

NORTHERN MARIANAS COLLEGE
(A COMPONENT UNIT OF THE COMMONWEALTH
OF THE NORTHERN MARIANA ISLANDS)

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

YEAR ENDED SEPTEMBER 30, 2008

NORTHERN MARIANAS COLLEGE
(A COMPONENT UNIT OF THE COMMONWEALTH
OF THE NORTHERN MARIANA ISLANDS)

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2008 AND 2007

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, 2008 and 2007, 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.

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.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Northern Marianas College as of September 30, 2008 and 2007, 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 25, 2009, on our consideration of internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Deloitte & Touche LLC

June 25, 2009



Northern Marianas College

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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, opportunities and challenges the institution was faced with during financial year ended September 30, 2008.

Statement of Net Assets

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

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

Net assets are divided into three major categories. The first category, 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 additional classifications:

- Nonexpendable
- Expendable

The corpus of the nonexpendable restricted assets is only available for investment purposes. Expendable restricted assets are available for expenditures by the College but must be spent for purposes as determined by donors and/or external entities that have placed, time or purpose restrictions on the use of the assets.

The final category is unrestricted net assets. Unrestricted net assets are available to the College for any lawful purpose of the institution.

NORTHERN MARIANAS COLLEGE

Management's Discussion and Analysis For the Financial Year Ended September 30, 2008

Summary Statement of Net Assets

	<u>2008</u>	<u>2007</u>	<u>2006</u>
ASSETS:			
Current assets	\$ 5,351,683	\$ 4,953,997	\$ 5,703,612
Capital assets, net	6,220,796	5,943,606	5,894,060
Other assets	<u>4,552,272</u>	<u>4,395,849</u>	<u>3,884,199</u>
Total assets	<u>\$ 16,124,751</u>	<u>\$ 15,293,452</u>	<u>\$ 15,481,871</u>
LIABILITIES:			
Current liabilities	\$ 2,504,284	\$ 2,884,808	\$ 2,771,194
Non-current liabilities	<u>281,816</u>	<u>220,564</u>	<u>146,597</u>
Total liabilities	<u>2,786,100</u>	<u>3,105,372</u>	<u>2,917,791</u>
NET ASSETS:			
Invested in capital assets	6,220,796	5,943,606	5,894,060
Restricted – non-expendable	3,100,000	3,000,000	3,000,000
Restricted – expendable	2,311,192	3,219,246	2,498,552
Unrestricted	<u>1,706,663</u>	<u>25,228</u>	<u>1,171,468</u>
Total net assets	<u>13,338,651</u>	<u>12,188,080</u>	<u>12,564,080</u>
Total net liabilities and net assets	<u>\$ 16,124,751</u>	<u>\$ 15,293,452</u>	<u>\$ 15,481,871</u>

Net assets at September 30, 2008, as evident above, increased over that reported in FY2007. The increase is attributable to several factors including the following, which cumulatively resulted in increases and decreases in Net Asset balances reported in FY2007 and FY2006 and impacted balances as of September 30, 2008:

1. Revaluation of the College's fixed assets which was recorded in FY2006, as restated.
2. The College wrote-off approximately \$1.6M in long outstanding receivables in FY2007 and recorded a \$1.5M increase to its allowance for doubtful accounts.
3. The College's Endowment Fund increased in value by approximately \$156K during the year 2008, despite an overall loss in market value, due to additional investments in the fund. The Fund appreciated in market value in 2007.
4. The College continued to increase its available cash balances through careful management of its cash flows and increasing its collection efforts on receivables and amounts due from federal agencies.

NORTHERN MARIANAS COLLEGE

Management's Discussion and Analysis For the Financial Year Ended September 30, 2008

5. During the financial year ended September 30, 2008, the College capitalized its investments in various building and other capital improvements resulting in a net increase in Plant, Property and Equipment of approximately \$277K. A majority of these improvements were funded through a short-term loan from a local bank, thus liabilities also increased from the related credit arrangement.

Property, Plant and Equipment

At September 30, 2008, 2007 and 2006, the College had \$6,220,796, \$5,943,606 and \$5,894,060, respectively, invested in capital assets, net of accumulated depreciation, where applicable. See note 6 to the financial statements for more information on the College's property, plant and equipment.

Long-term Debt

In 2008, the College entered into a short-term loan agreement with a local bank in the amount of \$250,000 for the purpose of financing its capital improvements. See note 7 to the financial statements for more information on the College's long-term debt.

Statement of Revenues, Expenses and Changes in Net Assets

Changes in total net assets are based on the activity presented in the Statement of Revenues, Expenses and Changes in Net Assets. The purpose of this statement is to present the revenues received by the College, both operating and nonoperating, and the expenses paid by the institution, both 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 years presented since CNMI appropriations and activity of the endowment fund are not reported as operating revenue.

Generally speaking, operating revenues are received for providing services to the various customers and constituencies of the College. Operating expenses are those expenses paid to acquire or produce services 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 36.44% and 37.14% of total gross operating and nonoperating revenues in FY2007 and FY2008, 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.

NORTHERN MARIANAS COLLEGE

Management's Discussion and Analysis For the Financial Year Ended September 30, 2008

Summary Statement of Revenue, Expenses and Changes in Net Assets

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Operating revenues, net	\$ 9,697,299	\$ 6,781,130	\$ 8,023,159
Operating expenses	<u>13,471,362</u>	<u>12,725,462</u>	<u>15,077,669</u>
Operating loss	(3,774,063)	(5,944,332)	(7,054,510)
Nonoperating revenues, net	<u>4,924,634</u>	<u>5,568,332</u>	<u>5,306,816</u>
Increase (Decrease) in net assets	1,150,571	(376,000)	(1,747,694)
Net assets - beginning of year	<u>12,188,080</u>	<u>12,564,080</u>	<u>14,311,774</u>
Net assets - end of year	<u>\$ 13,338,651</u>	<u>\$ 12,188,080</u>	<u>\$ 12,564,080</u>

The Statement of Revenues, Expenses and Changes in Net Assets reflects an increase in net assets for financial year 2008. This is attributable to an overall increase in operating revenue for FY2008 especially from amounts generated from Federal Grants of approximately \$401K and Tuition and Fees of approximately \$693K. The College also increased its efforts in collection of outstanding receivables, posting a recovery of delinquent receivables of approximately \$189K. As in prior years, the College posted a net operating loss of approximately \$3.77 million. This indicates that the College did not generate adequate revenues from operations to cover all its expenses. As the College is a quasi-governmental agency its mission is to provide low cost access to higher education for the community and as such receives subsidies from the CNMI Government to fully fund its operations.

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 \$694K between FY2007 and FY2008. The College has noted a declining trend in student enrollment since FY2004. This is attributed to various factors including the current state of the CNMI economy as a number of people attaining college age are either relocating, joining the workforce or the military. To compensate for the decreased enrollment and to adjust its rate structure to the times, the College increased its tuition and fees in FY06 after an extensive review process. GASB 34 & 35 require that tuition and fees revenue 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, 2008

- It is noted that a material portion of the College's tuition and fees are funded via Pell Grants to students. The College relies on revenues from tuition and fees for nonpayroll related expenses of the College, including equipment renewals, replacements and maintenance.
- Federal, state and private grants and contracts increased by approximately \$401K, which is primarily attributable to new grants received in FY2008 and increased levels of expenditures for several U.S. federal grant assistance programs at the College.
- Expenses increased over those incurred in 2007, by approximately \$746K, which is consistent with the increased level of operating revenues as a result of new grants and related support costs.
- Appropriations from the CNMI for FY2008 increased by approximately \$562K from the level of funding received in FY2007. This was primarily due to funding provided from the Compact Impact special appropriations provided to the CNMI.
- The College's Endowment Fund investments posted a net loss in fair value of approximately \$694K for the year, consistent with the overall performance of the market during a tumultuous financial year and an overall economic downturn.

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 essentially divided into five 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 and third sections reflect cash flows from investing and noncapital financing activities. These sections reflect cash received and spent for nonoperating investing and noncapital financing purposes. The fourth 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 fifth 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:

NORTHERN MARIANAS COLLEGE

Management's Discussion and Analysis For the Financial Year Ended September 30, 2008

Summary Statement of Cash Flows

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Cash Provided By (Used In):			
Operating activities	\$ (3,226,331)	\$ (4,231,585)	\$ (7,319,857)
Investing activities	(850,000)	(309,600)	-
Noncapital financing activities	5,578,083	5,041,593	7,222,561
Capital and related financing activities	<u>(578,951)</u>	<u>(293,586)</u>	<u>(1,609)</u>
Net change in cash and equivalents	922,801	206,822	(98,905)
Cash and equivalents, beginning of year	<u>1,831,675</u>	<u>1,624,853</u>	<u>1,723,758</u>
Cash and equivalents, end of year	<u>\$ 2,754,476</u>	<u>\$ 1,831,675</u>	<u>\$ 1,624,853</u>

The College again posted a net shortfall in cash flows from operating activities. It is noted however that the net shortfall from operations decreased by approximately \$1M from FY07. This is primarily attributable to increased cash flows from federal grants and a slight increase in cash flows from Tuition and Fees. Cash flows for payments to employees and suppliers increased, consistent with the need to support the increase in programs.

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. During the financial year ended September 30, 2008, the College transferred approximately \$850K into investments. These funds represent a contribution from a private donation and amounts the College has set aside for its Contingency Reserve Fund as per Board policy and a contribution from a private donation.

Major Accomplishment and Challenges in FY2008

As clearly evident in the financial statements the College, not unlike other agencies and instrumentalities of the CNMI Government was subject to significant reductions in funding from appropriations. To cope with a drastic reduction in funding from this historically stable revenue source, the College quickly adjusted its expenditure levels and reorganized itself to operate within the reduced resource levels. To do this, the College had to make the tough choice of materially adjusting downward its personnel costs. In spite of these circumstances the College continued to strengthen its financial statements as clearly evident in the overall increase in its Net Assets and Unrestricted Fund Balances during the period since FY2006.

The College continued to be prudent in its expenditure patterns and management of cash flows in FY2008 and as a result complied again with its BOR policy and Accreditation standards relative to fiscal stability by moving \$750K into long-term investments. These funds are contingency reserves accumulated in accordance with BOR policy on the same.

NORTHERN MARIANAS COLLEGE

Management's Discussion and Analysis
For the Financial Year Ended September 30, 2008

Economic Outlook

The CNMI's economic outlook continues to be uncertain as of this date. Austerity measures continued to be in effect CNMI government wide in FY2008 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 have been in decline for a number of years now. A series of unfortunate events 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. Tourism overall appears to be on the rebound and partially stabilized. The garment industry, another major source of revenue for the CNMI in the 1990's and the early 2000's, has declined almost entirely compounding the Commonwealth's economic woes. While several efforts are underway to look at alternative industries to revive the economy no immediate, appreciable growth is anticipated in the foreseeable future.

As a result of the dwindling resources available for appropriations CNMI wide, the College's budget under appropriations is not expected to increase significantly in FY2009. As such, the College continues to take internal measures to ensure that this would not result in the College operating in a deficit. The continuing economic challenges may result in further budget reductions in FY2009 but the College has mechanisms in place to closely monitor such actions and is actively pursuing alternative funding opportunities to compensate for reductions in the traditional sources of funding.

Contacting the College's Financial Management

This financial report is designed to provide a general overview of the College's finances and to demonstrate the College's accountability for the money it receives. The Management's Discussion and Analysis for the year ended September 30, 2007 is set forth in the report on the audit of the College's financial statements which is dated June 28, 2008. That Discussion and Analysis explains the major factors impacting the 2007 financial statements. If you have questions about the 2007 and or 2006 reports, or need additional information, please contact the Chief Financial and Administrative Officer at the Northern Marianas College, P.O. Box 501250, Saipan, MP 96950, or e-mail rogerm@nmcnet.edu.

NORTHERN MARIANAS COLLEGE

Statements of Net Assets
September 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Assets:		
Current assets:		
Cash and cash equivalents	\$ 2,754,476	\$ 1,831,675
Time certificate of deposit	309,600	309,600
Accounts receivable and unbilled charges, net	858,723	438,286
Due from grantor agencies	858,920	1,823,397
Due from CNMI	138,780	98,652
Inventories	402,442	446,873
Prepaid expenses	28,742	5,514
Total current assets	<u>5,351,683</u>	<u>4,953,997</u>
Noncurrent assets:		
Investments	4,552,272	4,395,849
Property, plant and equipment, net	6,220,796	5,943,606
Total noncurrent assets	<u>10,773,068</u>	<u>10,339,455</u>
Total assets	<u>\$ 16,124,751</u>	<u>\$ 15,293,452</u>
Liabilities:		
Current liabilities:		
Current portion of loan payable	\$ 126,568	\$ -
Accounts payable	935,398	1,221,913
Accrued salaries and benefits payable	254,432	125,984
Current portion of compensated absences	334,874	317,705
Deferred revenue	853,012	1,219,206
Total current liabilities	<u>2,504,284</u>	<u>2,884,808</u>
Noncurrent liabilities:		
Loan payable, net of current portion	42,725	-
Compensated absences, net of current portion	239,091	220,564
Total noncurrent liabilities	<u>281,816</u>	<u>220,564</u>
Total liabilities	<u>2,786,100</u>	<u>3,105,372</u>
Commitment and contingencies		
Net assets:		
Invested in capital assets	6,220,796	5,943,606
Restricted for:		
Nonexpendable	3,100,000	3,000,000
Expendable	2,311,192	3,219,246
Unrestricted	1,706,663	25,228
Total net assets	<u>13,338,651</u>	<u>12,188,080</u>
Total liabilities and net assets	<u>\$ 16,124,751</u>	<u>\$ 15,293,452</u>

See accompanying notes to financial statements.

NORTHERN MARIANAS COLLEGE

Statements of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Operating revenues:		
U.S. federal grants	\$ 6,393,751	\$ 5,992,859
Student tuition and fees (net of scholarship discounts and allowances of \$1,319,234 and \$1,510,556 in 2008 and 2007, respectively)	1,763,563	1,069,752
Private gifts, grants and donations - restricted	156,276	49,187
Other	<u>1,194,372</u>	<u>1,194,419</u>
	9,507,962	8,306,217
Recovery of (provision for) delinquent receivables	<u>189,337</u>	<u>(1,525,087)</u>
Net operating revenues	<u>9,697,299</u>	<u>6,781,130</u>
Expenses:		
Salaries	6,318,591	5,706,921
Services	2,746,766	2,388,400
Benefits	1,272,950	1,561,108
Insurance, utilities and rent	932,402	903,925
Depreciation	471,054	244,040
Supplies	233,997	178,510
Miscellaneous	<u>1,495,602</u>	<u>1,742,558</u>
Total operating expenses	<u>13,471,362</u>	<u>12,725,462</u>
Operating loss	<u>(3,774,063)</u>	<u>(5,944,332)</u>
Nonoperating revenues (expenses):		
CNMI appropriations	5,618,211	5,056,682
Net (decrease) increase in fair value of investments	<u>(693,577)</u>	<u>511,650</u>
Total nonoperating revenues (expenses), net	<u>4,924,634</u>	<u>5,568,332</u>
Increase (decrease) in net assets	1,150,571	(376,000)
Net assets, beginning of the year	<u>12,188,080</u>	<u>12,564,080</u>
Net assets, end of the year	<u>\$ 13,338,651</u>	<u>\$ 12,188,080</u>

See accompanying notes to financial statements.

NORTHERN MARIANAS COLLEGE

Statements of Cash Flows
Years Ended September 30, 2008 and 2007

	2008	2007
Cash flows from operating activities:		
Student tuition and fees	\$ 1,416,319	\$ 1,121,383
U.S. federal grants	7,358,228	5,783,815
Other revenues	1,100,598	1,357,242
Payments to employees	(7,427,397)	(7,382,009)
Payments to suppliers	(5,674,079)	(5,112,016)
Net cash used in operating activities	(3,226,331)	(4,231,585)
Cash flows from investing activities:		
Proceeds from sale and maturities of investment securities	5,259,787	3,837,607
Net interest and dividends on investments	102,631	241,535
Purchase of investment securities	(6,212,418)	(4,079,142)
Purchase of time certificate of deposit	-	(309,600)
Net cash used in investing activities	(850,000)	(309,600)
Cash flows from noncapital financing activities:		
CNMI appropriations	5,578,083	5,041,593
Net cash provided by noncapital financing activities	5,578,083	5,041,593
Cash flows from capital and related financing activities:		
Proceeds from loan	250,000	-
Payments of loan	(80,707)	-
Purchases of property, plant and equipment	(748,244)	(293,586)
Net cash used in capital and related financing activities	(578,951)	(293,586)
Net increase in cash and cash equivalents	922,801	206,822
Cash and cash equivalents, beginning of year	1,831,675	1,624,853
Cash and cash equivalents, end of year	\$ 2,754,476	\$ 1,831,675
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (3,774,063)	\$ (5,944,332)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	471,054	244,040
(Recovery of) provision for delinquent receivables	(189,337)	1,525,087
Changes in assets and liabilities:		
Accounts receivable and unbilled charges	(231,100)	(102,269)
Due from grantor agencies	964,477	(209,044)
Inventories	44,431	67,352
Prepaid expenses	(23,228)	-
Accounts payable	(286,515)	34,026
Accrued salaries and benefits payable	128,448	(170,416)
Compensated absences	35,696	56,436
Deferred revenue	(366,194)	267,535
Net cash used in operating activities	\$ (3,226,331)	\$ (4,231,585)

Noncash transaction:

The College recorded a net (decrease) increase in fair value of investments of \$(796,208) and \$270,115 in 2008 and 2007, respectively.

See accompanying notes to financial statements.

NORTHERN MARIANAS COLLEGE

Notes to Financial Statements
September 30, 2008 and 2007

(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, 2008 and 2007, 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, 2008 and 2007

(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. Time certificates of deposits with maturities of greater than three months are separately classified. As of September 30, 2008 and 2007, cash and cash equivalents and time certificate of deposit were \$3,064,076 and \$2,141,275, respectively, and the corresponding bank balances were \$3,557,143 and \$2,628,031, respectively, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2008 and 2007, bank deposits in the amount of \$300,000 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.

NORTHERN MARIANAS COLLEGE

Notes to Financial Statements
September 30, 2008 and 2007

(2) Summary of Significant Accounting Policies, Continued

Investments, Continued

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.

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.

NORTHERN MARIANAS COLLEGE

Notes to Financial Statements
September 30, 2008 and 2007

(2) Summary of Significant Accounting Policies, Continued

Investments, Continued

U.S. Fixed Income, Continued:

- 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".

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.

NORTHERN MARIANAS COLLEGE

Notes to Financial Statements
September 30, 2008 and 2007

(2) Summary of Significant Accounting Policies, Continued

Investments, Continued

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, which are subject to Securities Investor Protection Corporation insurance, at September 30, 2008 and 2007.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of debt instruments.

Endowment Fund

The College administers an endowment fund through the NMC Foundation Board of Directors, a separate legal entity. The investments are held in the name of the College, however, they are administered by a separate legal entity. The fund was established through a contribution of \$3,000,000, with an additional contribution of \$100,000 from a private donation during the year ended September 30, 2008. Principal of this fund is nonexpendable while investment income is available for operations subject to approval by the Foundation Board. Investment income is accounted for as expendable restricted revenues of the College. Fundraising activity of the Foundation Board is accounted for as unrestricted revenue of the College. All activities of the Foundation Board are accounted for within the College's financial statements.

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 collectability of these accounts and prior collection experience. The allowance is established through a charge to bad debts.

NORTHERN MARIANAS COLLEGE

Notes to Financial Statements
September 30, 2008 and 2007

(2) Summary of Significant Accounting Policies, Continued

Inventories

Bookstore inventories are valued at retail less gross profit percentages sufficient to reduce inventories to the lower of first-in, first-out (FIFO) cost or market. All other inventories are valued at the lower of FIFO cost or market.

Property, Plant and Equipment

Furniture and equipment, vehicles and computers are recorded at cost in instances where cost is determinable or estimated cost where cost is not determinable. Land and building and improvements are recorded at fair market values at September 30, 2008 and 2007. The College capitalizes property and equipment that equals or exceeds \$2,500. Depreciation is provided using the straight-line basis over the estimated useful lives of the respective assets.

The College has elected to present fixed assets acquired subsequent to 1994, except for land and buildings and improvements. Accordingly, fixed asset records consist of additions commencing in fiscal year 1994 since any earlier acquired fixed assets have been fully depreciated or disposed.

Deferred Revenue

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

Compensated Absences

The College recognizes cost for accrued annual leave at the time such leave is earned. As of September 30, 2008 and 2007, the College recorded accrued annual leave in the amount of \$573,965 and \$538,269, 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. Public Law 6-17 was subsequently amended by Public Law Nos. 6-41, 8-24, 8-30, 8-31, 8-39, 9-25, 9-45, 10-8, 10-19 and 11-9. 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.

NORTHERN MARIANAS COLLEGE

Notes to Financial Statements
September 30, 2008 and 2007

(2) Summary of Significant Accounting Policies, Continued

Retirement Plan, Continued

GASB Statement No. 45 requires employers to record other postemployment benefits (OPEB) expense for their contractually required contributions to the OPEB plan. Except as described in the paragraphs below, the College has complied with GASB Statement No. 45 by recording OPEB expense based on the statutory determined contribution rate of the Fund. It is the understanding of the management of the College that the statutory determined contribution rate of the Fund incorporates both the pension liability and OPEB liability. GASB Statement No. 45 also requires detailed disclosure of information related to the OPEB plan and the management of the College was unable to obtain this information from the Fund financial report. The management of the College is unable to obtain the required disclosures and is of the opinion that such information must be obtained from the Fund. It is the position of the management of the College that the Fund is solely responsible for disclosure of OPEB information.

On June 14, 2007, Public Law 15-70 was enacted to amend the Northern Mariana Islands Retirement Fund Act to improve its fiscal solvency. Public Law 15-70 provides for increasing employee contributions to the defined benefit plan by 1% per year beginning in fiscal year 2008 until reaching 10.5% for Class I members and 11% for Class II members.

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 maximum penalties of 25% of the unpaid contribution.

On January 24, 2008, CNMI Public Law 15-126 was enacted to reduce the employer retirement contribution rate to 18% for employees funded by the CNMI General Fund effective October 1, 2007. Further, Section 2(b) of the law states that any difference between the 36.7727% rate and the sum remitted by the employer shall accrue as a liability of the CNMI central government.

On May 3, 2008, CNMI Public Law 16-2 was enacted suspending CNMI Public Law 15-126 for fiscal year 2008 except for Section 2(b) as discussed in the aforementioned paragraph. Further, Section 7(b) of the law mandates the CNMI central government to accrue the College's deficient retirement contribution as its liability. CNMI Public Law 16-2 also sets a new rate of 11% to be contributed by all government departments, divisions, offices, municipalities, autonomous agencies, and public corporations beginning October 1, 2007.

On June 24, 2008, the Office of the CNMI Governor confirmed that the CNMI central government will be responsible for the College's deficient retirement contribution beginning October 1, 2005. The College's deficient retirement contribution including penalties and interest amounted to \$3,955,282 and \$2,514,213 as of September 30, 2008 and 2007, respectively. Such deficient retirement contribution and related penalties and interest are not reflected in the accompanying financial statements.

The College's contributions to the Fund for the years ended September 30, 2008, 2007 and 2006 were \$1,000,925, \$1,309,485 and \$1,727,477, respectively.

NORTHERN MARIANAS COLLEGE

Notes to Financial Statements
September 30, 2008 and 2007

(2) Summary of Significant Accounting Policies, Continued

Estimates

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

Net Assets

The College's net assets are classified as follows:

Invested in Capital Assets - This represents the College's total invested 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.

NORTHERN MARIANAS COLLEGE

Notes to Financial Statements
September 30, 2008 and 2007

(2) Summary of Significant Accounting Policies, Continued

Classification of Revenues, Continued

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

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

New Accounting Standards

During fiscal year 2008, the College implemented GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post employment Benefits Other Than Pensions*, GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfer of Assets and Future Revenues* and GASB Statement No. 50, *Pension Disclosures an amendment of GASB Statements No. 25 and 27*. GASB Statement No. 43 establishes uniform financial reporting for other postemployment benefit plans by state and local governments. 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. 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 and includes a provision that stipulates that governments should not revalue assets that are transferred between financial reporting entity components. GASB Statement No. 50 more closely aligns the financial reporting requirements for pensions with those for other post-employment benefits. The implementation of these pronouncements did not have a material effect on the accompanying financial statements.

In December 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. GASB Statement No. 49 provides guidance and consistency under which a governmental entity would be required to report a liability related to pollution remediation. 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, 2008 and 2007

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. GASB Statement No. 51 addresses whether and when intangible assets should be considered capital assets for financial reporting purposes. The provisions of this statement are effective for periods beginning after June 15, 2009. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the College.

In November 2007, GASB issued Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*. GASB Statement No. 52 improves the quality of financial reporting by requiring endowments to report their land and other real estate investments at fair value, creating consistency in reporting among similar entities that exist to invest resources for the purpose of generating income. The provisions of this statement are effective for periods beginning after June 15, 2008. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the College.

In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. GASB Statement No. 53 is intended to improve how state and local governments report information about derivative instruments - financial arrangements used by governments to manage specific risks or make investments - in their financial statements. The provisions of this statement are effective for periods beginning after June 15, 2009. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the College.

(3) Risk Management

The College is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The College has elected to purchase commercial insurance from independent third parties for the risks of loss to which it is exposed with respect to workers' compensation, general liability, and the use of motor vehicles. Settled claims have not exceeded this commercial coverage in any of the past three years. For other risks of loss to which it is exposed, the College has elected not to purchase commercial insurance. Instead, the College's management believes it is more economical to manage its risks internally. The College will report all of its risk management activities, if and when such occurs. Claims expenditures and liabilities will be reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Losses, if reported, would include an estimate of claims that have been incurred but not reported. No losses as a result of these risks have occurred or have been reported within the last three years.

(4) Accounts Receivable and Unbilled Charges

Summarized below is the College's accounts receivable and unbilled charges as of September 30, 2008 and 2007:

NORTHERN MARIANAS COLLEGE

Notes to Financial Statements
September 30, 2008 and 2007

(4) Accounts Receivable and Unbilled Charges, Continued

	<u>2008</u>	<u>2007</u>
Student tuition and fees	\$ 2,182,868	\$ 2,319,097
Auxiliary enterprises	251,402	222,149
Other activities	<u>303,942</u>	<u>83,145</u>
	2,738,212	2,624,391
Less allowance for doubtful accounts	<u>(1,879,489)</u>	<u>(2,186,105)</u>
Net accounts receivable and unbilled charges	\$ <u>858,723</u>	\$ <u>438,286</u>

(5) Investments

As of September 30, 2008 and 2007, the College's investments at fair value are as follows:

	<u>2008</u>	<u>2007</u>
Fixed income securities:		
Domestic fixed income	\$ 1,736,426	\$ 1,385,670
International fixed income	<u>96,742</u>	<u>52,405</u>
	<u>1,833,168</u>	<u>1,438,075</u>
Other investments:		
Domestic equities	1,905,078	2,871,623
Other	<u>814,026</u>	<u>86,151</u>
	<u>2,719,104</u>	<u>2,957,774</u>
	\$ <u>4,552,272</u>	\$ <u>4,395,849</u>

As of September 30, 2008 and 2007, the College's fixed income securities had the following maturities:

Investment Type	Fair Value	2008 Investment Maturities (In Years)				Rating
		Less Than 1	1 - 5	6 - 10	More Than 10	
U.S. Treasury notes and bonds	\$ 717,428	\$ -	\$ 405,747	\$ 204,332	\$ 107,349	AAA
Mortgage and asset backed securities	419,094	-	33,687	25,864	359,543	AAA
Municipal bonds	48,168	-	32,296	15,872	-	AAA
International bonds	18,167	-	-	-	18,167	AA-
International bonds	58,438	-	37,957	-	20,481	A-
International bonds	20,137	-	-	20,137	-	BBB+
Corporate bonds	53,121	-	22,104	19,318	11,699	AAA
Corporate bonds	13,788	-	13,788	-	-	AA+
Corporate bonds	38,891	-	21,064	-	17,827	AA
Corporate bonds	38,452	-	38,452	-	-	AA-
Corporate bonds	34,049	-	34,049	-	-	A+
Corporate bonds	92,746	-	57,816	34,930	-	A
Corporate bonds	50,740	-	12,238	38,502	-	A-
Corporate bonds	152,929	-	-	90,806	62,123	BBB+
Corporate bonds	28,574	-	28,574	-	-	BBB
Corporate bonds	48,446	-	-	12,152	36,294	BBB-
	<u>\$ 1,833,168</u>	<u>\$ -</u>	<u>\$ 737,772</u>	<u>\$ 461,913</u>	<u>\$ 633,483</u>	

NORTHERN MARIANAS COLLEGE

Notes to Financial Statements
September 30, 2008 and 2007

(5) Investments, Continued

Investment Type	Fair Value	2007 Investment Maturities (In Years)				Rating
		Less Than 1	1 - 5	6 - 10	More Than 10	
U.S. Treasury bonds	\$ 880,673	\$ 25,008	\$ 709,643	\$ 112,492	\$ 33,530	AAA
Mortgage and asset backed securities	165,006	-	-	-	165,006	AAA
International bonds	27,773	-	14,106	-	13,667	A-
International bonds	15,507	-	-	-	15,507	AA-
International bonds	9,125	-	-	-	9,125	BBB+
Corporate bonds	44,033	-	-	32,082	11,951	AAA
Corporate bonds	14,451	-	-	-	14,451	AA
Corporate bonds	65,263	-	26,140	39,123	-	AA-
Corporate bonds	39,697	-	11,519	14,473	13,705	A+
Corporate bonds	28,095	-	-	13,545	14,550	A
Corporate bonds	28,020	-	-	-	28,020	A-
Corporate bonds	54,628	-	-	27,393	27,235	BBB+
Corporate bonds	37,557	-	-	37,557	-	BBB
Corporate bonds	28,247	-	-	14,035	14,212	BBB-
	<u>\$ 1,438,075</u>	<u>\$ 25,008</u>	<u>\$ 761,408</u>	<u>\$ 290,700</u>	<u>\$ 360,959</u>	

(6) Property, Plant and Equipment

Summarized below is the College's investment in property, plant and equipment and changes at September 30, 2008 and 2007:

	Estimated Useful Lives	Balance at October 1, 2007	Additions	Deletions	Balance at September 30, 2008
Building and improvements	5 - 30 years	\$ 9,030,594	\$ 188,162	\$ -	\$ 9,218,756
Furniture and equipment	3 - 5 years	830,448	40,689	-	871,137
Vehicles	5 years	773,974	75,028	-	849,002
Computers	3 - 5 years	452,025	199,010	-	651,035
		11,087,041	502,889	-	11,589,930
Less accumulated depreciation		(6,256,811)	(471,054)	-	(6,727,865)
		4,830,230	31,835	-	4,862,065
Construction in progress		-	245,355	-	245,355
Land	-	1,113,376	-	-	1,113,376
Net property, plant and equipment		<u>\$ 5,943,606</u>	<u>\$ 277,190</u>	<u>\$ -</u>	<u>\$ 6,220,796</u>
		Balance at October 1, 2006	Additions	Deletions	Balance at September 30, 2007
Building and improvements	5 - 30 years	\$ 9,030,594	\$ -	\$ -	\$ 9,030,594
Furniture and equipment	3 - 5 years	733,038	97,410	-	830,448
Vehicles	5 years	585,814	188,160	-	773,974
Computers	3 - 5 years	444,009	8,016	-	452,025
		10,793,455	293,586	-	11,087,041
Less accumulated depreciation		(6,012,771)	(244,040)	-	(6,256,811)
		4,780,684	49,546	-	4,830,230
Land	-	1,113,376	-	-	1,113,376
Net property, plant and equipment		<u>\$ 5,894,060</u>	<u>\$ 49,546</u>	<u>\$ -</u>	<u>\$ 5,943,606</u>

NORTHERN MARIANAS COLLEGE

Notes to Financial Statements
September 30, 2008 and 2007

(7) Long-Term Obligations

Loan Payable

On August 29, 2007, the College entered into a term loan agreement with a local bank in the amount of \$250,000. Drawdowns from this facility amounted to \$250,000 and \$-0- during the years ended September 30, 2008 and 2007, respectively. The loan bears an interest rate of 5.80% per annum and is collateralized with the College's time certificate of deposit with the same bank. Principal payments for subsequent years ending September 30, 2009 and 2010 are \$126,568 and \$42,725, respectively.

Changes in long-term obligations for the years ended September 30, 2008 and 2007, are as follows:

	Balance October 1, 2007	Additions	Reductions	Balance September 30, 2008	Due Within One Year
Compensated absences	\$ 538,269	\$ 35,696	\$ -	\$ 573,965	\$ 334,874
Loan payable	<u>-</u>	<u>250,000</u>	<u>80,707</u>	<u>169,293</u>	<u>126,568</u>
	<u>\$ 538,269</u>	<u>\$ 285,696</u>	<u>\$ 80,707</u>	<u>\$ 743,258</u>	<u>\$ 461,442</u>
	Balance October 1, 2006	Additions	Reductions	Balance September 30, 2007	Due Within One Year
Compensated absences	\$ 481,833	\$ 56,436	\$ -	\$ 538,269	\$ 317,705

(8) CNMI Contributions

To ensure that the College receives its full accreditation by the Western Association of Schools and Colleges, and meets educational and the vocational needs of the community, the College receives annual appropriations from the CNMI Government. During the years ended September 30, 2008 and 2007, the College recognized \$5,618,211 and \$5,056,682, respectively, in appropriations from the CNMI Government.

(9) Natural Classifications With Functional Classification

In order to be consistent with the CNMI Government's reporting method, operating expenses are displayed in their natural classifications for fiscal years 2008 and 2007. The following table shows natural classifications with functional classifications:

	2008							
	Salaries	Benefits	Services	Supplies	Insurance, Utilities and Rent	Depreciation	Miscellaneous	Total
Instructional	\$ 6,289,488	\$ 1,272,950	\$ 210,999	\$ 37,059	\$ -	\$ -	\$ 1,018	\$ 7,811,514
Administration	-	-	662,550	196,938	932,402	-	1,494,584	3,286,474
Student expense	-	-	550,323	-	-	-	-	550,323
Student services	29,103	-	901,724	-	-	-	-	930,827
Operation and maintenance	-	-	421,170	-	-	471,054	-	892,224
	<u>\$ 6,318,591</u>	<u>\$ 1,272,950</u>	<u>\$ 2,746,766</u>	<u>\$ 233,997</u>	<u>\$ 932,402</u>	<u>\$ 471,054</u>	<u>\$ 1,495,602</u>	<u>\$ 13,471,362</u>

NORTHERN MARIANAS COLLEGE

Notes to Financial Statements
September 30, 2008 and 2007

(9) Natural Classifications With Functional Classification, Continued

	2007							
	Salaries	Benefits	Services	Supplies	Insurance, Utilities and Rent	Depreciation	Miscellaneous	Total
Instructional	\$ 5,695,826	\$ 1,561,108	\$ 281,173	\$ 41,103	\$ -	\$ -	\$ 6,174	\$ 7,585,384
Administration	-	-	899,770	137,407	903,925	-	1,736,384	3,677,486
Student expense	-	-	49,549	-	-	-	-	49,549
Student services	11,095	-	821,389	-	-	-	-	832,484
Operation and maintenance	-	-	336,519	-	-	244,040	-	580,559
	\$ 5,706,921	\$ 1,561,108	\$ 2,388,400	\$ 178,510	\$ 903,925	\$ 244,040	\$ 1,742,558	\$ 12,725,462

(10) Commitment

The accrual basis of accounting provides that expenses include only amounts associated with goods and services received and liabilities include only the unpaid amounts associated with such expenses. Accordingly, \$1,796,890 and \$1,190,135 of outstanding purchase orders and purchase commitments are not reported in the financial statements for the years ended September 30, 2008 and 2007, respectively.

(11) 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 \$353,168 relating to fiscal year 2008 and prior have been set forth in the College's Single Audit Report for the year ended September 30, 2008. 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 arising principally from claims of 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, 2008 and 2007, is \$1,254,110 and \$1,252,535, respectively.

NORTHERN MARIANAS COLLEGE

Notes to Financial Statements
September 30, 2008 and 2007

(11) Contingencies, Continued

Accreditation

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.

The Accrediting Commission for Community and Junior Colleges, Western Association of Schools and Colleges, at its meetings of January 9, 2008 through January 11, 2008, placed the College on Show Cause Subject to Termination in January 2009 and required that the College submit a progress report by October 15, 2008. The Show Cause order requires that the College show cause as to why its accreditation should be continued.