COLLEGE OF THE MARSHALL ISLANDS

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEAR ENDED SEPTEMBER 30, 2003

Deloitte & Touche LLP
361 South Marine Drive
Tamuning, Guam 96913-3911

Tel: (671)646-3884
Fax: (671)649-4932
www.dttguam.com

Deloitte
Touche
Tohmatsu

INDEPENDENT AUDITORS' REPORT

Board of Regents
College of the Marshall Islands:

We have audited the accompanying statement of net assets of the College of the Marshall Islands (the College), a component unit of the Republic of the Marshall Islands, as of September 30, 2003, and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the management of the College. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the College as of September 30, 2003, and the changes in its net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in note 2 to the accompanying financial statements, the College adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, and GASB No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*.

The Management's Discussion and Analysis on pages 3 through 7 is not a required part of the basic financial statements but is supplementary information required by GASB. This supplementary information is the responsibility of the College's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2003, on our consideration of the College's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Deloitte & Touche LLP

December 22, 2003
(except for notes 8 and 9, as to which the date is February 27, 2004)

COLLEGE OF THE MARSHALL ISLANDS

Management Discussion and Analysis
Year Ended September 30, 2003

Introduction

This section of College of the Marshall Islands' annual financial report presents our discussion and analysis of the financial performance of the College during the fiscal year ended September 30, 2003. This discussion has been prepared by the College management along with the financial statements and related footnote disclosures and should be read in conjunction with the College's basic financial statements beginning on page 8 and related notes. Since this is a transition year for this format, only one year of the management's discussion and analysis is presented. Future analyses will compare consecutive fiscal years.

Fiscal Year 2003 Overview

There are many factors used to evaluate the health of a college. These include strategic direction of the College, the financial status of the institution, student enrollment, and the capabilities of employees. In evaluating the financial status, one of the most important questions is whether the College is financially better off at the beginning of the year or at the end of the year. In sum, the net asset position of the College as of September 30, 2003 was pegged at $794,686, which significantly improved from the prior year's deficit of $337,387 representing a 335% increase. On our Statement of Net Assets, 59% of the College's assets are non-current (buildings and investments) while 41% are current. Of the total assets, 54% are in property, plant and equipment, 41% in current assets, and the remaining 5% in investments. Receivables make up 93% of current assets; about 92% of total receivables relate to student receivable accounts. Of the total liabilities, 76% are current, and require current resources to pay these in the coming fiscal year. The non-current portion, 24%, requires financial resources that spread over several fiscal periods. Looking at our revenues and expenses, the College brought in $3,378,722 (net of allowances) from its own operations and from the federal government. These revenues were higher than the Government of the Marshall Islands (RepMar) appropriations to the College of $2,667,804 (inclusive of withholding taxes payable treated as subsidy and forgiveness of debt amounting to $1,677,754). The College spent a total of $4,931,992 on the core of its mission. Of that total, 35% went to instruction, 34% to administration, 9% to student services, 4% to library, 8% to post secondary, and 10% went to operations and maintenance.

Overview of the Financial Statements and Financial Analysis

This financial report is very different from previous years since the College of the Marshall Islands has implemented Governmental Accounting Standards Board Statement No. 35 (GASB 35), *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities.* The major result of GASB 35 is the presentation of the entire College's accounts in one column, as seen in a typical statement for a business concern. This contrasts with the accounting by funds presentation from previous years.

Statement of Net Assets

The Statement of Net Assets includes all assets and liabilities. For the first time, assets and liabilities are categorized as either Current or Non-current. Current assets represent financial resources that are generally available during the next fiscal year. Non-current assets are expected to be converted to financial resources in a period beyond the next fiscal year. Current liabilities are expected to require cash payments or the use of current assets in the next fiscal year. Non-current liabilities are expected to require cash payments or the use of assets in a period beyond the next year. Net assets are divided into three categories: (1) Investment in capital assets presents our equity in property, plant and equipment; (2) Restricted net assets (either nonexpendable or expendable) - the corpus of nonexpendable restricted sources is only available for investment purposes while expendable restricted net assets are available for expenditure by the College, but must be spent for purposes as determined by donors and/or external entities that have place, time or purpose restrictions on the use of the assets; and (3) Unrestricted net assets, which are available for any lawful purpose of the College.

Summary Statement of Net Assets

Assets:	
Current assets	$ 1,100,491
Investments	135,846
Capital assets, net	1,426,182
Total Assets	$ 2,662,519
Liabilities:	
Current liabilities	$ 1,419,492
Non-current liabilities	448,341
Total Liabilities	$ 1,867,833
Net assets:	
Investment in capital assets	$ 1,426,182
Restricted – nonexpendable	135,846
Restricted – expendable	400
Unrestricted	(767,742)
Net Assets	$ 794,686

The total assets of the College decreased by $597,373, while total liabilities also decreased by $1,729,446, resulting in an increase in net assets of $1,132,073. The total increase in net assets was the result of RepMar's forgiveness of debt and withholding taxes payables and write-off of inter-fund payables and receivables, less cumulative reduction in student accounts receivable as a result of an increase in the allowance for bad debts.

Statement of Revenues, Expenses and Changes in Net Assets

The Statement of Revenues, Expenses and Changes in Net Assets presents the revenues earned and the expenses incurred during the year. Activities are reported as either operating or non-operating. GASB 35 requires state appropriations to be presented as non-operating revenues.

Summary Statement of Revenues, Expenses and Changes in Net Assets

Operating revenues	$ 3,378,722
Operating expenses	4,931,992
Operating loss	(1,553,270)
Non-operating revenues	2,685,343
Increase in net assets	1,132,073
Net assets - beginning of year	(337,387)
Net assets - end of year	$ 794,686

The Statement of Revenues, Expenses and Changes in Net Assets reflects an increase in net assets of $1,132,073. The operating loss appears since RepMar's appropriations were reported as non-operating revenues rather than as operating revenues. Hence, local government appropriations are one of the highest sources of revenue that support the operation's of the College, without it there would be an operating loss with the current level of tuition, fees, grants and contracts.

Highlights of the information presented on the Statement of Revenues, Expenses and Changes in Net Assets includes the following:

1) Student tuition and fees increased by $136,000, as a result of an increase in enrollees in Fall Semester 2002.

2) Federal, local and private grants and contracts decreased by $761,858, or 22% compared with prior year. This was due to timing of financial aid awarding, as well as certain federal programs such as SSSP and BECLP were discontinued during 2002. The College continues its efforts to create more grants through the Compact money allocated to Ministry of Education.

3) Salaries and wages decreased by $85,806. The primary reason for the decrease was due to some of the administrative positions not being filled in 2003 and hiring was temporarily frozen for some positions. The College continues the search to fill essential positions in order to raise our level of instruction, research and services.

4) Most of the operational expenses decreased to cover the College's budget deficit. However, the College is still able to maintain it's high standard through various enhancements of services central to its mission.

5) Local government appropriations for the College increased by $1,408,415. This was the result of an increase in cash appropriations for fiscal year 2003 of $230,661, the forgiveness of debts in the amount of $725,809, and the conversion of delinquent withholding taxes payable to a subsidy in the amount of $951,945.

6) Reflecting a rebound in the financial markets in fiscal year 2003, the market value of the College's Endowment Fund investment increased by $17,539. However, management decided to write-off interfund receivables between the unrestricted and endowment funds, which caused an overall decrease in the endowment fund balance by $4,769.

Statement of Cash Flows

The final statement presented is the Statement of Cash Flows. This statement presents detailed information about the cash activity of the College during the year. The statement is divided into four parts. The first part shows operating cash flows and the net cash used by operating activities. The second section reflects cash flows from non-capital financing activities. This section reflects cash received and spent for non-operating, non-investing and non-capital financing purposes. The third section shows 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 operating income or loss reflected on the Statement of Revenues, Expenses and Changes in Net Assets.

Summary Statement of Cash Flows

Cash provided by (used in):	
Operating activities	$ (987,909)
Non-capital financing activities	1,140,050
Capital and related financing activities	(546,909)
Net change in cash and cash equivalents	(394,768)
Cash and cash equivalents - beginning of year	462,025
Cash and cash equivalents - end of year	$ 67,257

Economic Outlook

The economy of the Republic of the Marshall Islands, like many other central pacific island countries, has three basic financial and economic problems: budget deficits, balance of payments and a low level domestic savings. Both public and private investments have been low. As a result of the liberal foreign policy of the government, small business investment has increased with more traders from Asian countries like, China, Taiwan, Hongkong, and Korea providing stiff competition for established local businesses. The small size of the market, legal restrictions to land, distances and isolated places, high transportation costs in importing goods and high wages are the factors detracting big foreign investment in the country.

The economy is heavily dependent on funds from the U.S, Asian Development Bank and assistance from other countries such as Taiwan, Australia and Canada. The size of the country's annual budget is heavily dependent on the size of the financial aid from these sources. The imports are rising without corresponding increase in exports and thus the balance of trade is unfavorable. The economic and administrative reforms carried out a few years ago are showing some favorable results to the economy. There are few reliable estimates of the GDP available, but it is estimated that GDP grew in 2002 by 3.8% based on current market prices. The Republic of the Marshall Islands has no monetary system of its own and therefore uses the U.S. Dollar as its currency; the economy never had to face foreign exchange rates problems as experienced by other countries in the region who have their own monetary systems, and as a result the rate of inflation is minimal.

In spite of various difficulties that the country is facing, the new Compact brings new hope to the Republic's economy with most of the funding is going for education. Another reason for the positive outlook is the prediction of continued increase in tourist arrivals in the coming years. The Pell grant program, which is the grant being availed by most students of the College, has been renewed for another 20 years. As efforts continue, the College is now better aligned with its mission. This will ensure not only our status as the only U.S. regionally and nationally accredited Colleges in the Pacific, but will also allow for the College's expansion and participation in the global arena of higher education.

COLLEGE OF THE MARSHALL ISLANDS

Statement of Net Assets
September 30, 2003

Assets:		
Current assets:		
Cash and cash equivalents	$	67,257
Accounts receivable and unbilled charges, net		1,020,061
Prepaid items		13,173
Total current assets		1,100,491
Noncurrent assets:		
Investments		135,846
Property, plant and equipment, net		1,426,182
Total noncurrent assets		1,562,028
Total assets	$	2,662,519
Liabilities:		
Current liabilities:		
Payable to the Republic of the Marshall Islands	$	150,000
Accounts payable		94,548
Social security taxes payable		220,487
Accrued liabilities		231,521
Deferred revenue		533,770
Due to grantor agencies		189,166
Total current liabilities		1,419,492
Noncurrent liabilities:		
Social security taxes payable		448,341
Total liabilities		1,867,833
Commitments and contingencies		
Net assets:		
Investment in capital assets		1,426,182
Restricted for:		
Nonexpendable		135,846
Expendable		400
Unrestricted		(767,742)
Total net assets		794,686
Total liabilities and net assets	$	2,662,519

See accompanying notes to financial statements.

COLLEGE OF THE MARSHALL ISLANDS

Statement of Revenues, Expenses and Changes in Net Assets
Year Ended September 30, 2003

Operating revenues:	
U.S. federal grants	$ 2,707,511
Student tuition and fees (net of scholarship discount and allowances of $1,973,462)	164,608
Private gifts, grants and donations - restricted	210,066
Other	296,537
Total operating revenues	3,378,722
Operating expenses:	
Salaries	2,405,905
Benefits	792,040
Bad debts	597,875
Depreciation	241,870
Insurance, utilities and rent	140,742
Supplies	126,607
Services	43,834
Miscellaneous	583,119
Total operating expenses	4,931,992
Operating loss	(1,553,270)
Nonoperating revenues (expenses):	
RepMar contributions	1,941,995
Forgiveness of debt	725,809
Investment income, net of expenses	17,539
Total nonoperating revenues	2,685,343
Increase in net assets	1,132,073
Net assets, beginning of the year, as restated	(337,387)
Net assets, end of the year	$ 794,686

See accompanying notes to financial statements.

COLLEGE OF THE MARSHALL ISLANDS

Statement of Cash Flows
Year Ended September 30, 2003

Cash flows from operating activities:	
Student tuition and fees	$ 1,493,348
U.S. federal grants	2,901,609
Other revenues	364,453
Payments to employees	(2,405,905)
Payments to suppliers	(3,341,414)
Net cash used in operating activities	(987,909)
Cash flows from noncapital financing activities:	
Advance from RepMar	150,000
RepMar contributions	990,050
Net cash provided by noncapital financing activities	1,140,050
Cash flows from capital and related financing activities:	
Purchases of property, plant and equipment	(546,909)
Net cash used in capital and related financing activities	(546,909)
Net decrease in cash and cash equivalents	(394,768)
Cash and cash equivalents, beginning of year	462,025
Cash and cash equivalents, end of year	$ 67,257
Reconciliation of net operating revenues (expenses) to net cash and cash equivalents used in operating activities:	
Operating loss	$ (1,553,270)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation expense	241,870
Bad debts expense	597,875
Changes in assets and liabilities:	
Accounts receivable and unbilled charges	(491,112)
Prepaid items	26,770
Bank overdraft	(5,902)
Accounts payable	(23,624)
Accrued liabilities	321,146
Deferred revenue	(78,811)
Due to grantor agencies	(22,851)
Net cash used in operating activities	$ (987,909)
Supplemental schedule of noncash activities:	
Decrease in payable to RepMar	$ 725,809
Decrease in withholding taxes payable	951,945
RepMar contributions	(951,945)
Forgiveness of debt	(725,809)
	$ -

See accompanying notes to financial statements.

(1) Organization

On April 1, 1993, the College of the Marshall Islands (the College), a component unit of the Republic of the Marshall Islands, was established as an independent institution pursuant to the College of the Marshall Islands Act of 1992 (Public Law 1992-13). The Act established the College as an independent institution governed by a Board of Regents appointed by the Republic of the Marshall Islands (RepMar) Cabinet. Previous to the Act, the College was a component of the College of Micronesia (COM). The College operates another program, the Land Grant program, but results of its operations are substantially reported within the financial statements of COM. Therefore, the accompanying financial statements relate solely to those accounting records maintained within the College and do not incorporate any accounts related to its operations that may be accounted for as a separate component of COM.

(2) Summary of Significant Accounting Policies

New Accounting Standards

The Governmental Accounting Standards Board (GASB) has issued Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, and Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*. The financial statement presentation required by GASB Statements 34 and 35 provides a comprehensive, entity-wide perspective of the College's assets, liabilities, net assets, revenues, expenses, changes in net assets, and cash flows, and replaces the fund-group perspective previously required.

Other GASB Statements are required to be implemented in conjunction with GASB Statements 34 and 35. Therefore, the College has also implemented, where applicable, Statement No. 36, *Recipient Reporting for Certain Shared Nonexchange Revenues*, Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus* and Statement No. 38, *Certain Financial Statement Note Disclosures.*

The College has elected to not disclose restated 2002 financial statements to conform with the new financial statement presentation. Significant accounting changes made in order to comply with new requirements include (1) reporting fall semester revenues and expenses between fiscal years rather than in one fiscal year; (2) the elimination of fund group presentation; and (3) the presentation of a cash flow statement.

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.

(2) Summary of Significant Accounting Policies, Continued

Cash and Cash Equivalents

For the purpose of the statements of net assets and cash flows, cash and cash equivalents is defined as cash on hand and cash held in demand accounts as well as short-term investments with a maturity date within ninety days of the date acquired. As of September 30, 2003, cash and cash equivalents was $67,257 and the corresponding bank balances were $95,309, which are maintained in one financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2003, bank deposits were fully FDIC insured.

Investments

Investments are carried at fair value. Fair value is the amount at which an investment could be exchanged in a current transaction between willing parties.

Accounts Receivables

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 College of Micronesia, employees and officers, and other sources. Accounts receivable are recorded net of estimated allowances for uncollectible amounts.

Property, Plant and Equipment

Property and equipment are recorded at cost in instances where cost is determinable or estimated cost where cost is not determinable. Depreciation is provided using the straight-line basis over the estimated useful lives of the respective assets.

Deferred Revenue

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

Compensated Absences

The College recognizes the cost of accrued annual leave at the time such leave is earned. As of September 30, 2003, the College recorded accrued annual leave in the amount of $76,600 which is included within the statement of net assets as accrued liabilities. The College does not participate in an employee pension plan.

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 expenditures during the reporting period. Actual results could differ from those estimates.

(2) Summary of Significant Accounting Policies, Continued

Net Assets

The College's net assets are classified as follows:

Invested In Capital Assets - This represents the College's total investment in capital assets.

Restricted Net Assets - Expendable - Restricted expendable net assets include resources in which the College is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

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

Unrestricted Net Assets - Unrestricted net assets represent resources derived from student tuition and fees, RepMar 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 of 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 RepMar appropriations and investment income.

(2) Summary of Significant Accounting Policies, Continued

Classification of Revenues, Continued

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

(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. Settled claims have not exceeded this commercial coverage in any of the past three years.

(4) Investments

GASB Statement No. 3 requires government entities to categorize investments to give an indication of the level of credit risk assumed by the entity at year end. The three categories are described below:

Category 1 Insured or registered, or securities held by the College or its agent in the College's name;

Category 2 Uninsured and unregistered, with securities held by the broker's or dealer's trust department or agent in the College's name; or

Category 3 Uninsured and unregistered, with securities held by the broker or dealer, or by its trust department or agent but not in the College's name.

Investments of the College as of September 30, 2003, are Category 2 investments held in mutual funds.

(5) Accounts Receivable and Unbilled Charges

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

Student tuition and fees	$ 1,841,205
College of Micronesia	23,727
Employees and officers	13,973
Other activities	44,196
	1,923,101
Less allowance for doubtful accounts	(903,040)
Net accounts receivable and unbilled charges	$ 1,020,061

(6) Property, Plant and Equipment

Summarized below is the College's investment in property, plant and equipment and changes for the year ended September 30, 2003:

	Estimated Useful Lives	Balance at October 1, 2002	Additions	Deletions	Balance at September 30, 2003
Furniture, vehicles and equipment	3 - 5 years	$ 1,545,500	$ 92,831	$ 554,485	$ 1,083,846
Buildings and improvements	20 years	1,226,019	28,545	-	1,254,564
		2,771,519	121,376	554,485	2,338,410
Less accumulated depreciation		(1,776,593)	(241,870)	(554,485)	(1,463,978)
		994,926	(120,494)	-	874,432
Construction work in progress		126,217	454,078	28,545	551,750
Net investment in plant		$ 1,121,143	$ 333,584	$ 28,545	$ 1,426,182

(7) Due to Grantor Agencies

The College is a recipient of federal programs from various federal agencies. Excess receipts over grant disbursements are recognized as a payable to grantor agencies. Changes in the federal grants payable account for the year ended September 30, 2003, are as follows:

Balance at beginning of year	$ 212,017
Deductions - federal program outlays	(2,924,460)
Additions - cash receipts from grantor agencies	2,901,609
	$ 189,166

(8) Social Security Taxes Payable

At September 30, 2003, the College was liable for certain delinquent taxes payable to the Marshall Islands Social Security Administration (MISSA) in the amount of $668,828. This amount includes taxes payable under a promissory note agreement, dated March 22, 2002, in the amount of $174,252, which were repaid in full on February 26, 2004. On February 27, 2004, the College and MISSA entered into another promissory note agreement for additional delinquent taxes payable. The terms of this agreement include monthly payments of $17,000, inclusive of interest at 12% per annum, commencing April 10, 2004. The College has elected to reflect the impact of this transaction within the accompanying financial statements.

Future repayment commitments under this arrangement are as follows:

Year ending September 30,	Principal	Interest	Total
2004	$ 46,235	$ 55,765	$ 102,000
2005	158,774	45,226	204,000
2006	178,910	25,090	204,000
2007	110,657	4,344	115,001
	$ 494,576	$ 130,425	$ 625,001

(9) RepMar Contributions

The College is dependent upon RepMar to provide for an annual appropriation in an amount sufficient to provide stable financial backing to meet the educational and vocational needs of the community. During the year ended September 30, 2003, the College received cash funding from RepMar of $990,050 to administer various postsecondary functions and to improve facilities. At September 30, 2003, the Nitijela of RepMar provided for an appropriation of $2,059,126 to fund the operations of the College for fiscal year 2004.

During the year ended September 30, 2003, the College obtained an advance from RepMar, in accordance with Cabinet Minute (C.M.) 100 (2003), in the amount of $150,000. This liability is included in payable to RepMar.

During the year ended September 30, 2002, the College received an overpayment from RepMar in the amount of $500,000. In addition, RepMar previously processed the College's payroll. The College was liable in the amount of $225,809 for this service. In accordance with C.M. 145 (2003), RepMar forgave these amounts in 2003.

On February 26, 2004, the College and RepMar entered into a Memorandum of Understanding whereby certain withholding taxes payable as of September 30, 2003, amounting to $951,945, shall be forgiven and be treated as a subsidy payment from RepMar. The College has elected to reflect the impact of this transaction within the accompanying financial statements.

(10) Natural Classifications With Functional Classification

For fiscal years prior to 2003, the College reported expenses in functional categories. In order to be consistent with the RepMar Government's reporting method, operating expenses are displayed in their natural classifications for fiscal year 2003. The following table shows natural classifications with functional classifications:

	Salaries	Benefits	Services	Supplies	Insurance, Utilities and Rent	Depreciation	Bad Debts	Miscellaneous	Totals
Instructional	$ 1,142,580	$ 394,838	$ -	$ 50,060	$ 12,974	$ 38,948	$ -	$ 70,171	$ 1,709,571
Administration	514,258	223,463	37,371	19,973	83,400	10,831	597,875	186,787	1,673,958
Student services	160,148	36,140	325	14,413	8,013	5,473	-	206,439	430,951
Operation and maintenance	262,989	34,409	-	9,616	22,763	163,316	-	10,051	503,144
Post secondary	235,328	82,817	5,838	20,298	9,508	5,233	-	76,343	443,761
Library	90,602	20,373	300	12,247	4,084	18,069	-	33,328	179,003
	$ 2,405,905	$ 792,040	$ 43,834	$ 126,607	$ 140,742	$ 241,870	$ 597,875	$ 583,119	$ 4,931,992

(11) Commitments

On July 31, 2000, the College executed two lease agreements for parcels of land and attached buildings and improvements located on Arrak Island. The leases commenced on July 1, 2000 for periods of thirty years each, ending on June 30, 2030, with options to renew for additional terms of thirty years. The terms of the leases call for rent to be paid in equal quarterly installments, with increases totaling $800 in the quarterly installments, every five years.

Future minimum lease payments under these leases are as follows:

Year ending September 30,	
2004	$ 64,000
2005	64,800
2006	67,200
2007	67,200
2008	67,200
Thereafter	1,621,600
	$ 1,952,000

(12) Contingencies

Sick Leave

It is the policy of the College to record expenditures for sick leave when leave is actually taken. Sick leave is compensated time for absence during working hours arising from employee illness or injury. The estimated accumulated sick leave at September 30, 2003, is $162,691.

Federal Grants

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 $489,618 relating to fiscal years 1997 through 2003 have been set forth in the College's Single Audit Report for the year ended September 30, 2003. The ultimate disposition of these questioned costs can be determined only by final action of the respective grantor agencies. Therefore, no provision for any liability that may result upon resolution of this matter has been made in the accompanying financial statements.

(13) Restatement of Beginning Net Assets

As described in note 2, as a result of the adoption of GASB Statements No. 34 and 35, the College was required to make certain changes in accounting principles. Net assets at September 30, 2002 (as disclosed below) were increased for the cumulative effect of fall semester tuition and fees prior to fiscal year 2003.

The effect of such adjustments in the revised statements was as follows:

Net assets reported as of September 30, 2002	$ (729,037)
Adjustment:	
Fall semester tuition and fees adjusted to accrual basis	391,650
Restated September 30, 2002 net assets	$ (337,387)