COLLEGE OF THE MARSHALL ISLANDS

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2004 AND 2003

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INDEPENDENT AUDITORS' REPORT

Board of Regents
College of the Marshall Islands:

We have audited the accompanying statements 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, 2004 and 2003, 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 management of the College. 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 also 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 referred to above present fairly, in all material respects, the financial position of the College as of September 30, 2004 and 2003, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 2 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 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 June 2, 2005, 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 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 read in conjunction with this report in considering the results of our audit.

Deloitte & Touche LLP

June 2, 2005

Member of
Deloitte Touche Tohmatsu

Introduction

In June 1999, the Governmental Accounting Standards Board (GASB) released Statement No. 34 "*Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*" which established a new reporting format for governmental financial statements. Statement No. 34 requires a comprehensive one-column look at the entity as a whole, along with recognition of depreciation on capital assets. In November 1999, GASB issued Statement No. 35 "*Basic Financial Statements-and Management's Discussion and Analysis-for Public Colleges and Universities,*" which established new reporting standards for public colleges and universities.

In 2003, the College implemented Governmental Accounting Standards Board Statement No. 35 (GASB 35). With the new standard the College's funds are now presented in consolidated financial statements, just as in a business concern. This contrasts with the accounting by funds presentation from the previous years.

For 2004, the College presents two years of financial statements in accordance with GASB 35, allowing comparisons of year-to-year performance. The following is management's discussion and analysis of the College's financial performance during the fiscal year ended September 30, 2004, as compared to 2003. This discussion has been prepared by the College management and should be read in conjunction with financial statements and related notes that follow.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to College of the Marshall Islands basic financial statements, which are comprised of entity-wide financial statements prepared in accordance with the accrual basis of accounting and notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

The entity-wide financial statements are designed to provide readers with a broad overview of the College's finances, in a manner similar to a private-sector business. These statements focus on the financial condition of the College, the results of operations, and cash flows of the College as a whole. The entity-wide statements are comprised of the following:

- The *Statement of Net Assets* presents information on all of the College's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets are indicators of the improvement or erosion of the College's financial health when considered along with non-financial facts such as enrollment levels and the condition of the facilities.

- The *Statement of Revenues, Expenses and Changes in Net Assets* presents the revenues earned and the expenses incurred during the year. All changes in net assets are reported under accrual basis of accounting, or as soon as underlying event giving rise to the change occurs, regardless of the timing when the cash is received or disbursed. Thus, revenues and expenses are reported in the statement for some items that will result in cash flows in future fiscal periods. The utilization of long-lived assets is reflected in the financial statements as depreciation, which amortizes the cost of the capital asset over the expected useful life. Revenues and expenses are reported as either operating or non-operating with operating revenues primarily coming from tuition. Republic of the Marshall Islands Government appropriations or subsidy is classified as non-operating revenues. Because of the College's dependency to the RMI Government's aid, this statement presents an operating loss, although overall net assets remain positive.

- The *Statement of Cash Flows* presents information on cash flows from operating activities, non-capital financial activities, capital financing activities and investing activities. It provides the net increase or decrease in cash between the beginning and the end of the fiscal year. This statement assists in evaluating financial viability and the College's ability to meet financial obligations as they become due.

- The Notes to the Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the entity-wide financial statements.

Financial Highlights

There are many factors used to evaluate the health of the College. These include its strategic direction, financial status, student enrollment, and institutional capacity. In evaluating financial status, one of the most important questions is whether the institution is financially better off at the beginning of the year or at the end of the year. In 2004 the College significantly improved its overall financial position, as evidenced by the increase in net assets from $794,686 in the prior year to $1,570,826. Additionally, the College's financial ratios, as defined by its accrediting body, either increased or remained stable.

Statement of Net Assets

The Statement of Net Assets presents the overall financial condition of the College's at year-end. For the year ended September 30, 2004, the net asset position of the College was $1,570,826. This represents an increase of $776,140 or 97.67% over the prior year.

Summary Statement of Net Assets

	2004	2003	%Change
Assets			
Current assets	$ 1,935,418	$1,100,491	75.869 %
Investments	151,092	135,846	11.223 %
Other non-current and capital assets, net	1,413,921	1,426,182	(00.860)%
Total assets	$ 3,500,431	$2,662,519	31.471 %
Liabilities			
Current liabilities	$ 1,640,038	$ 1,419,492	15.537%
Non-current liabilities	289,567	448,341	(35.414)%
Total liabilities	1,929,605	1,867,833	03.307%
Net Assets			
Invested in capital assets, net	1,413,921	1,426,182	(00.860)%
Restricted-nonexpendable	151,092	135,846	11.223%
Restricted-expendable	400	400	0.000%
Unrestricted	5,413	(767,742)	100.705%
Total net assets	1,570,826	794,686	97.666%
Total liabilities and net assets	$ 3,500,431	$ 2,662,519	31.471%

Exhibit A shows changes in net assets for the last three years.

EXHIBIT A
(Change in Net Assets)

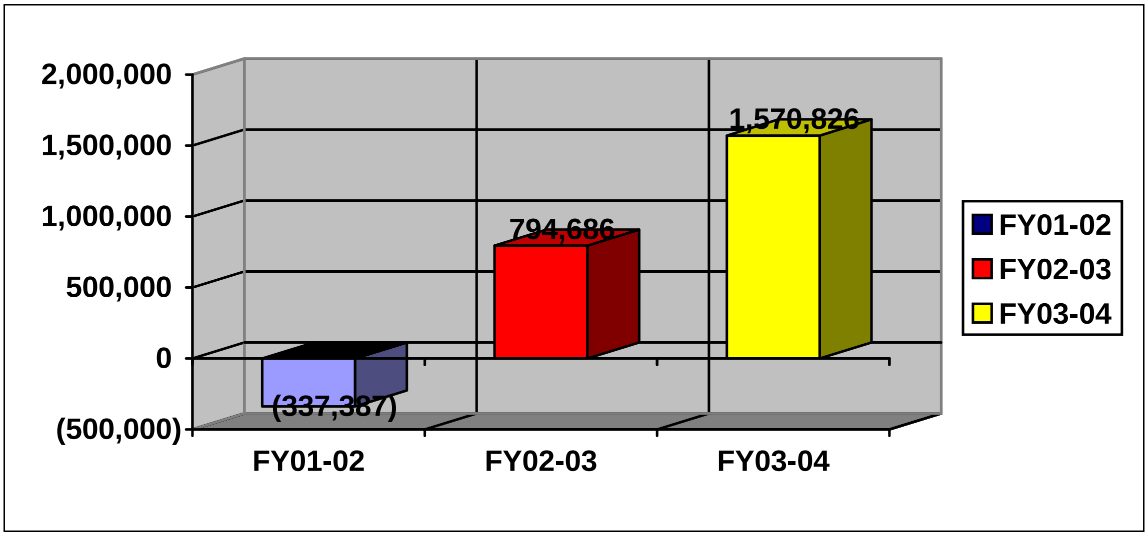
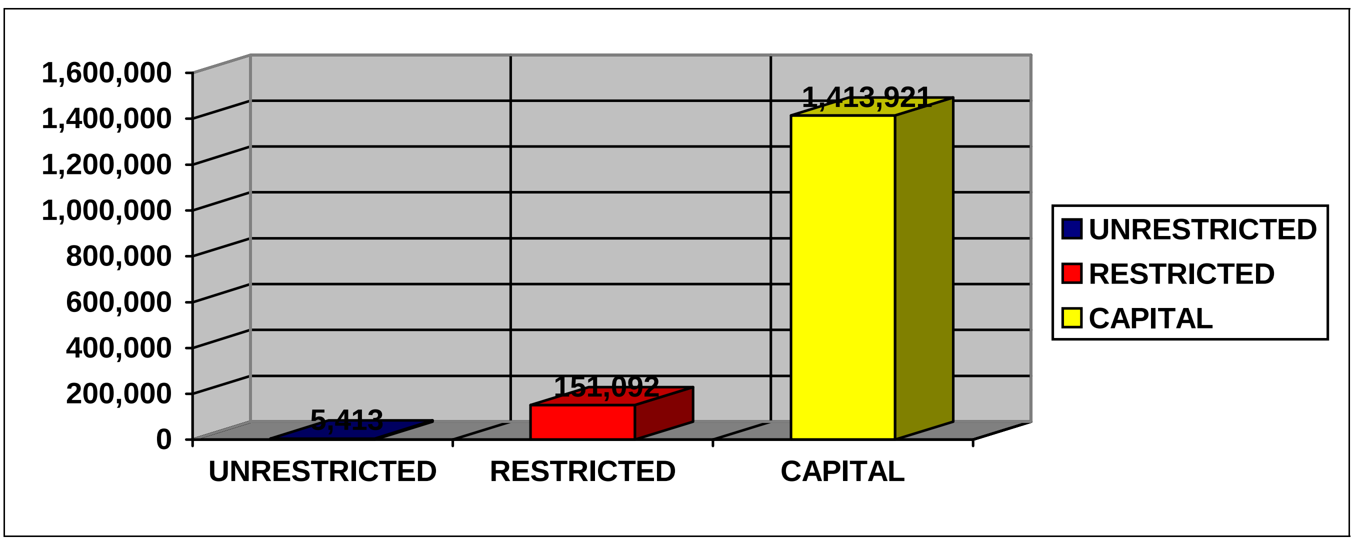


Exhibit B shows the allocation of net assets for the college in fiscal year 2004.

EXHIBIT B
(Net Assets Allocation)



Of total assets, 40.39% are in property, plant and equipment, 55.29% in current assets, and 4.32% in investments. Receivables make up 84.84% of current assets. Of total liabilities, 85.00% are current and 15.00% are non-current. At year-end, the College had a very little long-term debt, about 15.00% of total liabilities.

The total assets of the College increased by $837,912, while total liabilities also increased by $61,772, resulting in a net increase in net assets of $776,140.

The 31.47% increase in total assets is the result of improved working capital management and stronger investment. Net capital assets decreased due to depreciation expense. However, significant new capital improvement projects were funded, particularly for dormitory, pathways and restrooms as of fiscal year 2004.

Although the long term payable decreased by 35.41%, the total liabilities increased by 3.31% due to recording a payable to the U.S. Department of Education. The RMI Government through a Cabinet Memorandum approved to fund the payable to the U.S. Department of Education in fiscal year 2004 though the funding was budgeted in fiscal year 2005. Thus the deficit of the College, through better cash management and strict spending controls, should be eliminated in fiscal year 2005.

Statement of Revenues, Expenses and Changes in Net Assets

The Statement of Revenues, Expenses and Changes in Net Assets provides the detail of operating and non-operating revenues and expenditures that resulted in a $776,140 increase in net assets, as compared to a $1,132,073 increase in prior year. The RMI Government appropriations significantly increased during fiscal year 2004 by 122.21%.

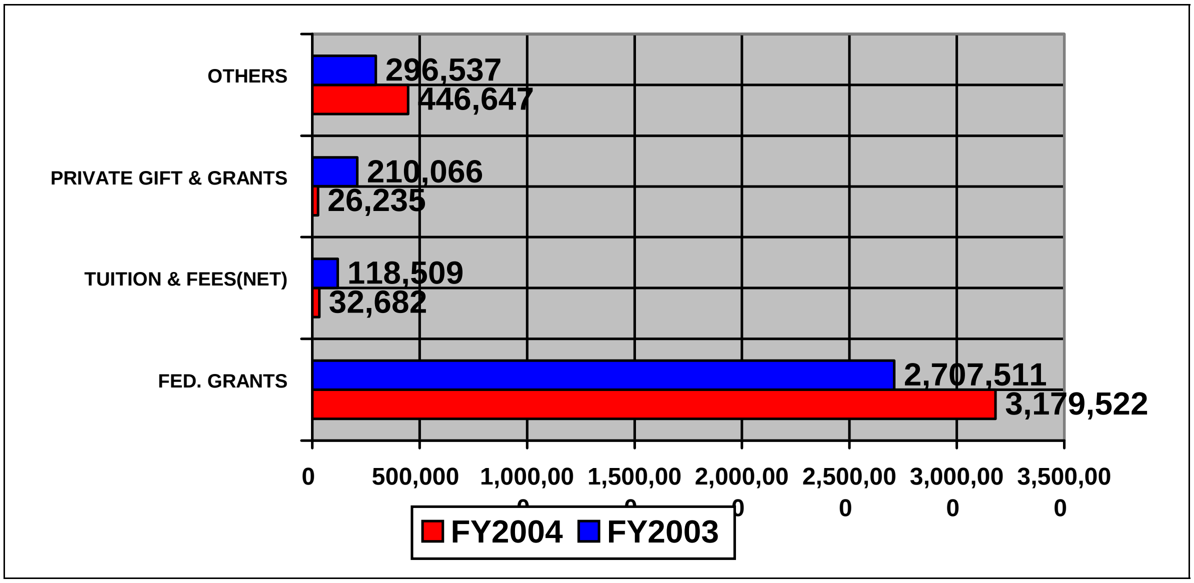
Summary Statement of Revenues, Expenses and Changes in Net Assets

	2004	2003	%Change
Operating revenue	$ 3,685,086	$ 3,332,623	10.576%
Operating expenses	5,323,827	4,885,893	8.963%
Operating loss	(1,638,741)	(1,553,270)	5.503%
Non-operating revenues (expenses):	2,215,246	2,685,343	(17.506%)
Capital contributions	199,635	-	-
Increase in net assets	776,140	1,132,073	(31.441%)
Net assets - beginning of year	794,686	(337,387)	335.541%
Net assets – end of year	$ 1,570,826	$ 794,686	97.666%

Looking at revenues, the College brought in $3,685,086 from operations, an increase of $352,463 or 10.576% compared to the prior year. Federal Grants and other revenues increased by $472,011 or 17.43%. (See Exhibit C).

Exhibit C

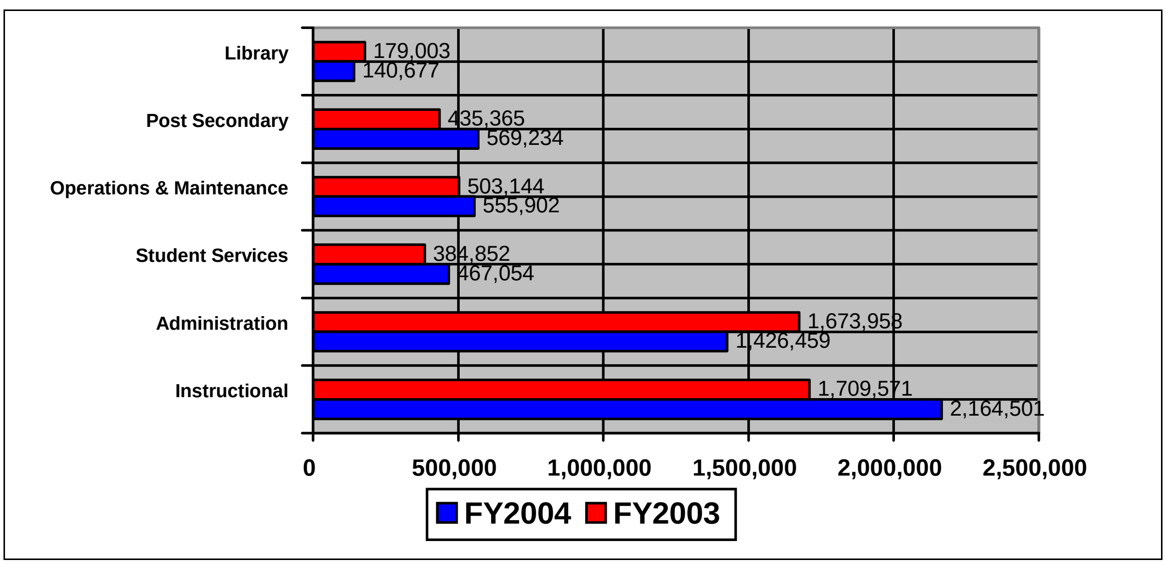
Operating Revenue Comparison FY04 – FY03



Operating expenses is higher compared to prior year due to booking of payables to the U.S. Department of Education amounting to $535,321. (See Exhibit D)

Exhibit D

Operating Expense Comparison FY04 – FY03



Although there is an increase in net assets, an operating loss appears because the RMI Government appropriations are reported as non-operating revenues rather than operating revenues. Therefore, as long as one of the largest sources of the College revenues is from the RMI Government appropriations, there will be an operating loss at the current level of tuition fees, grants and other revenues.

Highlights of the information presented includes the following:

1) The RMI government has substantially increased its subsidy from $990,050 in fiscal year 2003 to $2,200,000 in fiscal year 2004 (122.21% increase) to assist the College in maintaining its accreditation.

2) Student tuition and fees decreased by $85,827 as a result of the decrease of enrollees for school year 2004 particularly in Fall 2003.

3) Salaries and wages increased by $224,261 or 9.32% due to the increase in the salary of administrators and due to positions that were filled only in fiscal year 2004.

4) As a result of a rebound in the financial market during the early quarter of fiscal year 2004, the market value of the College's Endowment Fund investment increased by $15,246 or 11.22%.

5) Overall operating expenses increased by $437,934. The decrease in bad debts expense of $545,099 (or 91.173%) was offset by increase in salaries and benefits and miscellaneous expenses.

Statement of Cash Flows

The increase in the College's cash position at the end of the fiscal year was due to increase of revenue, improved collections and better cash management, and the cost-saving measures that was instituted. Planning requires that there be an adequate amount of cash on hand at the start of the new fiscal year to pay salaries and other needs.

Summary Statement of Cash Flows

	2004	2003	%Change
Cash provided by (used in):			
Operating activities	$ (1,977,461)	$ (987,909)	(100.166)%
Noncapital financing activities	2,050,000	1,140,050	79.817%
Capital and related financing activities	(2,235)	(546,909)	99.591%
Net change in cash and cash equivalents	70,304	(394,768)	117.809%
Cash and equivalents – beginning of year	67,257	462,025	(85.443)%
Cash and equivalents – end of year	$ 137,561	$ 67,257	104.530%

Economic Outlook

A new financial agreement with the US Government under the Compact of Free Association was effected in FY2004 (ended 30 September 2004). The agreement increased government allocations to additional recurrent and capital expenditures by 20%. The US commitment to long-term financial support after an extended period of negotiation is also expected to raise the confidence levels of households and private businesses. Apart from this, a major hospital upgrade funded by a grant from the Japanese Government is under way in the capital, Majuro. These positive factors were initially projected to increase GDP over 2004. However, delays in implementing government capital projects and the closure of a tuna loining plant--the single biggest source of private sector employment--outweighed the expected boost in GDP, resulting in an overall contraction of the economy.

The main government projects to fall behind schedule are in education. The sector should have received 60%, or $12 million, of the year's capital and maintenance budget for four high schools and an elementary school. However, government departments had some difficulty in adapting promptly to new procedures designed to strengthen accountability and increase value for money, this resulted in a large carryover of work to FY2005.

Another contractionary impact on the economy came from a decline in visitor arrivals to 74% of the 2003 level. Projected annual tourist arrivals of 1,400 people in the year to September 2004 continued to be less than the number of business travelers, which is estimated to have reached 2,250 people in 2004. A positive contribution to growth was made by copra, which provides one of the largest sources of merchandise exports and cash incomes for the outer islands. Copra export volumes rose by 14% over 2004 and, with producer prices rising slightly, producer income rose by 16%. Total producer income from copra of $1.2 million contributed approximately 1% of GDP.

Following budget surpluses in FY2002 and FY2003 aimed at generating savings for investment in the Marshall Islands Intergenerational Trust Fund, the Government planned a substantial increase in expenditures and net lending in FY2004 and projected a small budget deficit of 0.6% of GDP. However, delays in capital works resulted in a budget surplus. Domestically raised government revenues, which accounted for a quarter of total revenues and grants, fell by 5% in FY2004 as income taxes and import duties declined by 12% and 6%, respectively, and receipts from the sale of fishing rights plummeted by 47%. These falls were offset by an increase in grants from the US and Taipei, China; but total revenues and grants nonetheless fell by an estimated 1% over FY2004.

The amended Compact of Free Association financial assistance package as formally agreed with the US Government in December 2003 represents a major change in financial relations between the two countries. It affects the level of funding, the allocation of funds, and internal systems for managing public funds. With regard to allocation, the package provides for a large shift of expenditures toward the main sectors of health and education as well as for capital improvement and maintenance.

The amended assistance package provides for the adoption of financial accountability and management standards similar to those expected of US state and local governments. The Government recognizes that meeting these standards will require a sustained effort both to tailor systems and procedures to the circumstances of the Marshall Islands and to upgrade the capacity of its staff. Implementation of a government decision to move to performance-based budgeting is in its second year, with an initial emphasis on the ministries of Education, Health, and Environment. A medium-term budget and investment framework has also been established to shift budget planning to a 5-year rolling basis.

As of January 2005 a 2-year probation period set by US accreditation agencies for the College of the Marshall Islands was extended by another 6 months, over which time the College needs to continue to correct shortcomings in financial management and strategic planning. If accreditation were removed, CMI would lose approximately half of its revenues (via the loss of US grants) and require a substantial increase in local financial support to remain in business. Even if operations were continued, the loss of accreditation would reduce the ability of the students to transfer their credits to a US accredited institution.

The College remains focused on its strategic initiatives and continual improvement. Academic quality and student learning remain the highest priorities. An assessment specialist with Educational Testing Services, Dr. Karen Nulton, has been engaged by CMI in its effort to address deficiencies in planning and assessment. The focus of Dr. Nulton's work can be divided into the short-term goals examined, such as an expansion of the Curriculum Committee into a Curriculum and Assessment Committee, an emphasis on mission accountability, and the creation of clear hierarchies within the College while simultaneously maintaining a culture of respect. The long-term aims of the collaboration with Dr. Nulton involve the collection of appropriate institutional data for planning purposes, integration of assessment with professional development, refinement of the College's faculty evaluation system to reflect assessment, and better use of assessment to address faculty success and retention. The College also engaged Dr. Don Lombardi (a planning expert) to complete the College-wide Master Plan.

In summary, there is a continued effort in order to successfully align the College with its mission. By doing this, the College expects to attain its full U.S. Accreditation and to expand and participate in the global arena of higher education.

For further news and up-to-date information concerning the College of the Marshall Islands, please visit its website at www.cmiedu.net.

COLLEGE OF THE MARSHALL ISLANDS

Statements of Net Assets
September 30, 2004 and 2003

	2004	2003
Assets:		
Current assets:		
Cash	$ 137,561	$ 67,257
Accounts receivable and unbilled charges, net	1,185,887	1,020,061
Due from grantor agencies	456,065	-
Prepaid items	27,495	13,173
Inventory	128,410	-
Total current assets	1,935,418	1,100,491
Noncurrent assets:		
Investments	151,092	135,846
Property, plant and equipment, net	1,413,921	1,426,182
Total noncurrent assets	1,565,013	1,562,028
Total assets	$ 3,500,431	$ 2,662,519
Liabilities:		
Current liabilities:		
Payable to the Republic of the Marshall Islands	$ -	$ 150,000
Accounts payable	37,114	94,548
Social security taxes payable	142,921	220,487
Accrued liabilities	313,449	231,521
Deferred revenue	611,233	533,770
Due to grantor agencies	535,321	189,166
Total current liabilities	1,640,038	1,419,492
Noncurrent liabilities:		
Social security taxes payable	289,567	448,341
Total liabilities	1,929,605	1,867,833
Commitments and contingencies		
Net assets:		
Investment in capital assets	1,413,921	1,426,182
Restricted:		
Nonexpendable	151,092	135,846
Expendable	400	400
Unrestricted	5,413	(767,742)
Total net assets	1,570,826	794,686
Total liabilities and net assets	$ 3,500,431	$ 2,662,519

See accompanying notes to financial statements.

COLLEGE OF THE MARSHALL ISLANDS

Statements of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2004 and 2003

	2004	2003
Operating revenues:		
U.S. federal grants	$ 3,179,522	$ 2,707,511
Student tuition and fees (net of scholarship discount and allowances of $1,987,022 and $2,019,561 at September 30, 2004 and 2003, respectively)	32,682	118,509
Private gifts, grants and donations - restricted	26,235	210,066
Other	446,647	296,537
Total operating revenues	3,685,086	3,332,623
Operating expenses:		
Salaries	2,630,166	2,405,905
Benefits	925,960	792,040
Depreciation	214,131	241,870
Supplies	171,831	126,607
Insurance, utilities and rent	153,779	140,742
Services	123,754	43,834
Bad debts	52,776	597,875
Miscellaneous	1,051,430	537,020
Total operating expenses	5,323,827	4,885,893
Operating loss	(1,638,741)	(1,553,270)
Nonoperating revenues (expenses):		
RepMar contributions	2,200,000	1,941,995
Forgiveness of debt	-	725,809
Investment income, net of expenses	15,246	17,539
Total nonoperating revenues	2,215,246	2,685,343
Capital contributions	199,635	-
Increase in net assets	776,140	1,132,073
Net assets at beginning of the year	794,686	(337,387)
Net assets at end of the year	$ 1,570,826	$ 794,686

See accompanying notes to financial statements.

COLLEGE OF THE MARSHALL ISLANDS

Statements of Cash Flows
Years Ended September 30, 2004 and 2003

	2004	2003
Cash flows from operating activities:		
Student tuition and fees	$ 1,945,550	$ 1,493,348
U.S. federal grants	2,858,426	2,901,609
Other revenues	405,790	364,453
Payments to employees	(2,596,292)	(2,405,905)
Payments to suppliers	(4,590,935)	(3,341,414)
Net cash used in operating activities	(1,977,461)	(987,909)
Cash flows from noncapital financing activities:		
(Repayment of) advance from RepMar	(150,000)	150,000
RepMar contributions	2,200,000	990,050
Net cash provided by noncapital financing activities	2,050,000	1,140,050
Cash flows from capital and related financing activities:		
Purchases of property, plant and equipment	(2,235)	(546,909)
Net cash used in capital and related financing activities	(2,235)	(546,909)
Net increase (decrease) in cash	70,304	(394,768)
Cash at beginning of year	67,257	462,025
Cash at end of year	$ 137,561	$ 67,257
Reconciliation of net operating revenues (expenses) to net cash used in operating activities:		
Operating loss	$(1,638,741)	$(1,553,270)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	214,131	241,870
Bad debts expense	52,776	597,875
Changes in assets and liabilities:		
Accounts receivable and unbilled charges	(218,602)	(491,112)
Prepaid items	(14,322)	26,770
Bank overdraft	-	(5,902)
Due from grantor agencies	(456,065)	-
Inventory	(128,410)	-
Accounts payable	(57,434)	(23,624)
Accrued liabilities	(154,412)	321,146
Deferred revenue	77,463	(78,811)
Due to grantor agencies	346,155	(22,851)
Net cash used in operating activities	$(1,977,461)	$ (987,909)

See accompanying notes to financial statements.

COLLEGE OF THE MARSHALL ISLANDS

Statements of Cash Flows, Continued
Years Ended September 30, 2004 and 2003

	2004	2003
Supplemental schedule of noncash activities:		
Increase in property, plant and equipment	$ 199,635	$ -
Capital contributions	(199,635)	-
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

The Governmental Accounting Standards Board (GASB) 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.*

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.

Cash

For the purpose of the statements of net assets and cash flows, cash is defined as cash on hand and cash held in demand and savings accounts. As of September 30, 2004 and 2003, cash was \$137,561 and \$67,257, respectively, and the corresponding bank balances were \$488,975 and \$95,039, which are maintained in one financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2004 and 2003, bank deposits in the amounts of \$100,000 and \$95,309, 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.

(2) Summary of Significant Accounting Policies, Continued

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

Inventory

Inventory consists of items purchased for resale at the College's bookstore. Inventory is valued at the lower of cost (first-in, first-out) or market value. The College did not previously record inventory in its financial statements and did not determine the value of such inventory in prior years.

Property, Plant and Equipment

Property, plant and equipment with a cost that equals or exceeds $500 are capitalized. Such assets 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, 2004 and 2003, the College recorded accrued annual leave in the amounts of $75,877 and $76,600, respectively, which is included within the statements 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 - Expendable restricted 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.

New Accounting Standards

In fiscal year 2004, the College implemented GASB Statement No. 39, *Determining Whether Certain Organization s Are Component Units*. Implementation of this statement had no impact on the accompanying financial statements.

For fiscal year 2005, the College will be implementing GASB Statement No. 40, *Deposit and Investment Risk Disclosures* (an amendment of GASB Statement No. 3) and GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries.* The College has not evaluated the financial statement impact of the implementation of GASB Statement Nos. 40 and 42.

Reclassifications

Certain reclassifications have been made to the 2003 financial statements in order to conform with the 2004 presentation.

(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

(4) Investments, Continued

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, 2004 and 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, 2004 and 2003:

	2004	2003
Student tuition and fees	$ 1,411,714	$ 1,841,205
College of Micronesia	75,500	23,727
Employees and officers	3,224	13,973
Other activities	70,158	44,196
	1,560,596	1,923,101
Less allowance for doubtful accounts	(374,709)	(903,040)
Net accounts receivable and unbilled charges	$ 1,185,887	$ 1,020,061

(6) Due from (to) Grantor Agencies

The College is a recipient of federal programs from various federal agencies. Excess disbursements (receipts) over grant receipts (disbursements) are recognized as a receivable from (payable to) grantor agencies. Changes in the federal grants receivable (payable) account for the years ended September 30, 2004 and 2003, are as follows:

	2004	2003
Balance at beginning of year	$ (189,166)	$ (212,017)
Deductions - federal program outlays	5,244,166	2,924,460
Additions - cash receipts from grantor agencies	(4,598,935)	(2,901,609)
	$ 456,065	$ (189,166)

During the year ended September 30, 2004, the U.S. Department of Education (USDOE) determined that the College was liable for overdrawn federal funds and related penalties amounting to $535,321 relating to certain USDOE programs.

(7) Property, Plant and Equipment

Summarized below is the College's investment in property, plant and equipment and changes for the years ended September 30, 2004 and 2003:

		2004			
	Estimated Useful Lives	Balance at October 1, 2003	Additions	Deletions	Balance at September 30, 2004
Furniture, vehicles and equipment	3 - 5 years	$ 1,083,846	$ 181,270	$ (30,414)	$ 1,234,702
Buildings and improvements	20 years	1,254,564	5,000	(32,808)	1,226,756
		2,338,410	186,270	(63,222)	2,461,458

(7) Property, Plant and Equipment, Continued

	Estimated Useful Lives	2004 Balance at October 1, 2003	Additions	Deletions	Balance at September 30, 2004
Less accumulated depreciation		(1,463,978)	(214,131)	63,222	(1,614,887)
		874,432	(27,861)	-	846,571
Construction work in progress		551,750	20,600	(5,000)	567,350
Net investment in plant		$ 1,426,182	$ (7,261)	$ (5,000)	$ 1,413,921

	Estimated Useful Lives	2003 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

Construction work in progress relates to renovations and improvements at the Gugeegue Campus, which are currently on hold due to the lack of funding. The College is currently not utilizing the Gugeegue Campus and has entered into a Memorandum of Understanding with the Ministry of Education for the use of other buildings and facilities located at the campus. Management believes that continuation of the renovations and improvements at the Gugeegue Campus is dependent upon the availability of funding.

(8) Social Security Taxes Payable

At September 30, 2004 and 2003, the College was liable for certain delinquent taxes payable to the Marshall Islands Social Security Administration (MISSA) in the amounts of $432,488 and $668,828, respectively, under a promissory note dated February 27, 2004. The terms of this agreement include monthly payments of $17,000, inclusive of interest at 12% per annum, commencing April 10, 2004.

Long-term debt activity during the years ended September 30, 2004 and 2003 is as follows:

2004 Balance at October 1, 2003	Additions	Reductions	Balance at September 30, 2004	Amount due within one year
$ 668,828	$ -	$ 236,340	$ 432,488	$ 142,921

2003 Balance at October 1, 2002	Additions	Reductions	Balance at September 30, 2003	Amount due within one year
$ 174,252	$ 668,828	$ 174,252	$ 668,828	$ 220,487

(8) Social Security Taxes Payable, Continued

Future repayment commitments under this arrangement are as follows:

Year ending September 30,	Principal	Interest	Total
2005	$ 142,921	$ 45,226	$ 188,147
2006	178,910	25,090	204,000
2007	110,657	4,344	115,001
	$ 432,488	$ 74,660	$ 507,148

(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 years ended September 30, 2004 and 2003, the College received $2,200,000 and $990,050, respectively, from RepMar to administer various postsecondary functions and to improve facilities. At September 30, 2004, the Nitijela of RepMar provided for an appropriation of $3,000,000 to fund the operations of the College for fiscal year 2005.

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 as of September 30, 2003. The advance was repaid in 2004.

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. There was no such forgiveness of debt in 2004.

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, were forgiven and treated as a subsidy payment from RepMar. The College elected to reflect the impact of this transaction within the 2003 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 years 2004 and 2003. The following table shows natural classifications with functional classifications:

	2004								
	Salaries	Benefits	Services	Supplies	Insurance, Utilities and Rent	Depreciation	Bad Debts	Miscellaneous	Totals
Instructional	$1,138,617	$462,413	$ 27,637	$ 69,824	$ 14,813	$ 34,968	$ -	$ 416,229	$2,164,501
Administration	635,816	295,719	23,571	20,801	100,551	9,577	52,776	287,648	1,426,459
Student services	157,535	44,893	7,596	14,356	7,464	3,303	-	231,907	467,054
Operation and maintenance	276,341	42,678	-	29,062	20,441	148,510	-	38,870	555,902
Post secondary	341,515	57,736	64,950	16,408	8,366	3,585	-	76,674	569,234
Library	80,342	22,521	-	21,380	2,144	14,188	-	102	140,677
	$2,630,166	$925,960	$123,754	$171,831	$153,779	$214,131	$52,776	$1,051,430	$5,323,827

(10) Natural Classifications With Functional Classification, Continued

	2003								
	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	-	160,340	384,852
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	435,365
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	$ 537,020	$ 4,885,893

(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,	
2005	$ 64,800
2006	67,200
2007	67,200
2008	67,200
2009	67,200
2010-2014	349,600
2015-2019	365,600
2020-2024	381,600
2025-2029	397,600
2030	60,000
	$ 1,888,000

(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, 2004 and 2003 was $16,049 and $162,691, respectively.

(12) Contingencies, Continued

Accreditation

The Accrediting Commission for Community and Junior Colleges, Western Association of Schools and Colleges, at its meeting on June 9-11, 2004, imposed the Show Cause order on the College and required that the College submit a Progress Report by October 15, 2004. The Show Cause order requires that the College show cause as to why its accreditation should be continued.

Single Audit

The College is subject to annual audit requirements. Approximately $272,904 of questioned costs are outstanding. Resolution will be made by applicable federal agencies. No liability for any amount, if any, that may ultimately be disallowed has been provided for in the accompanying financial statements as it is not currently possible to assess the ultimate outcome of the matter.

(13) Subsequent Event

On February 18, 2005, RepMar paid $472,419 of the amount due to USDOE on behalf of the College.