

COLLEGE OF THE MARSHALL ISLANDS

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

YEARS ENDED SEPTEMBER 30, 2006 AND 2005

INDEPENDENT AUDITORS' REPORT

Board of Regents
College of the Marshall Islands:

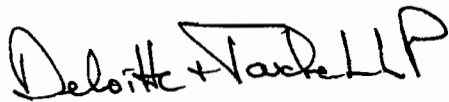
We have audited the accompanying statements of net assets of the College of the Marshall Islands (the College), a component unit of the Republic of the Marshall Islands, as of September 30, 2006 and 2005, and the related statements of revenues, expenses and changes in net assets and of cash flows for the years then ended. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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, 2006 and 2005, 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 8 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 supplementary information. However, we did not audit such information and we do not express an opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 16, 2007, on our consideration of the College's internal control over financial reporting and on 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.

A handwritten signature in black ink that reads "Deloitte + Stark LLP". The signature is written in a cursive, stylized font.

April 16, 2007

COLLEGE OF THE MARSHALL ISLANDS

Management's Discussion and Analysis
For the Year Ended September 30, 2006
With Comparison to Fiscal Years 2004 and 2005

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, 2006. This discussion has been prepared by management to accompany 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 presented in consolidated financial statements, just as in a business concern. This contrasts with the accounting by funds presentation from previous years.

For 2006, the College presents three years of financial statements in accordance with GASB 35 standards, allowing comparisons of year-to-year performance. However, in the following discussion and analysis of the College's financial performance during the fiscal year ended September 30, 2006, is compared to both 2005 and 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 \$1,395,235 (32%) for the year ended September 30, 2006.

COLLEGE OF THE MARSHALL ISLANDS

Management's Discussion and Analysis, Continued For the Year Ended September 30, 2006 With Comparison to Fiscal Years 2004 and 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 losses of more than \$2,863,000 (39%) for the year ended September 30, 2006. This reflects a more complete use (over 95%) of governmental subsidies for operational purposes.
- 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. Cash balances remained relatively stable (declining only \$245,984 – 10.8%) in the year ended September 30, 2006, despite increased expenditures from capital reserves (an increase of \$622,485).
- 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 a 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 the beginning of the year or at the end of the year. Once again in 2006 the College significantly improved its overall financial position, as evidenced by the increase in net assets from \$4,342,578 in the FY 2005 to \$5,737,813 in FY 2006 – an increase of 32%. Growth occurred across all three major classes of assets – unrestricted, investments, and capital.

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, 2006, the net asset position of the College was \$5,737,813. This represents an increase of \$ 1,395,235 (32%) and a continuation of a four year trend. Growth was distributed more evenly throughout the assets classes than previous years as the College began to 1) implement a major facilities improvement campaign through 2011 and 2) institute an initiative to raise the endowment to \$1million by 2010.

COLLEGE OF THE MARSHALL ISLANDS

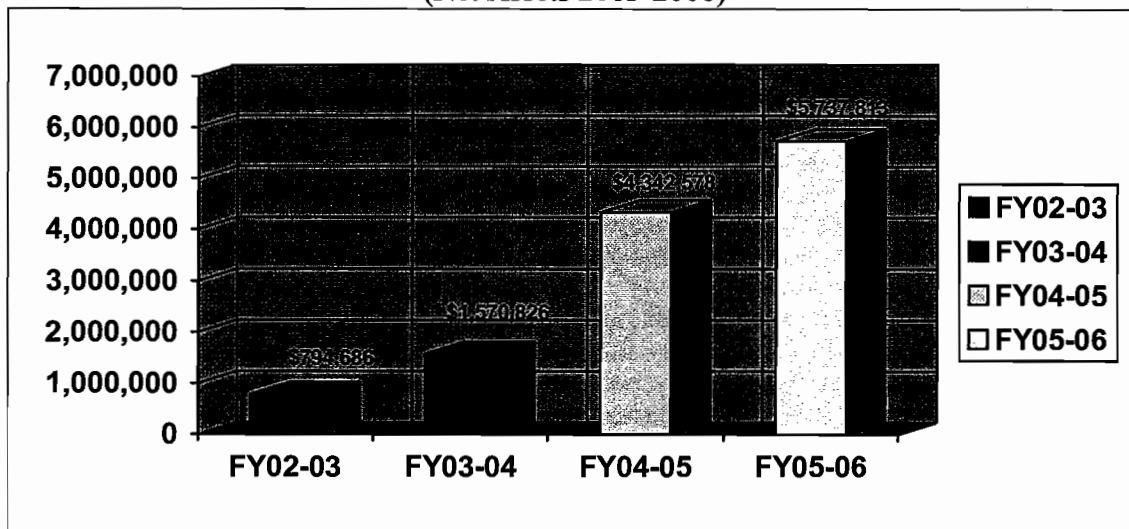
Management's Discussion and Analysis, Continued
For the Year Ended September 30, 2006
With Comparison to Fiscal Years 2004 and 2005

Table I
Summary Statement of Net Assets

	2006	2005	2004	%Change	
				05-06	04-05
Assets					
Current assets	\$4,357,243	\$3,869,857	\$1,935,418	12.6%	100.0%
Investments	198,085	180,039	151,092	10.0%	19.2%
Other non-current and capital assets, net	2,226,449	1,485,516	1,413,921	49.9%	5.1%
Total assets	\$6,781,777	\$5,535,412	\$3,500,431	22.5%	58.1%
Liabilities					
Current liabilities	\$1,043,964	\$1,192,834	\$1,640,038	-12.5%	(27.3%)
Non-current liabilities	0	0	289,567	NA	(100.0%)
Total liabilities	\$1,043,964	\$1,192,834	\$1,929,605	-12.5%	(38.2%)
Net Assets					
Invested capital assets, net	\$2,226,449	\$1,485,516	\$1,413,921	49.9%	5.1%
Restricted-nonexpendable	202,488	180,039	151,092	37.8%	19.2%
Restricted-expendable	45,797	500	400	-60.0%	25.0%
Unrestricted	3,263,079	2,676,523	5,413	21.9%	49,346.5%
Total net assets	\$5,737,813	\$4,342,578	\$1,570,826	32.1%	176.5%
Total liabilities and net assets	\$6,781,777	\$5,535,412	\$3,500,431	22.5%	58.1%

The growth trend in Net Assets over the last four years is illustrated in Exhibit A.

EXHIBIT A
(Net Assets 2003-2006)



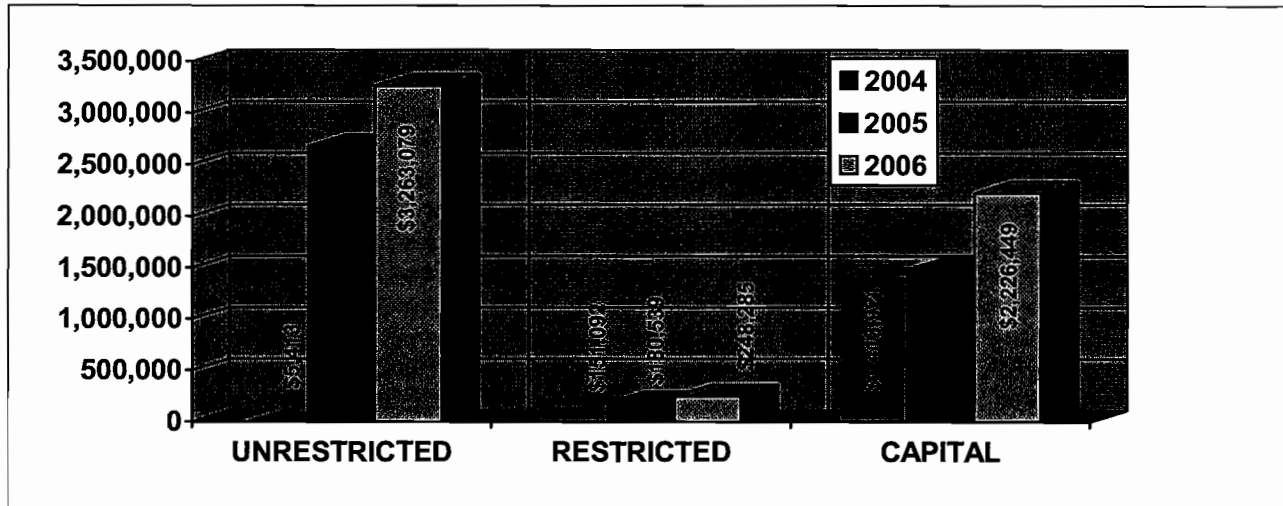
The College saw growth balanced across all three classes of assets in FY 2006. Property expansion, improvements and additions to physical plant and investments in instructional technology highlighted capital increases. Board designated quasi-endowment was the primary source of investment growth. Of total assets, 33% are in property, plant and equipment, 63% in current assets, and 4% in investments. Receivables make up 45% of current assets. All liabilities of the College are current.

COLLEGE OF THE MARSHALL ISLANDS

Management's Discussion and Analysis, Continued
For the Year Ended September 30, 2006
With Comparison to Fiscal Years 2004 and 2005

Exhibit B shows the allocation of assets for the College in the past three years.

EXHIBIT B
(Net Asset Allocation: FY 2004-FY2006)



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 \$1,395,235 increase in net assets – part of a growth trend in net assets that has been sustained for four years. The RMI Government subsidy of \$3 million annually, which began in 2005, has been the major source non-operating revenue that has fueled this growth.

Table II
Summary Statement of Revenues, Expenses and Changes in Net Assets

	2006	2005	2004	%Change	
				05-06	04-05
Operating revenues	\$3,459,850	\$3,821,521	\$3,685,086	(9.5%)	3.7%
Operating expenses	<u>6,322,852</u>	<u>5,878,042</u>	<u>5,323,827</u>	<u>7.6%</u>	<u>10.4%</u>
Operating loss	(2,863,002)	(2,056,521)	(1,638,741)	39.2%	25.5%
Non-operating revenues (expenses):	3,258,237	4,720,427	2,215,246	(32.5%)	99.9%
Capital contributions	1,000,000	107,846	199,635	827.2%	(46.0%)
Increase in net assets	1,395,235	2,771,752	776,140	(49.7%)	257.1%
Net assets - beginning of year	4,342,578	1,570,826	794,686	176.5%	97.7%
Net assets – end of year	<u>\$5,737,813</u>	<u>\$4,342,578</u>	<u>\$1,570,826</u>	<u>32.1%</u>	<u>176.5%</u>

COLLEGE OF THE MARSHALL ISLANDS

Management's Discussion and Analysis, Continued For the Year Ended September 30, 2006 With Comparison to Fiscal Years 2004 and 2005

Statement of Cash Flows

The College's cash position at the end of the fiscal year remained relatively unchanged (down 10.8%) in spite of greatly increased expenditures for operating activities (\$953,000) and higher capital expenditures (\$396,000).

Table III
Summary Statement of Cash Flows

	2006	2005	2004
Cash provided by (used in):			
Operating activities	(\$2,731,430)	(\$1,778,674)	(\$1,977,461)
Noncapital financing activities	3,180,695	4,169,896	2,050,000
Capital and related financing activities	(645,249)	(248,824)	(2,235)
Net change in cash	(245,984)	2,142,398	70,304
Cash – beginning of year	2,279,959	137,561	67,257
Cash – end of year	\$2,033,975	\$ 2,279,959	\$ 137,561

Economic Outlook

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 US 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 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 fourth year, with an initial emphasis on the education, health, and environment. The College is part of this initiative.

This economic support of the RMI Government is important of the College's dependence on operational subsidies. The RMI Government also committed to fund its \$3,000,000 operational subsidy to CMI. This allows for better planning for cash flow purposes and increased flexibility for management.

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 2007 and is considering a similar contribution for 2008.

COLLEGE OF THE MARSHALL ISLANDS

Management's Discussion and Analysis, Continued
For the Year Ended September 30, 2006
With Comparison to Fiscal Years 2004 and 2005

Highlights of the information presented:

- 1) Net Assets continued to increase – a three year accumulation totaling nearly \$5 million. For 2006 the growth rate was 32%.
- 2) Growth in Current Assets was attributable largely to a \$1,000,000 grant from the Republic of China (Taiwan).
- 3) Noncurrent Assets rose \$758,979 (50%), primarily representing construction in progress (\$417,000), land and improvements (\$214,000), and investment growth (\$68,000).
- 4) Despite a rise of \$100,000 in accounts payable, current liabilities declined by \$149,000 (12.5%)
- 5) The RMI government has maintained its subsidy to CMI at \$3,000,000 per annum. In 2006, however, it elected to obtain \$1,000,000 of this amount from funds available through the Compact of Free Association with the United States. Thus, these Financial Statements allocate the subsidy proportionately to the two sources. This does not represent a change in the level of overall subsidy support, which is guaranteed by the RMI through fiscal year 2009.
- 6) The College received \$350,000 during 2006 from the RMI government in partial fulfillment of a pass-through grant from the Taiwanese Government for the initial phase of the College's capital improvement project. The remaining \$650,000 of the \$1,000,000 pledge is reported as due from the RMI government.
- 7) Growth in operating expenses of \$444,000 (7.6%) was largely due to Student Services (\$147,000), Academic Support (\$164,000) and Operations and Maintenance (\$89,000) improvements to meet accreditation standards.

Summary

The College's financial condition improved again FY 2006. This improvement is seen most notably in net assets across all asset classes and a stable cash environment. These improvements occurred in an atmosphere in which funds available for operational expenses increased again. 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.cmi.edu.

COLLEGE OF THE MARSHALL ISLANDS

Statements of Net Assets
September 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Assets:		
Current assets:		
Cash	\$ 2,033,975	\$ 2,279,959
Time certificate of deposit	50,000	-
Accounts receivable and unbilled charges, net	1,193,520	1,195,086
Due from RepMar	650,000	-
Due from grantor agencies	96,457	203,284
Prepaid items	60,814	10,598
Inventory	<u>272,477</u>	<u>180,930</u>
Total current assets	4,357,243	3,869,857
Noncurrent assets:		
Investments	198,085	180,039
Property, plant and equipment, net	<u>2,226,449</u>	<u>1,485,516</u>
Total noncurrent assets	<u>2,424,534</u>	<u>1,665,555</u>
Total assets	<u>\$ 6,781,777</u>	<u>\$ 5,535,412</u>
Current liabilities:		
Accounts payable	\$ 153,648	\$ 53,486
Social security taxes payable	-	358,202
Accrued liabilities	225,378	197,939
Deferred revenue	<u>664,938</u>	<u>583,207</u>
Total current liabilities	<u>1,043,964</u>	<u>1,192,834</u>
Commitments and contingencies		
Net assets:		
Invested in capital assets	2,226,449	1,485,516
Restricted:		
Nonexpendable	202,488	180,039
Expendable	45,797	500
Unrestricted	<u>3,263,079</u>	<u>2,676,523</u>
Total net assets	<u>5,737,813</u>	<u>4,342,578</u>
Total liabilities and net assets	<u>\$ 6,781,777</u>	<u>\$ 5,535,412</u>

See accompanying notes to financial statements.

COLLEGE OF THE MARSHALL ISLANDS

Statements of Revenues, Expenses and Changes in Net Assets

Years Ended September 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Operating revenues:		
U.S. federal grants	\$ 2,865,945	\$ 3,323,694
Student tuition and fees (net of scholarship discount and allowances of \$1,982,817 and \$2,029,218 at September 30, 2006 and 2005, respectively)	172,262	111,477
Private gifts, grants and donations - restricted	78,789	25,000
Other	<u>342,854</u>	<u>361,350</u>
Total operating revenues	<u>3,459,850</u>	<u>3,821,521</u>
Operating expenses:		
Instruction	3,016,404	3,031,438
Academic support	475,317	311,858
Student services	469,472	322,661
Institutional support	1,196,849	1,151,654
Operations and maintenance	961,783	872,927
Auxiliary enterprises	<u>203,027</u>	<u>187,504</u>
Total operating expenses	<u>6,322,852</u>	<u>5,878,042</u>
Operating loss	<u>(2,863,002)</u>	<u>(2,056,521)</u>
Nonoperating revenues:		
RepMar contributions	2,000,000	3,000,000
Compact funding	1,226,435	1,540,499
Other U.S. federal grants	13,756	150,981
Investment income, net	<u>18,046</u>	<u>28,947</u>
Total nonoperating revenues	<u>3,258,237</u>	<u>4,720,427</u>
Capital contributions	<u>1,000,000</u>	<u>107,846</u>
Change in net assets	1,395,235	2,771,752
Net assets at beginning of the year	<u>4,342,578</u>	<u>1,570,826</u>
Net assets at end of the year	<u>\$ 5,737,813</u>	<u>\$ 4,342,578</u>

See accompanying notes to financial statements.

COLLEGE OF THE MARSHALL ISLANDS

Statements of Cash Flows
Years Ended September 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Student tuition and fees	\$ 92,106	\$ 69,148
U.S. federal grants	3,032,268	3,546,644
Other revenues	542,985	324,472
Payments to employees	(2,992,719)	(2,894,041)
Payments to suppliers	<u>(3,406,070)</u>	<u>(2,824,897)</u>
Net cash used in operating activities	<u>(2,731,430)</u>	<u>(1,778,674)</u>
Cash flows from noncapital financing activities:		
RepMar contributions	2,000,000	2,527,581
Compact funding	1,133,532	1,531,468
Other U.S. federal grants	<u>47,163</u>	<u>110,847</u>
Net cash provided by noncapital financing activities	<u>3,180,695</u>	<u>4,169,896</u>
Cash flows from capital and related financing activities:		
Purchases of property, plant and equipment	(995,249)	(372,764)
RepMar contributions	350,000	-
Compact funding	<u>-</u>	<u>123,940</u>
Net cash used in capital and related financing activities	<u>(645,249)</u>	<u>(248,824)</u>
Cash flows from investing activities:		
Purchase of time certificate of deposit	<u>(50,000)</u>	<u>-</u>
Net cash used in investing activities	<u>(50,000)</u>	<u>-</u>
Net change in cash	(245,984)	2,142,398
Cash at beginning of year	<u>2,279,959</u>	<u>137,561</u>
Cash at end of year	<u>\$ 2,033,975</u>	<u>\$ 2,279,959</u>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (2,863,002)	\$ (2,056,521)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	249,994	247,364
Bad debts expense	42,111	66,982
Loss on disposal of fixed assets	4,322	53,805
Changes in assets and liabilities:		
Accounts receivable and unbilled charges	(40,545)	(76,181)
Prepaid items	(50,216)	16,897
Due from grantor agencies	166,323	222,950
Inventory	(91,547)	(52,520)
Accounts payable	100,162	16,372
Accrued liabilities	(330,763)	(189,796)
Deferred revenue	<u>81,731</u>	<u>(28,026)</u>
Net cash used in operating activities	<u>\$ (2,731,430)</u>	<u>\$ (1,778,674)</u>

See accompanying notes to financial statements.

COLLEGE OF THE MARSHALL ISLANDS

Statements of Cash Flows, Continued
Years Ended September 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Supplemental schedule of noncash activities:		
Decrease in due to grantor agencies	\$ -	\$ 535,321
RepMar contributions	-	(472,419)
Due from grantor agencies	<u>-</u>	<u>(62,902)</u>
	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to financial statements.

COLLEGE OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2006 and 2005

(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 and Time Certificate of Deposit

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. Deposits maintained in time certificates of deposit with original maturity dates greater than ninety days are separately classified. As of September 30, 2006 and 2005, cash and time certificates of deposit were \$2,083,975 and \$2,279,959, respectively, and the corresponding bank balances were \$2,385,122 and \$2,435,761, which are maintained in one financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2006 and 2005, 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. Accordingly, these deposits are exposed to custodial credit risk.

COLLEGE OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2006 and 2005

(2) Summary of Significant Accounting Policies, Continued

Investments

Investments and related investment earnings are carried at fair value. Fair value is the amount at which an investment could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

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, 2006 and 2005, the College recorded accrued annual leave in the amounts of \$108,256 and \$60,877, 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.

COLLEGE OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2006 and 2005

(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.

COLLEGE OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2006 and 2005

(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.

In fiscal year 2006, the College implemented the following GASB pronouncements:

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.*"

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 2005 financial statements in order to conform with the 2006 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, 2006 and 2005 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.

COLLEGE OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2006 and 2005

(4) Investments, Continued

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, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Student tuition and fees	\$ 1,385,027	\$ 1,426,017
College of Micronesia	53,362	169,542
Employees and officers	3,343	4,573
Other	<u>16,223</u>	<u>20,155</u>
	1,457,955	1,620,287
Less allowance for doubtful accounts	<u>(264,435)</u>	<u>(425,201)</u>
Net accounts receivable and unbilled charges	\$ <u>1,193,520</u>	\$ <u>1,195,086</u>

(6) Due from Grantor Agencies

The College is a recipient of federal programs from various federal agencies. Excess disbursements over grant receipts are recognized as a receivable from grantor agencies. Changes in the federal grants receivable account for the years ended September 30, 2006 and 2005, are as follows:

	<u>2006</u>	<u>2005</u>
Balance at beginning of year	\$ 203,284	\$ 456,065
Deductions - federal program outlays	4,162,385	5,118,445
Additions - cash receipts from grantor agencies	<u>(4,269,212)</u>	<u>(5,371,226)</u>
	\$ <u>96,457</u>	\$ <u>203,284</u>

(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, 2006 and 2005:

	<u>Estimated Useful Lives</u>	2006			<u>Balance at September 30, 2006</u>
		<u>Balance at October 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	
Furniture, vehicles and equipment	3 - 5 years	\$ 994,027	\$ 281,585	\$ (39,296)	\$ 1,236,316
Buildings and improvements	20 years	1,236,598	162,678	-	1,399,276
Land and improvements		-	<u>214,562</u>	-	<u>214,562</u>
		2,230,625	658,825	(39,296)	2,850,154
Less accumulated depreciation		<u>(1,393,774)</u>	<u>(249,994)</u>	<u>34,974</u>	<u>(1,608,794)</u>
		836,851	408,831	(4,322)	1,241,360
Construction work in progress		<u>648,665</u>	<u>417,740</u>	<u>(81,316)</u>	<u>985,089</u>
Net investment in plant		\$ <u>1,485,516</u>	\$ <u>826,571</u>	\$ <u>(85,638)</u>	\$ <u>2,226,449</u>

COLLEGE OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2006 and 2005

(7) Property, Plant and Equipment, Continued

	Estimated Useful Lives	2005			
		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	<u>1,226,756</u>	<u>143,551</u>	<u>(133,709)</u>	<u>1,236,598</u>
		2,461,458	291,449	(522,282)	2,230,625
Less accumulated depreciation		<u>(1,614,887)</u>	<u>(247,364)</u>	<u>468,477</u>	<u>(1,393,774)</u>
		846,571	44,085	(53,805)	836,851
Construction work in progress		<u>567,350</u>	<u>81,315</u>	<u>-</u>	<u>648,665</u>
Net investment in plant		\$ <u>1,413,921</u>	\$ <u>125,400</u>	\$ <u>(53,805)</u>	\$ <u>1,485,516</u>

Construction work in progress totaling \$567,350 as of September 30, 2006 and 2005, relates to renovations and improvements at the Gugeegue Campus, which are currently on hold due to the lack of funding and the College's accreditation status. The College is not currently utilizing the Gugeegue Campus and has entered into Memorandums of Agreement 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, the College was liable for certain delinquent taxes payable to the Marshall Islands Social Security Administration (MISSA) in the amount of \$234,914 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, 2006 and 2005 is as follows:

2006				
Balance at October 1, 2005	Additions	Reductions	Balance at September 30, 2006	Amount due within one year
\$ 234,914	\$ -	\$ (234,914)	\$ -	\$ -
2005				
Balance at October 1, 2004	Additions	Reductions	Balance at September 30, 2005	Amount due within one year
\$ 309,200	\$ -	\$ (74,286)	\$ 234,914	\$ 234,914

COLLEGE OF THE MARSHALL ISLANDS

Notes to Financial Statements September 30, 2006 and 2005

(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, 2006 and 2005, the College received \$3,000,000 from RepMar to administer various postsecondary functions and to improve facilities. At September 30, 2006, the Nitijela of RepMar provided for an appropriation of \$3,000,000 to fund the operations of the College for fiscal year 2007 and an additional \$5,000,000 to fund capital improvements.

For the year ended September 30, 2006, the College was appropriated capital contributions from RepMar totaling \$1,000,000, of which \$350,000 was received during 2006. There was no such appropriation for the year ended September 30, 2005.

(10) Functional Classifications with Natural Classifications

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

	2006								
	<u>Salaries</u>	<u>Benefits</u>	<u>Services</u>	<u>Supplies</u>	Insurance, <u>Utilities and Rent</u>	<u>Depreciation</u>	<u>Bad Debts</u>	<u>Miscellaneous</u>	<u>Totals</u>
Instruction	\$1,659,326	\$ 571,895	\$ 18,736	\$ 92,157	\$ 21,643	\$ 38,612	\$ -	\$614,035	\$3,016,404
Academic support	197,540	41,680	938	62,518	29,388	47,388	-	95,865	475,317
Student services	271,133	116,275	-	19,849	10,767	2,402	-	49,046	469,472
Institutional support	570,336	310,481	148,145	55,166	46,544	9,746	42,111	14,320	1,196,849
Operations and maintenance	358,081	38,844	19,880	54,903	323,994	151,846	-	14,235	961,783
Auxiliary enterprises	-	-	-	-	-	-	-	203,027	203,027
	<u>\$3,056,416</u>	<u>\$1,079,175</u>	<u>\$187,699</u>	<u>\$284,593</u>	<u>\$432,336</u>	<u>\$249,994</u>	<u>\$42,111</u>	<u>\$990,528</u>	<u>\$6,322,852</u>
	2005								
	<u>Salaries</u>	<u>Benefits</u>	<u>Services</u>	<u>Supplies</u>	Insurance, <u>Utilities and Rent</u>	<u>Depreciation</u>	<u>Bad Debts</u>	<u>Miscellaneous</u>	<u>Totals</u>
Instruction	\$1,536,348	\$ 523,136	\$ 35,596	\$ 93,604	\$ 21,383	\$ 46,906	\$ -	\$ 774,465	\$3,031,438
Academic support	162,388	74,134	3,454	51,966	3,604	15,134	-	1,178	311,858
Student services	222,990	41,728	-	19,168	9,358	2,554	-	26,863	322,661
Institutional support	490,041	328,762	96,886	29,255	111,582	9,396	66,982	18,750	1,151,654
Operations and maintenance	375,680	68,114	47,450	65,791	11,032	173,374	-	131,486	872,927
Auxiliary enterprises	-	-	-	-	-	-	-	187,504	187,504
	<u>\$2,787,447</u>	<u>\$1,035,874</u>	<u>\$183,386</u>	<u>\$259,784</u>	<u>\$156,959</u>	<u>\$247,364</u>	<u>\$66,982</u>	<u>\$1,140,246</u>	<u>\$5,878,042</u>

COLLEGE OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2006 and 2005

(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:

<u>Year ending</u> <u>September 30,</u>	
2007	\$ 67,200
2008	67,200
2009	67,200
2010	68,000
2011	70,400
2012-2016	356,000
2017-2021	372,000
2022-2026	388,000
2027-2030	<u>300,000</u>
	\$ <u>1,756,000</u>

On June 1, 2006, the College entered into a \$2 million construction contract, against which no payments were made in the year ended September 30, 2006.

(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, 2006 and 2005 was \$170,484 and \$145,853, respectively.

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 10-12, 2007, reduced the College's sanction level one step from "probation" to "warning." The Commission's Action Letter of January 31, 2007 recognizes the College for the "considerable progress...in addressing severe institutional deficiencies since January 2003...", but also stresses that "continued significant progress will be required to fully address all Commission recommendations and remediate all institutional deficiencies." The College is required to correct the deficiencies noted in the Focused Midterm Report and complete a Progress Report by October 15, 2007. The Commission meets semi-annually in January and June and reviews the status of institutions on sanction.