COLLEGE OF THE MARSHALL ISLANDS

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2005 AND 2004

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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, 2005 and 2004, 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, 2005 and 2004, 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 3 through 10 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 March 20, 2006, 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 considered in assessing the results of our audit.

Deloitte & Touche LLP

March 20, 2006

Introduction

This section of the College of the Marshall Islands Annual Financial Report presents an analysis of the financial activities of the College for fiscal year ended September 30, 2005. This discussion has been prepared by management along with the financial statements and related footnote disclosures and should be read in conjunction with them. Consequently management assumes full responsibility for the completeness and reliability of the information presented in this report. This discussion is designed to focus on current activities, resulting changes and current known facts.

New Accounting Standards

In June 1999, the Governmental Accounting Standard 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 Government Accounting Standard Board Standard 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 previous years.

For 2005, the College presents two years of financial statements in accordance with GASB 35 standards, 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, 2005, as compared to 2004. This discussion has been prepared by the College management and should be read in conjunction with the 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. Net Assets increased by $2,771,752 for the year ended September 30, 2005.

- 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 events giving rise to the changes occur, 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 subsidies are classified as non-operating revenues. As a publicly chartered, governmental institution whose mission is to provide higher education services to the people of the Marshall Islands, the College is dependent on the RMI Government's support in the form of appropriations and subsidies. This statement shows an operating loss, reflecting the nature of that relationship. The College showed an increase in operating loss in the amount of $417,780 for the year ended September 30, 2005 as compared with the year ended September 30, 2004.

- The *Statement of Cash Flows* presents information on cash flows from operating activities, non-capital financial activities, capital and related 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. Cash balances increased by $2,142,398 in the year ended September 30, 2005.

- 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 2005, the College significantly improved its overall financial position, as evidenced by the increase in net assets from $1,570,826 in the prior year to $4,342,578. 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, 2005, the net asset position of the College was $4,342,578.00. This represents an increase of $2,771,752.00 or 176% over the prior year.

Summary Statement of Net Assets

	2005	2004	%Change
Assets			
Current assets	$ 3,869,857	$ 1,935,418	99.949%
Other non-current assets - investments	180,039	151,092	19.158%
Capital assets, net	1,485,516	1,413,921	5.064%
Total assets	$ 5,535,412	$ 3,500,431	58.135%

	2005	2004	%Change
Liabilities			
Current liabilities	$ 1,192,834	$ 1,640,038	(27.268)%
Non-current liabilities	-	289,567	(100.000)%
Total liabilities	1,192,834	1,929,605	(38.182)%
Net Assets			
Invested in capital assets	1,485,516	1,413,921	5.064%
Restricted-nonexpendable	180,039	151,092	19.158%
Restricted-expendable	500	400	25.000%
Unrestricted	2,676,523	5,413	49,346.204%
Total net assets	4,342,578	1,570,826	176.452%
Total liabilities and net assets	$ 5,535,412	$ 3,500,431	58.135%

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

EXHIBIT A
(Changes in Net Assets)

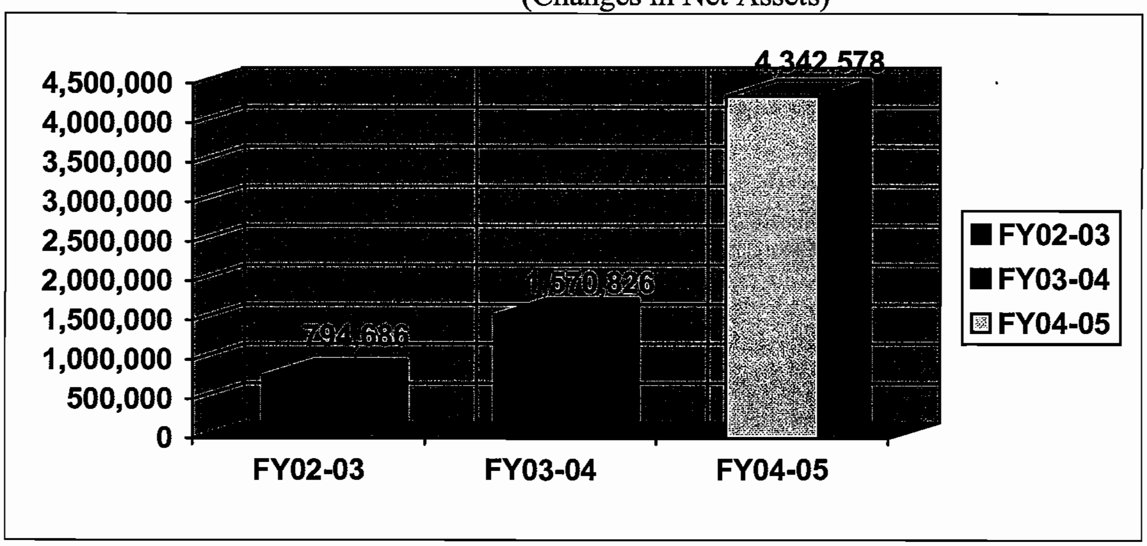
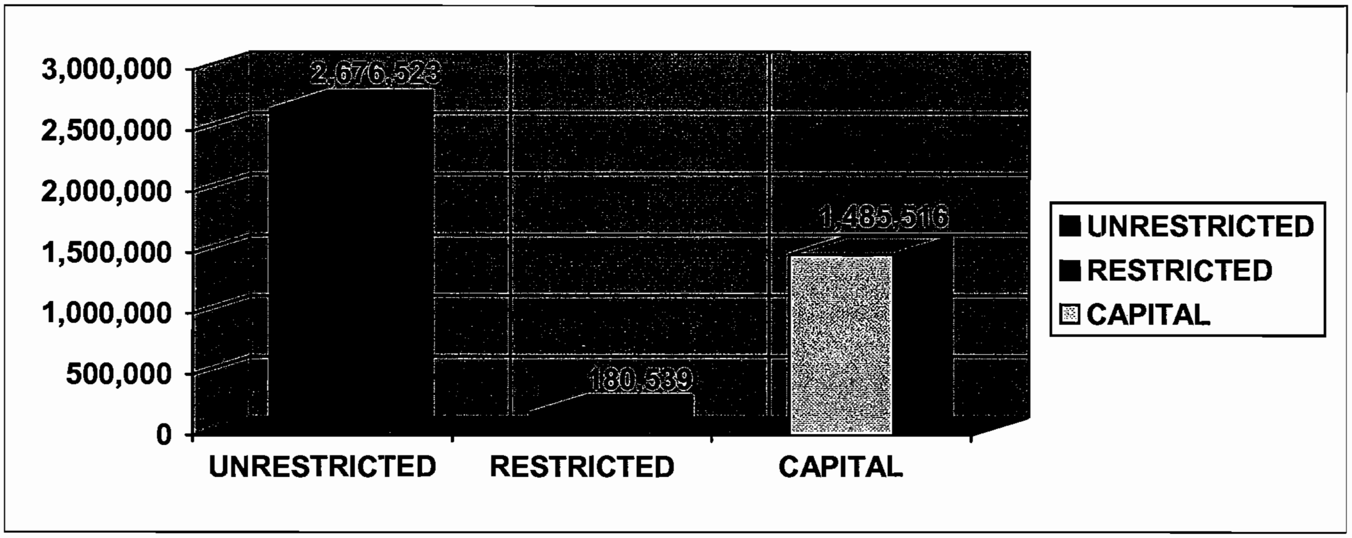


Exhibit B shows the allocation of assets for the college in fiscal year 2005

EXHIBIT B
(Net Assets Allocation)



Of total assets, 27% are in property, plant and equipment, 70% in current assets, and 3% in investments. Receivables make up 36% of current assets. All liabilities of the College are current.

The total assets of the College increased by $2,034,981, while total liabilities decreased by $736,771, resulting in a net increase in net assets of $2,771,752.

The RMI Government, through a Cabinet Memorandum, approved a subsidy for the College in the amount of $3,000,000 per year for a period of five years starting in fiscal year 2005. The College's 176% increase in total net assets is largely the result of this increased subsidy and improved working capital management.

The College retired notes payable to the Marshall Islands Social Security Administration as of September 30, 2005, eliminating all long-term payables. The Current Liabilities also decreased by 27% due to payments made to the U.S. Department of Education for the overdrawn funds in the previous years.

Statement of Revenues, Expenses and Changes in Net Assets

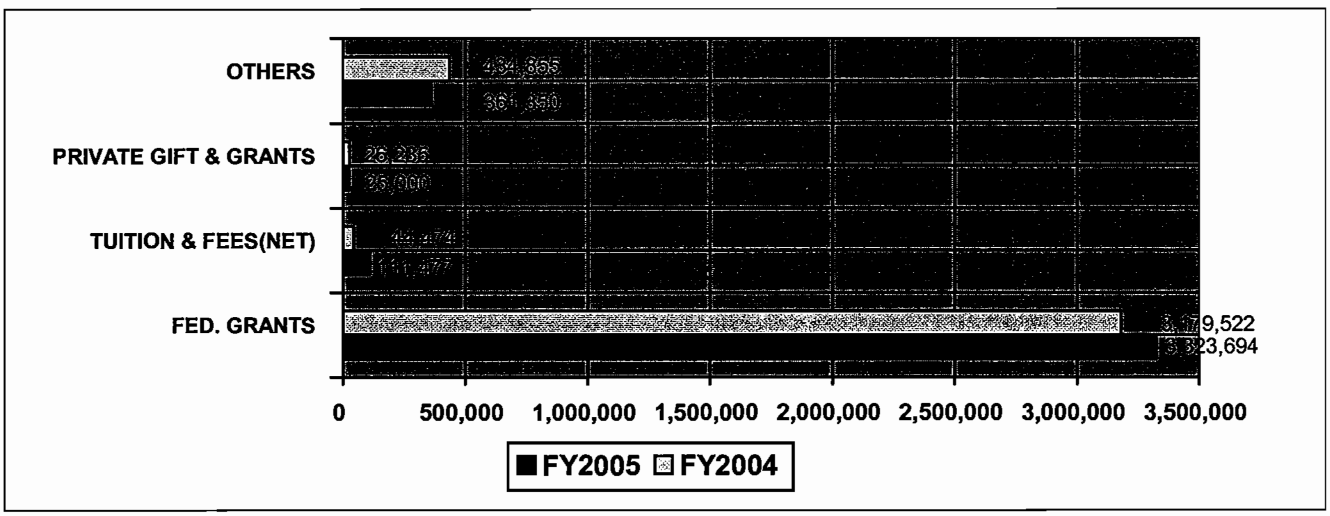
The Statement of Revenues, Expenses and Changes in Net Assets provides the detail of operating and non-operating revenues and expenditures that resulted in a $2,771,752 increase in net assets, as compared to a $776.140 increase in prior year. The RMI Government appropriations significantly increased during fiscal year 2005 by 106% or $2,340,499.

Summary Statement of Revenues, Expenses and Changes in Net Assets

	2005	2004	%Change
Operating revenue	$ 3,821,521	$ 3,685,086	3.702%
Operating expenses	5,878,042	5,323,827	10.410%
Operating loss	(2,056,521)	(1,638,741)	25.494%
Non-operating revenues and capital contributions	4,828,273	2,414,881	99.938%
Increase in net assets	2,771,752	776,140	257.120%
Net assets - beginning of year	1,570,826	794,686	97.666%
Net assets – end of year	$ 4,342,578	$ 1,570,826	176.452%

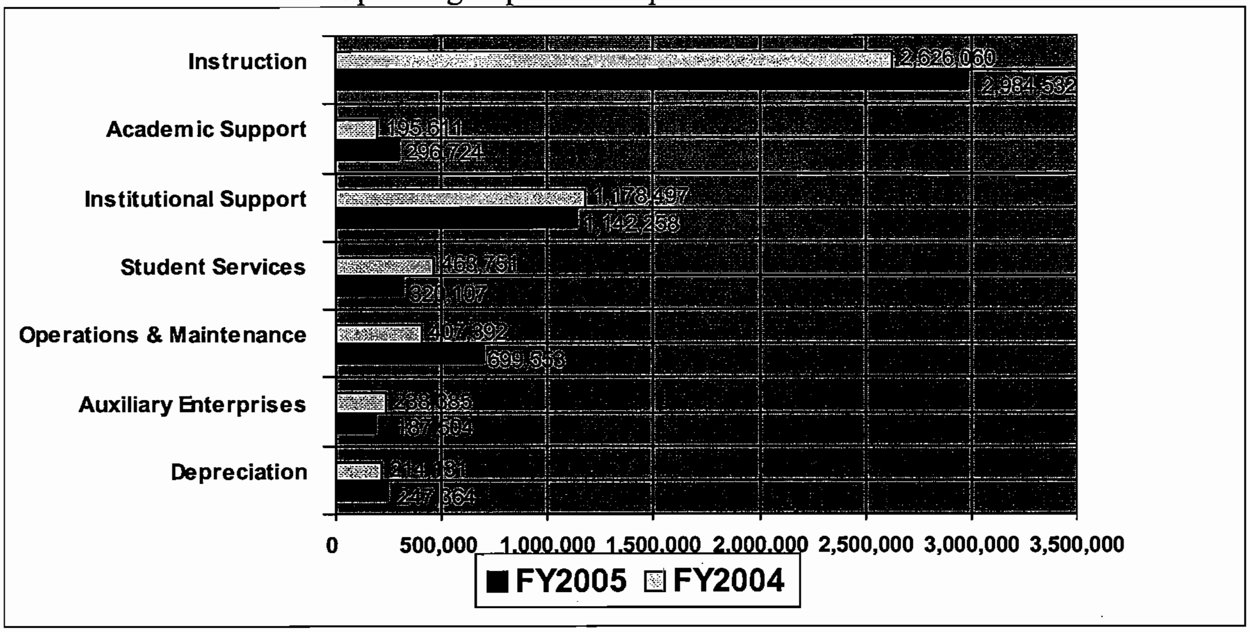
Looking at revenues, the College brought in $3,821,521 from operations, an increase of $136,435 or 4% compared to the prior year, which included an increase in federal grants revenues of $144,172 or 5%. (See Exhibit C).

Exhibit C
Operating Revenue Comparison FY-2005 and FY-2004



Operating expenses are higher compared to prior year due to filling of vacant positions. (See Exhibit D)

Exhibit D
Operating Expense Comparison FY-2005 – FY-2004



Despite the increase in net assets, the College is dependent upon governmental subsidies. Government appropriations are reported as non-operating revenues rather than operating revenues. The result appears as an operating loss. This dependence on the RMI Government for appropriations will continue for the foreseeable future.

Highlights of the information presented includes the following:

1) The RMI Government has substantially increased its operational subsidy to the College from $2,200,000 in fiscal year 2004 to $4,540,499 in fiscal year 2005. Part of the $4,540,499 subsidy for fiscal year 2005 is the $3,000,000 annual operational subsidy approved by the RMI Cabinet through fiscal year 2009.

2) The College also received $1,000,000 from the Taiwanese Government (through RMI) for the initial phase of its capital improvement project.

3) Student tuition and fees increased by $67,003 as a result of increased enrollment, particularly in Fall 2005.

4) Salaries and benefits increased by $267,195 or 7.5% due to the filling of positions, which were vacant in the previous year.

5) The fair market value of the College's Endowment Fund increased by $28,947 or 19%. Additional contributions totaled $7,062. Changes in investment strategy and rebounding financial markets were the primary factors contributing to earnings growth.

6) Overall operating expenses increased by $554,215 or 10%.

Statement of Cash Flows

Improvements in the College's cash position at the end of the fiscal year can be attributed primarily to increases in revenue, improved collection of accounts, better cash management, and the cost-saving measures. Increasing amounts of cash on hand enhance the College's flexibility in planning and management of its operations.

Summary Statement of Cash Flows

	2005	2004	%Change
Cash provided by (used in):			
Operating activities	$ (1,778,674)	$ (1,977,461)	(10.053%)
Noncapital financing activities	4,169,896	2,050,000	103.410%
Capital and related financing activities	(248,824)	(2,235)	11,033.065%
Net change in cash and cash equivalents	2,142,398	70,304	2,947.334%
Cash and equivalents – beginning of year	137,561	67,257	104.530%
Cash and equivalents – end of year	$ 2,279,959	$ 137,561	1557.417%

Economic Outlook

The economic health of the RMI Government is important to the College because of its dependence on operational subsidies. The RMI Government's financial agreement with the U.S. Government under the Compact of Free Association and the U.S. commitment to long-term financial support for the RMI after an extended period of negotiation raised the confidence levels of all sectors of the RMI national economy. The amended Compact of Free Association financial assistance package as formally agreed with the U.S. Government in December 2003 that represents a major change in financial relations between the two countries, affects the level of funding such as, the allocation of funds, and internal systems for managing public funds. The allocation 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 U.S. state and local governments. The GRMI 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 third year, with an initial emphasis on the Ministries of Education, and Health and Environment. The College is part of this initiative.

In support of the College's efforts to maintain physical facilities that meet the standards for accreditation, the RMI Government has allocated $25,000,000 to the College for facilities construction. The commitment is in the form of a Memorandum of Agreement which provides for $5,000,000 per year in FY's 2007-2011. The Republic of China (Taiwan) has pledged an additional $1,000,000 in FY 2006 and is considering a similar contribution for 2008.

The RMI Government also committed to fund its $3,000,000 operational subsidy to the College on a quarterly basis, rather than monthly, as in previous years. This allows for better planning for cash flow purposes and increased flexibility for management.

Summary

The College's financial condition improved markedly in FY 2005. This improvement is seen most notably in unprecedented increases in net assets and cash flow. These improvements occurred in an atmosphere in which funds available for operational expenses increased. This has resulted in continued progress in the College's efforts to increase its institutional effectiveness and better accomplish its mission in service to the people of the Marshall Islands.

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

COLLEGE OF THE MARSHALL ISLANDS

Statements of Net Assets
September 30, 2005 and 2004

	2005	2004
Assets:		
Current assets:		
Cash	$ 2,279,959	$ 137,561
Accounts receivable and unbilled charges, net	1,195,086	1,185,887
Due from grantor agencies	203,284	456,065
Prepaid items	10,598	27,495
Inventory	180,930	128,410
Total current assets	3,869,857	1,935,418
Noncurrent assets:		
Investments	180,039	151,092
Property, plant and equipment, net	1,485,516	1,413,921
Total noncurrent assets	1,665,555	1,565,013
Total assets	$ 5,535,412	$ 3,500,431
Liabilities:		
Current liabilities:		
Accounts payable	$ 53,486	$ 37,114
Social security taxes payable	358,202	142,921
Accrued liabilities	197,939	313,449
Deferred revenue	583,207	611,233
Due to grantor agencies	-	535,321
Total current liabilities	1,192,834	1,640,038
Noncurrent liabilities:		
Social security taxes payable	-	289,567
Total liabilities	1,192,834	1,929,605
Commitments and contingencies		
Net assets:		
Invested in capital assets	1,485,516	1,413,921
Restricted:		
Nonexpendable	180,039	151,092
Expendable	500	400
Unrestricted	2,676,523	5,413
Total net assets	4,342,578	1,570,826
Total liabilities and net assets	$ 5,535,412	$ 3,500,431

See accompanying notes to financial statements.

COLLEGE OF THE MARSHALL ISLANDS

Statements of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2005 and 2004

	2005	2004
Operating revenues:		
U.S. federal grants	$ 3,323,694	$ 3,179,522
Student tuition and fees (net of scholarship discount and allowances of $2,029,218 and $1,987,022 at September 30, 2005 and 2004, respectively)	111,477	44,474
Private gifts, grants and donations - restricted	25,000	26,235
Other	361,350	434,855
Total operating revenues	3,821,521	3,685,086
Operating expenses:		
Instruction	2,984,532	2,626,060
Institutional support	1,142,258	1,178,497
Operations and maintenance	699,553	407,392
Student services	320,107	463,751
Academic support	296,724	195,611
Depreciation	247,364	214,131
Auxiliary enterprises	187,504	238,385
Total operating expenses	5,878,042	5,323,827
Operating loss	(2,056,521)	(1,638,741)
Nonoperating revenues:		
RepMar contributions	3,000,000	659,126
Compact funding	1,540,499	1,540,874
Other U.S. federal grants	150,981	-
Investment income, net	28,947	15,246
Total nonoperating revenues	4,720,427	2,215,246
Capital contributions	107,846	199,635
Increase in net assets	2,771,752	776,140
Net assets at beginning of the year	1,570,826	794,686
Net assets at end of the year	$ 4,342,578	$ 1,570,826

See accompanying notes to financial statements.

COLLEGE OF THE MARSHALL ISLANDS

Statements of Cash Flows
Years Ended September 30, 2005 and 2004

	2005	2004
Cash flows from operating activities:		
Student tuition and fees	$ 69,148	$ 11,551
U.S. federal grants	3,546,644	2,723,457
Other revenues	324,472	394,104
Payments to employees	(2,894,041)	(2,754,296)
Payments to suppliers	(2,824,897)	(2,352,277)
Net cash used in operating activities	(1,778,674)	(1,977,461)
Cash flows from noncapital financing activities:		
Repayment of advance from RepMar	-	(150,000)
RepMar contributions	2,527,581	659,126
Compact funding	1,531,468	1,540,874
Other U.S. federal grants	110,847	-
Net cash provided by noncapital financing activities	4,169,896	2,050,000
Cash flows from capital and related financing activities:		
Purchases of property, plant and equipment	(372,764)	(2,235)
Compact funding	123,940	-
Net cash used in capital and related financing activities	(248,824)	(2,235)
Net increase in cash	2,142,398	70,304
Cash at beginning of year	137,561	67,257
Cash at end of year	$ 2,279,959	$ 137,561
Reconciliation of net operating revenues (expenses) to net cash used in operating activities:		
Operating loss	$(2,056,521)	$(1,638,741)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	247,364	214,131
Bad debts expense	66,982	52,776
Loss on disposal of fixed assets	53,805	-
Changes in assets and liabilities:		
Accounts receivable and unbilled charges	(76,181)	(218,602)
Prepaid items	16,897	(14,322)
Due from grantor agencies	222,950	(456,065)
Inventory	(52,520)	(128,410)
Accounts payable	16,372	(57,434)
Accrued liabilities	(189,796)	(154,412)
Deferred revenue	(28,026)	77,463
Due to grantor agencies	-	346,155
Net cash used in operating activities	$(1,778,674)	$(1,977,461)

See accompanying notes to financial statements.

COLLEGE OF THE MARSHALL ISLANDS

Statements of Cash Flows, Continued
Years Ended September 30, 2005 and 2004

	2005	2004
Supplemental schedule of noncash activities:		
Increase in property, plant and equipment	$ -	$ 199,635
Capital contributions	-	(199,635)
Decrease in due to grantor agencies	535,321	-
RepMar contributions	(472,419)	-
Due from grantor agencies	(62,902)	-
	$ -	$ -

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 entity 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, 2005 and 2004, cash was \$2,279,959 and \$137,561, respectively, and the corresponding bank balances were \$2,435,761 and \$488,975, which are maintained in one financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2005 and 2004, bank deposits in the amount of \$100,000 were FDIC insured. Custodial credit risk for deposits with financial institutions is the risk that in the event of bank failure, the College's deposits may not be returned to it. 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 students 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.

Allowance for Doubtful Accounts

Management determines the adequacy of the allowance for doubtful accounts based upon review of the aged accounts receivable. Amounts determined uncollectible are charged to bad debts and added to the allowance.

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.

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, 2005 and 2004, the College recorded accrued annual leave in the amounts of $60,877 and $75,877, 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, net of accumulated depreciation.

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 the 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 2005, the College implemented 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.* Implementation of GASB Statement Nos. 40 and 42 is reflected in the accompanying financial statements.

For fiscal year 2006, the College will be implementing the following:

Statement No. 42 "*Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries.*"

Statement No. 44 – "*Economic Condition Reporting: The Statistical Section, an amendment of NCGA Statement 1.*"

Statement No. 46 – "*Net Assets Restricted by Enabling Legislation.*"

Statement No. 47 – "*Accounting for Termination Benefits.*"

For Statements 44 and 46, there is no financial impact for these statements. For Statements 42 and 47, as of the date of the opinion, the College has not evaluated the financial impact of implementing this statement.

In fiscal year 2007, the College will be implementing Statement No. 45 "*Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.*" As of the date of the opinion, the College has not evaluated the financial impact of implementing this statement.

Reclassifications

Certain reclassifications have been made to the 2004 financial statements in order to conform with the 2005 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

Investments of the College as of September 30, 2005 and 2004 are held in mutual funds.

The College does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk for investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The College's mutual funds are, however, unrated.

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to the investment, the College will not be able to recover the value of its investments that are in possession of an outside party. The College's mutual funds are not subject to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form.

(5) Accounts Receivable and Unbilled Charges

Summarized below is the College's accounts receivable and unbilled charges as of September 30, 2005 and 2004:

	2005	2004
Student tuition and fees	$ 1,426,017	$ 1,411,714
College of Micronesia	169,542	75,500
Employees and officers	4,573	3,224
Other	20,155	70,158
	1,620,287	1,560,596
Less allowance for doubtful accounts	(425,201)	(374,709)
Net accounts receivable and unbilled charges	$ 1,195,086	$ 1,185,887

(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, 2005 and 2004, are as follows:

	2005	2004
Balance at beginning of year	$ 456,065	$ (189,166)
Deductions - federal program outlays	5,118,445	5,244,166
Additions - cash receipts from grantor agencies	(5,371,226)	(4,598,935)
	$ 203,284	$ 456,065

(6) Due from (to) Grantor Agencies, Continued

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. This balance was repaid during the year ended September 30, 2005.

(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, 2005 and 2004:

		2005			
	Estimated Useful Lives	Balance at October 1, 2004	Additions	Deletions	Balance at September 30, 2005
Furniture, vehicles and equipment	3 - 5 years	$ 1,234,702	$ 147,898	$ (388,573)	$ 994,027
Buildings and improvements	20 years	1,226,756	143,551	(133,709)	1,236,598
		2,461,458	291,449	(522,282)	2,230,625

		2005			
	Estimated Useful Lives	Balance at October 1, 2004	Additions	Deletions	Balance at September 30, 2005
Less accumulated depreciation		(1,614,887)	(247,364)	468,477	(1,393,774)
		846,571	44,085	(53,805)	836,851
Construction work in progress		567,350	81,315	-	648,665
Net investment in plant		$ 1,413,921	$ 125,400	$ (53,805)	$ 1,485,516

		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
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

Construction work in progress totaling $567,350 as of September 30, 2005 and 2004, relates to renovations and improvements at the Gugeegue Campus, which are currently on hold due to the lack of funding and the College's Show Cause accreditation status. The College is not currently 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 and the obtaining of full accreditation for the College.

(8) Social Security Taxes Payable

At September 30, 2005 and 2004, the College was liable for certain delinquent taxes payable to the Marshall Islands Social Security Administration (MISSA) in the amounts of $358,202 and $432,488, 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. The agreement was paid in full on October 3, 2005.

Long-term debt activity during the years ended September 30, 2005 and 2004 is as follows:

2005				
Balance at October 1, 2004	Additions	Reductions	Balance at September 30, 2005	Amount due within one year
$ 432,488	$ -	$ 74,286	$ 358,202	$ 358,202

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

(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, 2005 and 2004, the College received $3,000,000 and $659,126, respectively, from RepMar to administer various postsecondary functions and to improve facilities. At September 30, 2005, the Nitijela of RepMar provided for an appropriation of $3,000,000 to fund the operations of the College for fiscal year 2006.

(10) Functional Classifications with Natural Classifications

Operating expenses are displayed in their functional classifications. The following table shows functional classifications with natural classifications:

	2005								
	Salaries	Benefits	Services	Supplies	Insurance, Utilities and Rent	Depreciation	Bad Debts	Miscellaneous	Totals
Instruction	$1,536,348	$ 523,136	$ 35,596	$ 93,604	$ 21,383	$ -	$ -	$ 774,465	$2,984,532
Institutional support	490,041	328,762	96,886	29,255	111,582	-	66,982	18,750	1,142,258
Operations and maintenance	375,680	68,114	47,450	65,791	11,032	-	-	131,486	699,553
Student services	222,990	41,728	-	19,168	9,358	-	-	26,863	320,107
Academic support	162,388	74,134	3,454	51,966	3,604	-	-	1,178	296,724
Depreciation	-	-	-	-	-	247,364	-	-	247,364
Auxiliary enterprises	-	-	-	-	-	-	-	187,504	187,504
	$2,787,447	$1,035,874	$183,386	$259,784	$156,959	$247,364	$66,982	$1,140,246	$5,878,042

(10) Functional Classifications with Natural Classifications, Continued

	2004								
	Salaries	Benefits	Services	Supplies	Insurance, Utilities and Rent	Depreciation	Bad Debts	Miscellaneous	Totals
Instruction	$1,454,724	$496,595	$ 91,869	$ 72,512	$ 21,874	$ -	$ -	$488,486	$2,626,060
Institutional support	635,816	295,719	23,571	20,801	100,551	-	52,776	49,263	1,178,497
Operations and maintenance	276,341	42,678	-	29,062	20,441	-	-	38,870	407,392
Student services	157,535	44,893	7,596	14,356	7,464	-	-	231,907	463,751
Academic support	105,750	46,075	718	35,100	3,449	-	-	4,519	195,611
Depreciation	-	-	-	-	-	214,131	-	-	214,131
Auxiliary enterprises	-	-	-	-	-	-	-	238,385	238,385
	$2,630,166	$925,960	$123,754	$171,831	$153,779	$214,131	$52,776	$1,051,430	$5,323,827

(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,	
2006	$ 67,200
2007	67,200
2008	67,200
2009	67,200
2010	68,000
2011-2015	352,800
2016-2020	368,800
2021-2025	384,800
2026-2030	380,000
	$ 1,823,200

(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, 2005 and 2004 was $145,853 and $167,765, respectively.

(12) Contingencies, Continued

Accreditation

The Accrediting Commission for Community and Junior Colleges (ACCJC) of the Western Association of Schools and Colleges (WASC), at its semi-annual meeting on January 11-13, 2006, reduced the College's sanction level one step from "show cause" to "probation." The Commission's Action Letter of January 31, 2006 commends the College "for having made considerable progress on meeting the Eligibility requirements and Standards" of the Commission, but also cautions that "further declines or reversals in college adherence to Standards, Eligibility Requirements, or Commission policies will result in termination without further notice." The College submitted a Progress Report to the Commission on March 15, 2006 and will submit a Midterm Report in the fall of 2006. The Commission meets semi-annually in January and June and reviews the status of institutions on sanction.

Single Audit

The College is subject to annual audit requirements. Approximately $238,689 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 December 30, 2005, the College and RepMar entered into a Memorandum of Agreement whereby RepMar shall award to the College the amount of $5.0 million per year for five years commencing in fiscal year 2007, for the purpose of implementing the College's Facilities Master Plan.