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, 2009

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

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2009 AND 2008

Deloitte.

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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, 2009 and 2008, 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, 2009 and 2008, 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 30, 2010, 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 30, 2010

Northern Marianas College

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Overview of the Financial Statements and Financial Analysis

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

This discussion and analysis of the College's financial statements provides an overview of its financial activities for the year with added commentaries on issues, internal and external, which directly or indirectly, impacted such. Further, it attempts to provide the reader with insight on the major accomplishments, opportunities and challenges the institution was faced with during the financial year ended September 30, 2009.

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 assets are available to the College for any lawful purpose of the institution.

Summary Statement of Net Assets

	2009	2008	2007
ASSETS:			
Current assets	$ 6,381,490	$ 5,351,683	$ 4,953,997
Capital assets, net	6,299,601	6,220,796	5,943,606
Other assets	4,855,123	4,552,272	4,395,849
Total assets	$ 17,536,214	$ 16,124,751	$ 15,293,452
LIABILITIES:			
Current liabilities	$ 2,430,314	$ 2,504,284	$ 2,884,808
Non-current liabilities	226,693	281,816	220,564
Total liabilities	2,657,007	2,786,100	3,105,372
NET ASSETS:			
Invested in capital assets	6,299,601	6,220,796	5,943,606
Restricted - non-expendable	3,100,000	3,100,000	3,000,000
Restricted - expendable	1,755,123	1,452,272	3,219,246
Unrestricted	3,724,483	2,565,583	25,228
Total net assets	**14,879,207**	**13,338,651**	**12,188,080**
Total liabilities and net assets	$ 17,536,214	$ 16,124,751	$ 15,293,452

Net assets at September 30, 2009, as evident above, increased over that reported in FY2008. 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 FY2008 and impacted balances as of September 30, 2009:

1. Revaluation of the College's fixed assets which was recorded in FY2007, 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 $303K during the year 2009 in spite of an overall weak market value. Further in FY2007, the College invested additional funds into its endowment fund.

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. As a result of the efforts, the overall cash position of the College remains very healthy as of September 30, 2009.

5. During the years ended September 30, 2009 and 2008, the College capitalized various investments in buildings and other capital improvements resulting in a net increase in property, plant and equipment of approximately $356K over the course of the these two years.

Property, Plant and Equipment

At September 30, 2009, 2008 and 2007, the College had $6,299,601, $6,220,796 and $5,943,606, 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 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 years since CNMI appropriations and activity of the endowment fund are not reported as operating revenue.

Generally speaking, operating revenues are received for providing services to the various customers and constituencies of the College. Operating expenses are those expenses paid to acquire or produce the services provided in return for operating revenues, and to carry out the mission of the College. Nonoperating revenues are revenues received for which services are not provided. For example, CNMI appropriations (representing 36.12% and 37.14% of total gross operating and nonoperating revenues in FY2009 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.

Summary Statement of Revenues, Expenses and Changes in Net Assets

	2009	2008	2007
Operating revenues, net	$ 9,515,958	$ 9,697,299	$ 6,781,130
Operating expenses	14,038,646	13,471,362	12,725,462
Operating loss	(4,522,688)	(3,774,063)	(5,944,332)
Nonoperating revenues, net	6,063,244	4,924,634	5,568,332
Increase (decrease) in net assets	1,540,556	1,150,571	(376,000)
Net assets - beginning of year	13,338,651	12,188,080	12,564,080
Net assets - end of year	$ 14,879,207	$ 13,338,651	$ 12,188,080

The Statement of Revenues, Expenses and Changes in Net Assets reflects an increase in net assets for financial year 2009. This is attributable to several positive factors including:

- An increase in revenue for FY2009 especially in the area of amounts generated from Federal Grants of approximately $309K.

- An appreciation in the market value of its investments (Endowment Fund) which reflected a material decrease in its market value in FY2008.

- An increase in other and miscellaneous revenues.

As in the prior years, the College posted a net operating loss of approximately $4.52 million for FY2009. 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 (net) decreased by approximately $134K between FY2008 and FY2009. 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 good 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 and 35 require that tuition and fees revenues from students be reported net of scholarship discounts and allowances. Discounts and allowances are the difference between the College's stated charges for tuition and fees and the amount paid by the students or third parties on behalf of the students.

➢ It is noted that a material portion of the College's tuition and fees are funded via Pell Grants to students. The College relies on revenues from tuition and fees for nonpayroll related expenses of the College, including equipment renewals, replacements and maintenance.

➢ Federal grants increased by approximately $309K, which is primarily attributable to new grants and increased levels of expenditures for several U.S. federal grant assistance programs at the College.

➢ Expenses increased over those incurred in 2008, by approximately $567K, 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 FY2009 remained consistent with the level of funding received in FY2008. The CNMI's support of the College has remained consistent in spite of the times, which the College is appreciative of. This has enabled the College to maintain its current staffing levels as CNMI appropriations primarily fund salaries and benefits.

➢ The College's Endowment Fund investments posted a net gain in fair value of approximately $303K for the year, consistent with the overall performance of the market. This is a significant positive turn around considering the fact that in FY2008 the fund lost approximately $694K in value.

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 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 investing and noncapital financing activities. This section reflects cash received and spent for nonoperating investing 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

	2009	2008	2007
Cash provided by (used In):			
Operating activities	$ (4,565,046)	$ (3,226,331)	$ (4,231,585)
Investing activities	(14,939)	(850,000)	(309,600)
Noncapital financing activities	5,396,568	5,578,083	5,041,593
Capital and related financing activities	(707,835)	(578,951)	(293,586)
Net change in cash and equivalents	108,748	922,801	206,822
Cash and equivalents, beginning of year	2,754,476	1,831,675	1,624,853
Cash and equivalents, end of year	$ 2,863,224	$ 2,754,476	$ 1,831,675

The College again posted a net shortfall in cash flows from operating activities. It is noted that the net shortfall from operations increased by approximately $1.34M from FY08. This is primarily attributable to decreased cash flows from federal grants and a slight decrease in cash flows from tuition and fees. Cash flows for payment 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.

Major Accomplishment and Challenges in FY2009

As clearly evident in the financial statements, not unlike other agencies and instruments of the CNMI Government, the College was subject to significant reductions in funding from appropriations. This is a reflection of the difficult economic conditions in the CNMI. The College however was fortunate to not see an additional reduction in CNMI support in FY2009 which helped in maintaining its current staffing levels. 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 it 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, when the College was subject to a drastic reduction in its support from CNMI appropriations.

The College continued to be prudent in its expenditure patterns and management of cash flows in FY2009 and as a result, complied again with its BOR policy and Accreditation standards relative to fiscal stability. The College also achieved these results in FY2008 by moving $850K into long-term investments. These funds are contingency reserves accumulated in accordance with BOR policy on the same.

In FY2009, the College's cash position remained strong with an overall appreciation in balances of approximately $109K. This should assist the College in continuing to remain financially sound during these rather tumultuous economic times for the CNMI.

Economic Outlook

The CNMI's economic outlook continues to be uncertain. Austerity measures continued to be in effect CNMI government wide in FY2009 to compensate for decreased revenues. Two significant industries, which play a material role in driving the CNMI's economy, 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 to the most part stabilized. The garment industry, another major source of revenue for the CNMI in the 1990s and the early 2000s, 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 the coming years. 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 FY2010 with most recent actions by the State legislature suggesting reduced work hours in an effort to balance the budget among other actions. The College, however, 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, 2008 is set forth in the report on the audit of the College's financial statements which is dated June 25, 2009. That Discussion and Analysis explains the major factors impacting the 2008 financial statements. If you have questions about the 2008 or 2007 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 henryh@nmcnet.edu.

NORTHERN MARIANAS COLLEGE

Statements of Net Assets
September 30, 2009 and 2008

	2009	2008
Assets:		
Current assets:		
Cash and cash equivalents	$ 2,863,224	$ 2,754,476
Time certificate of deposit	324,539	309,600
Accounts receivable and unbilled charges, net	1,261,365	858,723
Due from grantor agencies	1,025,823	858,920
Due from CNMI	502,605	138,780
Inventories	398,420	402,442
Prepaid expenses	5,514	28,742
Total current assets	6,381,490	5,351,683
Noncurrent assets:		
Investments	4,855,123	4,552,272
Property, plant and equipment, net	6,299,601	6,220,796
Total noncurrent assets	11,154,724	10,773,068
Total assets	$ 17,536,214	$ 16,124,751
Liabilities:		
Current liabilities:		
Current portion of loan payable	$ 42,527	$ 126,568
Accounts payable	633,485	935,398
Accrued salaries and benefits payable	311,147	254,432
Current portion of compensated absences	377,971	334,874
Deferred revenue	1,065,184	853,012
Total current liabilities	2,430,314	2,504,284
Noncurrent liabilities:		
Loan payable, net of current portion	-	42,725
Compensated absences, net of current portion	226,693	239,091
Total noncurrent liabilities	226,693	281,816
Total liabilities	2,657,007	2,786,100
Commitment and contingencies		
Net assets:		
Invested in capital assets	6,299,601	6,220,796
Restricted for:		
Nonexpendable	3,100,000	3,100,000
Expendable	1,755,123	1,452,272
Unrestricted	3,724,483	2,565,583
Total net assets	14,879,207	13,338,651
Total liabilities and net assets	$ 17,536,214	$ 16,124,751

See accompanying notes to financial statements.

NORTHERN MARIANAS COLLEGE

Statements of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2009 and 2008

	2009	2008
Operating revenues:		
U.S. federal grants	$ 6,702,752	$ 6,393,751
Student tuition and fees (net of scholarship discounts and allowances of $1,160,103 and $1,319,234 in 2009 and 2008, respectively)	1,629,829	1,763,563
Private gifts, grants and donations - restricted	40,278	156,276
Other	1,224,946	1,194,372
	9,597,805	9,507,962
(Provision for) recovery of delinquent receivables	(81,847)	189,337
Net operating revenues	9,515,958	9,697,299
Expenses:		
Salaries	6,636,977	6,318,591
Services	2,547,116	2,746,766
Benefits	1,107,588	1,272,950
Insurance, utilities and rent	1,058,562	932,402
Depreciation	502,264	471,054
Supplies	406,436	233,997
Miscellaneous	1,779,703	1,495,602
Total operating expenses	14,038,646	13,471,362
Operating loss	(4,522,688)	(3,774,063)
Nonoperating revenues (expenses):		
CNMI appropriations	5,657,018	5,618,211
Net increase (decrease) in fair value of investments	302,851	(693,577)
Other revenues	103,375	-
Total nonoperating revenues (expenses), net	6,063,244	4,924,634
Increase in net assets	1,540,556	1,150,571
Net assets, beginning of the year	13,338,651	12,188,080
Net assets, end of the year	$ 14,879,207	$ 13,338,651

See accompanying notes to financial statements.

NORTHERN MARIANAS COLLEGE

Statements of Cash Flows
Years Ended September 30, 2009 and 2008

	2009	2008
Cash flows from operating activities:		
Student tuition and fees	$ 1,391,660	$ 1,416,319
U.S. federal grants	6,535,849	7,358,228
Other revenues	1,231,076	1,100,598
Payments to employees	(7,657,151)	(7,427,397)
Payments to suppliers	(6,066,480)	(5,674,079)
Net cash used in operating activities	(4,565,046)	(3,226,331)
Cash flows from investing activities:		
Proceeds from sale and maturities of investment securities	3,994,068	5,259,787
Net interest and dividends on investments	121,978	102,631
Purchase of investment securities	(4,116,046)	(6,212,418)
Purchase of time certificate of deposit	(14,939)	-
Net cash used in investing activities	(14,939)	(850,000)
Cash flows from noncapital financing activities:		
CNMI appropriations	5,293,193	5,578,083
Other receipts from the CNMI	103,375	-
Net cash provided by noncapital financing activities	5,396,568	5,578,083
Cash flows from capital and related financing activities:		
Proceeds from loan	-	250,000
Payments of loan	(126,766)	(80,707)
Purchases of property, plant and equipment	(581,069)	(748,244)
Net cash used in capital and related financing activities	(707,835)	(578,951)
Net increase in cash and cash equivalents	108,748	922,801
Cash and cash equivalents, beginning of year	2,754,476	1,831,675
Cash and cash equivalents, end of year	$ 2,863,224	$ 2,754,476
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	$ (4,522,688)	$ (3,774,063)
Adjustments to reconcile operating loss to net cash used in operating activitiies:		
Depreciation expense	502,264	471,054
Provision for (recovery of) delinquent receivables	81,847	(189,337)
Changes in assets and liabilities:		
Accounts receivable and unbilled charges	(484,489)	(231,100)
Due from grantor agencies	(166,903)	964,477
Inventories	4,022	44,431
Prepaid expenses	23,228	(23,228)
Accounts payable	(301,913)	(286,515)
Accrued salaries and benefits payable	56,715	128,448
Compensated absences	30,699	35,696
Deferred revenue	212,172	(366,194)
Net cash used in operating activities	$ (4,565,046)	$ (3,226,331)

See accompanying notes to financial statements.

(1) Organization

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

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

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

(2) Summary of Significant Accounting Policies

Basis of Accounting

For financial statement purposes, the College is considered a special-purpose government engaged only in business-type activities. Accordingly, the College's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All significant intra-agency transactions have been eliminated.

The College has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The College has elected not to apply FASB pronouncements issued after the applicable date.

Concentrations of Credit Risk

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

At September 30, 2009 and 2008, the College has cash deposits and investments in bank accounts that exceed federal depository insurance limits. The College has not experienced any losses in such accounts.

Cash and Cash Equivalents

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

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

(2) Summary of Significant Accounting Policies, Continued

Cash and Cash Equivalents, Continued

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

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

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

For the purpose of the statements of net assets and cash flows, cash and cash equivalents is defined as cash on hand and cash held in demand accounts as well as short-term investments with a maturity date within ninety days of the date acquired. Time certificates of deposits with maturities of greater than three months are separately classified. As of September 30, 2009 and 2008, cash and cash equivalents and time certificate of deposit were $3,187,764 and $3,064,076, respectively, and the corresponding bank balances were $3,389,612 and $3,557,143, respectively, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2009 and 2008, bank deposits in the amount of $750,000 and $300,000, respectively, 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.

(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.

(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.

(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, 2009 and 2008.

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.

(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, 2009 and 2008. 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, 2009 and 2008, the College recorded accrued annual leave in the amount of $604,664 and $573,965, 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's (the Fund) defined benefit plan (DB Plan) and defined contribution plan (DC Plan), a cost sharing, and multi-employer plan (the Plan) established and administered by the Fund.

The Fund issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained by writing to the Northern Mariana Islands Retirement Fund, P.O. Box 501247, Saipan, MP, 96950-1247.

(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 statutorial determined contribution rate of the Fund. It is the understanding of the management of the College that the statutorial 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.

Defined Benefit Plan (DB Plan)

The DB Plan provides retirement, disability, security and other benefits to employees and their spouses and dependents of the CNMI Government and CNMI agencies, instrumentalities and public corporations. Benefits are based on the average annual salary of the beneficiary over the term of credited service. Public Law No. 6-17, the Northern Mariana Islands Retirement Fund (NMIRF) Act of 1988, is the authority under which benefit provisions are established. Public Law No. 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.

DB Plan members are required to contribute 6.5% and 9% of their annual covered salary for Class I and Class II members, respectively. On June 14, 2007, Public Law No. 15-70 was enacted to amend the NMIRF Act to improve the DB Plan's fiscal solvency. Public Law No. 15-70 provides for increasing employee contributions to the DB Plan by 1% per year beginning in fiscal year 2008 until reaching 10.5% for Class I members and 11% for Class II members. The College is required to contribute at an actuarially determined rate. The actuarially determined contribution rate for the fiscal year ended September 30, 2009 is 51.07578% of covered payroll based on an actuarial valuation as of October 1, 2008 issued in May 2010. The actuarially determined contribution rate for the fiscal year ended September 30, 2008 is 29.9665% of covered payroll based on an actuarial valuation as of October 1, 2007 issued in December 2008. The established statutory rate at September 30, 2009 and 2008 is 37.3909% and 36.6667%, respectively, of covered payroll.

Defined Contribution Plan (DC Plan)

On June 16, 2006, Public Law No. 15-13 was enacted which created the DC Plan, a multi-employer pension plan and is the single retirement program for all employees whose first time CNMI government employment commences on or after January 1, 2007. Each member of the DC Plan is required to contribute to the member's individual account an amount equal to 10% of the member's compensation. The College is required to contribute to each member's individual account an amount equal to 4% of the member's compensation. The DC Plan by its nature is fully funded on a current basis from employer and member contributions.

Members of the DC Plan, who have completed five years of government service, have a vested balance of 100% of both member and employer contribution plus any earnings thereon.

(2) Summary of Significant Accounting Policies, Continued

Retirement Plan, Continued

The College's contributions to the Fund for the years ended September 30, 2009, 2008 and 2007 were $767,148, $1,000,925 and $1,309,485, respectively.

Pursuant to Public Law No. 6-41, codified in 1CMC § 8362, 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.

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 contributions, including penalties and interest, amounted to $5,007,499 and $3,955,282 as of September 30, 2009 and 2008, respectively. Such deficient retirement contribution and related penalties and interest 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.

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.

(2) Summary of Significant Accounting Policies, Continued

Net Assets, Continued

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

Classification of Revenues

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

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

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

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

New Accounting Standards

During fiscal year 2009, the College implemented the following pronouncements:

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

- GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, which 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.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

- GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which improves financial reporting by contributing to the GASB's efforts to codify all GAAP for state and local governments so that they derive from a single source.

- GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*, which incorporates accounting and financial reporting guidance previously only contained in the American Institute of Certified Public Accountants (AICPA) auditing literature into the GASB's accounting and financial reporting literature for state and local governments, and addresses three issues from the AICPA's literature - related party transactions, going concern considerations, and subsequent events.

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

In June 2007, GASB issued statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which 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 June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which 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.

In December 2008, GASB issued Technical Bulletin No. 2008-1, *Determining the Annual Required Contribution Adjustment for Postemployment Benefits*, which clarifies the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for calculating the annual required contribution (ARC) adjustment. 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 March 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The provisions of this statement are effective for periods beginning after June 15, 2010. 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, 2009 and 2008:

	2009	2008
Student tuition and fees	$ 2,781,376	$ 2,182,868
Auxiliary enterprises	326,978	251,402
Other activities	262,514	303,942
	3,370,868	2,738,212
Less allowance for doubtful accounts	(2,109,503)	(1,879,489)
Net accounts receivable and unbilled charges	$ 1,261,365	$ 858,723

(5) Investments

As of September 30, 2009 and 2008, the College's investments at fair value are as follows:

	2009	2008
Fixed income securities:		
Domestic fixed income	$ 2,086,311	$ 1,736,426
International fixed income	137,316	96,742
	2,223,627	1,833,168
Other investments:		
Domestic equities	2,074,165	1,905,078
Other	557,331	814,026
	2,631,496	2,719,104
	$ 4,855,123	$ 4,552,272

(5) Investments, Continued

As of September 30, 2009 and 2008, the College's fixed income securities had the following maturities:

	2009					
		Investment Maturities (In Years)				
Investment Type	Fair Value	Less Than 1	1 - 5	6 - 10	More Than 10	Rating
Mortgage and asset backed securities	$ 408,071	$ -	$ 20,707	$ -	$ 387,364	AAA
International bonds	28,239	-	-	-	28,239	AA-
International bonds	81,100	-	54,280	-	26,820	A-
International bonds	27,977	-	-	27,977	-	BBB+
Corporate bonds	25,318	-	25,318	-	-	AA+
Corporate bonds	82,368	-	27,026	-	55,342	AA
Corporate bonds	27,680	-	27,680	-	-	AA-
Corporate bonds	80,268	-	55,014	25,254	-	A+
Corporate bonds	145,478	-	52,999	92,479	-	A
Corporate bonds	29,115	-	-	-	29,115	A-
Corporate bonds	164,903	-	26,431	54,388	84,084	BBB+
Corporate bonds	64,483	-	64,483	-	-	BBB
Corporate bonds	84,408	-	-	33,821	50,587	BBB-
Government and GSE bonds	974,219	123,595	358,217	388,890	103,517	AAA
	$ 2,223,627	$ 123,595	$ 712,155	$ 622,809	$ 765,068	

	2008					
		Investment Maturities (In Years)				
Investment Type	Fair Value	Less Than 1	1 - 5	6 - 10	More Than 10	Rating
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-
	$ 1,833,168	$ -	$ 737,772	$ 461,913	$ 633,483	

(6) Property, Plant and Equipment

Summarized below is the College's investment in property, plant and equipment and changes at September 30, 2009 and 2008:

	Estimated Useful Lives	Balance at October 1, 2008	Additions	Deletions	Balance at September 30, 2009
Building and improvements	5 - 30 years	$ 9,218,756	$ 336,780	$ -	$ 9,555,536
Furniture and equipment	3 - 5 years	871,137	64,424	-	935,561
Vehicles	5 years	849,002	-	-	849,002
Computers	3 - 5 years	651,035	425,220	-	1,076,255
		11,589,930	826,424	-	12,416,354
Less accumulated depreciation		(6,727,865)	(502,264)	-	(7,230,129)
		4,862,065	324,160	-	5,186,225
Construction in progress		245,355	(245,355)	-	-
Land	-	1,113,376	-	-	1,113,376
Net property, plant and equipment		$ 6,220,796	$ 78,805	$ -	$ 6,299,601

	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		$ 5,943,606	$ 277,190	$ -	$ 6,220,796

(7) Long-Term Obligations

Loan Payable

On August 29, 2007, the College entered into a $250,000 bank term loan, proceeds of which were used for campus building renovation and maintenance. The loan bears interest at 5.80% per annum and is collateralized by a time certificate of deposit with the same bank.

Changes in long-term obligations for the years ended September 30, 2009 and 2008, are as follows:

	Balance October 1, 2008	Additions	Reductions	Balance September 30, 2009	Due Within One Year
Compensated absences	$ 573,965	$ 30,699	$ -	$ 604,664	$ 377,971
Loan payable	169,293	-	126,766	42,527	42,527
	$ 743,258	$ 30,699	$ 126,766	$ 647,191	$ 420,498

(7) Long-Term Obligations, Continued

	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	-	250,000	80,707	169,293	126,568
	$ 538,269	$ 285,696	$ 80,707	$ 743,258	$ 461,442

(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, 2009 and 2008, the College recognized $5,657,018 and $5,618,211, 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 2009 and 2008. The following table shows natural classifications with functional classifications:

	2009							
	Salaries	Services	Benefits	Insurance, Utilities and Rent	Depreciation	Supplies	Miscellaneous	Total
Instructional	$ 6,618,434	$ 154,132	$ 1,107,588	$ -	$ -	$ 92,892	$ 9,272	$ 7,982,318
Administration	-	712,935	-	1,058,562	-	313,544	1,770,431	3,855,472
Student expense	-	249,742	-	-	-	-	-	249,742
Student services	18,543	1,138,402	-	-	-	-	-	1,156,945
Operation and maintenance	-	291,905	-	-	502,264	-	-	794,169
	$ 6,636,977	$ 2,547,116	$ 1,107,588	$ 1,058,562	$ 502,264	$ 406,436	$ 1,779,703	$ 14,038,646

	2008							
	Salaries	Services	Benefits	Insurance, Utilities and Rent	Depreciation	Supplies	Miscellaneous	Total
Instructional	$ 6,289,488	$ 210,999	$ 1,272,950	$ -	$ -	$ 37,059	$ 1,018	$ 7,811,514
Administration	-	662,550	-	932,402	-	196,938	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
	$ 6,318,591	$ 2,746,766	$ 1,272,950	$ 932,402	$ 471,054	$ 233,997	$ 1,495,602	$ 13,471,362

(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, $1,742,560 and $1,796,890 of outstanding purchase orders and purchase commitments are not reported in the financial statements for the years ended September 30, 2009 and 2008, respectively.

(11) Contingencies

CNMI Contributions

A substantial amount of the College's funding is provided by appropriations from the CNMI Government. The future of the College is contingent on its ability to continue to obtain CNMI appropriations.

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 $443,464 relating to fiscal year 2009 and prior have been set forth in the College's Single Audit Report for the year ended September 30, 2009. 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, 2009 and 2008, is $1,229,207 and $1,254,110, respectively.