or equivalent document could not be provided for one item (document no. CR 108664) amounting to \$8,495. This was corrected through an adjustment. However, the check was not released to the vendor nor were the funds returned to the grantor.
- Payroll costs of \$25,619 were charged for one employee who did not directly work for the Program. This was corrected through a proposed adjustment. However, the funds received were not returned to the grantor.
- A drawdown of \$9,000 related to one purchase (check no. 22453); however, the items bought for the fund are not being used for the program. This was corrected through an adjustment; however, the funds received were not returned to the grantor.
- Supporting invoice, contract or any equivalent document could not be provided for one item (check no. 22762) amounting to \$1,874. This was corrected through an adjustment; however, the funds received were not returned to the grantor.

Cause: The cause of the above condition is that the College appears to have overestimated its check clearing pattern and is drawing cash prior to actual check clearance.

Effect: The effect of the above condition is noncompliance with federal cash management requirements. However, no questioned costs result from the condition as the estimated interest liability to the grantor agency is less than \$10,000.

Recommendation: We recommend that the College update its check clearing study and draw down in accordance with that study.

Prior Year Status: Lack of regular and timely update of the check clearing study and draw downs was reported as a finding in the audit of the College for fiscal year 2005.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2006

Equipment and Real Property Management - All Major Programs

Finding No. 2006-11

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 a lack of established policies and procedures related to equipment and real property management.

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 through 2005.

Prior Year Status: Lack of policies and procedures to ensure compliance with federal property management standards was reported as a finding in the audit of the College for fiscal year 2005.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2006

U.S. Department of Education

Program Income - Adult Education - State Grant Program

CFDA # 84.002, Federal Award # V002A050055

Federal Award Period 07/01/05 - 09/30/06

Finding No. 2006-12

Criteria: OMB A-110 and CFR 34, Part 80, sec80.25 allows state grantees of Adult Education and Family Literacy Act (AEFLA) awards to earn program income. Program income from tuition and fees must be: (1) governed by the terms of the agreement between the state grantee and the local subgrantee to which the state provides federal funds; (2) accounted for in the program records; and (3) used only for costs allowable under AEFLA.

Condition: An accounting of the use of program income and a declaration of total program income received for fiscal year 2006 was not included in the Financial Status Report.

Cause: The cause of the above condition is a lack of adherence to the condition and a lack of adequate accounting staff during fiscal year 2006.

Effect: The effect of the above condition is noncompliance with grant terms and conditions.

Recommendation: We recommend that the College ensure that compliance with the criteria is met.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2006

U.S. Department of Education
Reporting - Adult Education - State Grant Program
CFDA # 84.002, Federal Award # V002A050055
Federal Award Period 07/01/05 - 09/30/06

Finding No. 2006-13

Criteria: OMB A-110 and CFR 34, Part 80, sec80.40, requires that the initial report for 15 months and the final report for 27 months (funds are available for obligation for 27 months) after initiation of the program are due 90 days after year end.

Condition: Expenses reported in the final SF-269 were overstated by \$36,883.

Cause: The cause of the above condition is a lack of adequate accounting staff during fiscal year 2006.

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

Recommendation: We recommend that control policies and procedures be implemented to ensure compliance with the criteria.

Prior Year Status: Lack of control policies and procedures to ensure that federal financial reporting requirements are complied with was reported as a finding in the audit of the College for fiscal year 2005.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2006

U.S. Department of Agriculture
Reporting - Payments to Agricultural Experiment Stations under the Hatch Act
CFDA # 10.203, Federal Award # 311000609505
Federal Award Period 10/01/05 - 09/30/06

Finding No. 2006-14

Criteria: The College is required to submit SF 269 and SF 272, financial reports that should be supported by applicable accounting records and fairly presented in accordance with program requirements.

Condition: The SF 269 was not made available for review and we were therefore unable to determine if the report agreed with the College's financial records.

Cause: The cause of the above condition is a lack of adequate accounting staff during fiscal year 2006.

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

Recommendation: We recommend that reports be submitted when due and be supported by applicable accounting records.

Prior Year Status: Lack of management oversight and review was reported as a finding in the audit of the College for fiscal year 2005.

NORTHERN MARIANAS COLLEGE

Unresolved Prior Year Findings and Questioned Costs
Year Ended September 30, 2006

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, 2006:

Questioned costs as previously reported	\$ 137,405
Less questioned costs resolved in fiscal year 2006:	
Questioned costs of fiscal year 2001 Single Audit (a)	(74,616)
Questioned costs of fiscal year 2002 Single Audit (a)	<u>(41,869)</u>
	20,920
Questioned costs of fiscal year 2006 Single Audit	<u>47,989</u>
Unresolved questioned costs at September 30, 2006	\$ <u>68,909</u>

- (a) OMB Circular A-133, Section .315(b)(4) - questioned costs resolved as the College considers these findings are no longer valid as they were reported to federal agencies in excess of the two year threshold as of September 30, 2006.

Unresolved Findings

The status of unresolved findings is discussed in the Schedule of Findings and Questioned Costs section of this report (pages 11 through 27).



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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, 2006

Financial Statement Findings Section

Receivables

Finding No. 2006-1

The College concurs with the finding. The College has accumulated numerous large receivable balances over the years on which there has been little to no subsequent collection activity. The College feels, however, that it has adequately reserved for these balances. Several accounts have been referred to attorneys and collection agencies for further action. The College is of the opinion that there is still potential for recovery on some of these balances and is reluctant to write them off. The College will increase its efforts to collect these balances and periodically review the adequacy of related allowances. Unfortunately as often is the case, movement on collection cases is slow and when judgments are received in the College's favor payment amounts are generally minimal. Also contributing to the high level of old balances is the lack of direct access to details for old balances on the MIPS accounting system. Details were not carried forward when the College migrated to the current accounting system (MIPS) several years ago. Thus, when attempts are made to collect old balances, extensive research of manual records is required and when produced often the amounts are disputed by the customers. This often results in the College having to resort to litigation for collection. Unfortunately, when we are forced to pursue collection through litigation the balances cannot be written off until the case is resolved. The College will again review these old balances and where the statute of limitation has expired and no activity is noted will recommend to the Board of Regents for write-off.

Interfund and Interdepartment Accounts

Finding No. 2006-2

We concur with the finding. As noted, the lack of adequate personnel in the accounting department as a result of resignations and subsequent hiring freezes implemented to cope with a reduction in our personnel budget has had a negative impact on operations. Interfund accounts reconciliations were being performed but were not completed during FY2006. NMC's Bookstore Manager left the College in FY2006 and as a result of the hiring freeze this position was not filled in a timely manner. The Bookstore Assistant also resigned in FY06 and again this position was not filled in a timely manner due to funding constraints. Subsequently, the College elected to fill these positions by transferring employees from the School of Business and the Small Business Development Center (SBDC). Obviously, the lack of historical knowledge of the operations of the Bookstore contributed to the issues noted in the finding. Further in an effort to reduce expenses and increase efficiency, accounting for the College's Bookstore was moved to the NMC Finance Office beginning FY2007. This move should assist in ensuring the interfund balances between the College and the Bookstore are reconciled in a timely manner.

Financial Statement Findings Section, Continued

Inventories - Bookstore

Finding No. 2006-3

The College concurs with the finding. NMC's Bookstore Manager left the College in FY2006 and as a result of the hiring freeze this position was not filled in a timely manner. The Bookstore Assistant also resigned in FY06 and again this position was not filled in a timely manner due to funding constraints. Subsequently, the College elected to fill these positions by transferring employees from the School of Business and the Small Business Development Center (SBDC). Obviously, the lack of historical knowledge of the operations of the Bookstore contributed to the issues noted in the finding. As also noted in Finding No. 2, in an effort to reduce expenses and increase efficiency, accounting for the College's Bookstore was moved to the NMC Finance Office beginning FY2007. This move provides for direct oversight of the Bookstore's operations.

Fixed Assets

Finding No. 2006-4

The College concurs with the finding. Although a physical inventory of the fixed assets commenced in FY2004 and continued into FY2005, the lack of adequate financial resources precluded the College in procuring the services of a professional appraiser to appraise its real properties. Additionally, funding for the purchase of the fixed assets module was requested from the College's Planning, Budget and Evaluation Council. Once again funding constraints prevented this body from making the funds available for such purposes in FY2004 and 2005. Although funding was set aside for this purpose in FY2006, such was cut in an effort to address a budget shortfall in FY2006. Funding for this purpose was requested of the NMC Foundation in FY2007 \$50,000 and was approved. The finding should be resolved in FY2007.

Accrued Leave

Finding No. 2006-5

The College concurs with the finding. Due to the various challenges in personnel funding the College was forced to freeze various positions resulting in additional duties being assumed by existing personnel. Unfortunately, as the existing accounting staff members are already overwhelmed with day to day operations, recording of various adjustments to the financial statements were not effected during the course of the financial year and rather deferred to adjustment through the annual audit process. This will continue to be challenge until such time that staffing levels are increased to meet the needs and demands of the office. Beginning in FY2004, the College started budgeting for such payouts and has seen quite of a few employees leave the College since and as a result cashing out their annual leave. As a matter of practice and for tracking purposes, such payouts are recorded as expenses and adjusted against the accruals at financial year end.

Retirement Expense

Finding No. 2006-6

The College concurs with the finding to the extent that if ultimately the College is not exempted from the increase rate of contribution, as in the case of another Government agency, adjustments will need to be made to the financial statements attached hereto. As noted in the finding, in FY2006 the CNMI Retirement Fund increased the rate of contribution for employers participating in the plan from approximately 24% to 36%. The College did not comply with this increased rate of contribution and further elected not to accrue such in the financial statements attached hereto for the following reasons:

Financial Statement Findings Section, Continued

Retirement Expense, Continued Finding No. 2006-6, Continued

- This was not a budgeted expense and the College's funding from CNMI appropriations was reduced by approximately \$2.1M from what was received in FY2005. Had the College elected to accrue for this increase in the contribution rate, the net impact would have been an additional \$1.2M in unbudgeted expenses. The College communicated this financial challenge to the CNMI Government.
- At the advice of the CNMI Government, the College continued, as is the case with other Governmental agencies and the central Government, to contribute at the approximately 24% rate.

The College will work with the CNMI Government to obtain an exemption from this large increase in the employer rate of contribution to the Retirement Fund and the unfunded obligation it creates for the institution.

Journal Vouchers Finding No. 2006-7

The College concurs with the finding. The College has implemented internal procedures that require all journal entries to be reviewed by the Chief Accountant and approved by the Chief Financial and Administrative Officer prior to such being recorded on the accounting system. The College believes this provides the necessary oversight to ensure that only valid and accurate entries are posted to the accounting system.

Federal Award Findings and Questioned Costs Section

Procurement and Suspension and Debarment - Adult Education - State Grant Program and TRIO Programs Finding No. 2006-8

The College strongly disagrees with the finding. The fact of the matter is that there is a limited pool of travel agents available on the island and the carriers which service the island, especially to the mainland, where the bulk of the College travel is made to, is also limited to two airlines (Continental and Northwest). Further, in an effort to avoid prior audit findings and questioned cost which were raised by the auditors, we ensure all travel is made on fully refundable economy tickets and as such, the fares do not differ from agency to agency.

The College makes every effort to ensure that travel expenditures are distributed among the available travel agencies and every effort is made to ensure that the College receives the lowest "fully refundable" fare available to the destination while also considering the frequency of the flight availability and routing of the itinerary. The College will implement procedures which will require that all travel is alternated between the approximately four reputable travel agencies available in the CNMI in an effort to further systematically distribute such expenditures among travel agencies available on the island. The College is at a loss as to what other efforts it needs to make to meet the auditor's concern.

Federal Award Findings and Questioned Costs Section, Continued

Procurement and Suspension and Debarment - Cooperative Extension Services and Payments to Agricultural Experiment Stations Under the Hatch Act
Finding No. 2006-9

The College strongly disagrees with the finding. The fact of the matter is that there is a limited pool of travel agents available on the island and the carriers which service the island, especially to the mainland, where the bulk of the College travel is made to, is also limited to two airlines (Continental and Northwest). Further, in an effort to avoid prior audit findings and questioned cost which were raised by the auditors, we ensure all travel is made on fully refundable economy tickets and as such the fares do not differ from agency to agency.

The College makes every effort to ensure that travel expenditures are distributed among the available travel agencies and every effort is made to ensure that the College receives the lowest "fully refundable" fare available to the destination while also considering the frequency of the flight availability and routing of the itinerary. The College will implement procedures which will require that all travel is alternated between the approximately four reputable travel agencies available in the CNMI in an effort to further systematically distribute such expenditures among travel agencies available on the island. The College is at a loss as to what other efforts it needs to make to meet the auditor's concern.

Cash Management - Adult Education - State Grant Program and Higher Education Institutional Aid
Finding No. 2006-10

The College strongly disagrees with the finding. The College ensures that all cash drawdowns are disbursed in accordance with the federal cash management guidelines. The College has no control over when the vendors clear their checks through the banks. A cut-off test of the checks on hand will clearly evidence that checks are disbursed to the vendors in a timely manner. The cashier on receipt of the check from accounts payable, promptly calls the vendors for pick up. If the vendor does not pick up the check and does not bank the check in a timely manner the College cannot be held responsible. Further, certain off island vendors, as a natural consequence of our remote location, will not be able to bank their checks until received through the postal system. Again, the College has no control over such timing. In instances where the College has had to reclassify/reverse expenditures and drawdowns were already made for such expenses, the College freezes drawdown of funds against such grants until such time that the excess drawdown has been exhausted. As this is a repeat finding, the College effective immediately, will only drawdown funds from program after one week from the date of the payment to allow for greater time lapse prior to related cash being drawdown from the Payment Management System (PMS). We will review the effect of this process on our federal cash balances and make further adjustments to the timing of our drawdowns to minimize the time lapsed between receipt of the cash and clearance from our accounts.

Equipment and Real Property Management - All Federal Programs
Finding No. 2006-11

The College concurs with the finding. Although a physical inventory of the fixed assets commenced in FY2004 and continued into FY2005, the lack of adequate financial resources precluded the College from procuring the services of a professional appraiser to appraise its real properties. Additionally, funding for the purchase of the fixed assets module was requested from the College's Planning, Budget and Evaluation Council. Once again, funding constraints prevented this body from making the funds available for this purpose in FY2004 and FY2005. Although funding was set aside for this purpose in FY2006, it was cut in an effort to address a budget shortfall in FY2006. Funding for this purpose was requested of the NMC Foundation in FY2007 \$50,000 and was approved. The finding should to be resolved in FY2007.

Federal Award Findings and Questioned Costs Section, Continued

Program Income - Adult Education - State Grant Program
Finding No. 2006-12

The College partially concurs and partially disagrees with the finding. The auditor was provided the documentation which clearly accounts for all program income and evidences that such is used, as required by federal regulations, for enhancement of the program objectives. All related program income is held in a restricted special account and is accounted for accordingly. We do agree that the FSR did not include documentation and this was the result of lack of adequately trained personnel on federal reporting requirements. The College, due to the various challenges in personnel funding, was forced to freeze various positions resulting in additional duties being assumed by existing personnel. The College's federal accountant retired in December 2005 and federal reports due as of that date which covered the financial year ended September 30, 2005 and in subsequent FY2006 reporting quarters were delayed as this position remained vacant until May 2006. In spite of our best efforts to cover this void, due to already inadequate staffing levels in the office and lack of experience of existing staff on federal financial reporting requirements, various federal financial reports were delayed. The College did recruit for the position of Chief Accountant which was filled in FY2007 and should alleviate some of the staffing concerns in the office and result in improved oversight of the office.

Reporting - Adult Education - State Grant Program
Finding No. 2006-13

The College concurs with the finding. The College, due to the various challenges in personnel funding, was forced to freeze various positions resulting in additional duties being assumed by existing personnel. The College's federal accountant retired in December 2005 and federal reports due as of that date which covered the financial year ended September 30, 2005 and in subsequent FY06 reporting quarters, were delayed as this position remained vacant until May 2006. In spite of our best efforts to cover this void, due to already inadequate staffing levels in the office and lack of experience of existing staff on federal financial reporting requirements, various federal financial reports were delayed. This will continue to be challenge until such time that staffing levels are increased to meet the needs and demands of the office. The College did recruit for the position of Chief Accountant which was filled in FY2007 and should alleviate some of the staffing concerns in the office and result in improved oversight of the office.

Reporting - Payments to Agricultural Experiment Stations Under the Hatch Act
Finding No. 2006-14

The College concurs with the finding. The College, due to the various challenges in personnel funding, was forced to freeze various positions resulting in additional duties being assumed by existing personnel. The College's federal accountant retired in December 2005 and federal reports due as of that date which covered the financial year ended September 30, 2005 and in subsequent FY06 reporting quarters were delayed as this position remained vacant until May 2006. In spite of our best efforts to cover this void, due to already inadequate staffing levels in the office and lack of experience of existing staff on federal financial reporting requirements, various federal financial reports were delayed. This will continue to be challenge until such time that staffing levels are increased to meet the needs and demands of the office. The College did recruit for the position of Chief Accountant which was filled in FY2007 and should alleviate some of the staffing concerns in the office and result in improved oversight of the office.



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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, 2006:

Financial Statement Findings

- Finding No. 2005-1 - Not corrected. See corrective action plan to Finding No. 2006-4.
- Finding No. 2005-2 - Not corrected. See corrective action plan to Finding No. 2006-1.
- Finding No. 2005-3 - Corrective action has been taken.
- Finding No. 2005-4 - Not corrected. See corrective action plan to Finding No. 2006-5.
- Finding No. 2005-5 - Corrective action has been taken.
- Finding No. 2005-6 - Corrective action has been taken.
- Finding No. 2005-7 - Corrective action has been taken.

Federal Award Findings and Questioned Costs

- Finding No. 2005-8 - Not corrected. See corrective action plan to Finding No. 2006-10.
- Finding No. 2005-9 - Corrective action has been taken.
- Finding No. 2005-10 - Not corrected. See corrective action plan to Finding No. 2006-11.
- Finding No. 2005-11 - Not corrected. See corrective action plan to Finding No. 2006-9.
- Finding No. 2005-12 - Not corrected. See corrective action plan to Finding No. 2006-14.
- Finding No. 2005-13 - Not corrected. See corrective action plan to Finding No. 2006-13.