COLLEGE OF THE MARSHALL ISLANDS

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2007 AND 2006

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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, 2007 and 2006, 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, 2007 and 2006, 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 9 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the College's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 20, 2008, 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.

Deloitte & Touche LLP

June 20, 2008

COLLEGE OF THE MARSHALL ISLANDS

Management's Discussion and Analysis
For the Year Ended September 30, 2007
With Comparison to Fiscal Years 2006 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, 2007. 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 2007, the College presents three 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, 2007, as compared to both 2006 and 2005. 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.

- 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.

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

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

Financial Highlights

There are many factors used to evaluate the health of the College. These include its strategic direction, financial status, student enrollment, and institutional capacity. In evaluating financial status, one of the most important questions is whether the institution is financially better off the beginning of the year or at the end of the year. In 2007 the College significantly improved its overall financial position, as evidenced by the increase in net assets from $5,737,813 in FY2006 to $10,570,113 in FY2007- an increase of 84%.

Growth of Net Assets occurred across all three major classes of assets – current assets, investment assets, and capital assets. Growth was dominated by the capital and investment categories due to the commencement of construction under a five year, $27,000,000 Capital Improvement Project and an initiative to raise the endowment to $1 million by 2010.

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, 2007, the net asset position of the College was $10,570,113. This represents an increase of $4,832,300 or 84% and a continuation of a five-year trend (see Exhibit A). Growth continued throughout the assets classes but was dominated by the implementation of a $27 million Capital Improvement Campaign through 2011 and the initiative to raise the endowment to $1 million by 2010.

Table I
Summary Statements of Net Assets

				% Change	
	2007	2006	2005	06-07	05-06
Assets					
Current Assets	$ 4,560,881	$ 4,357,243	$ 3,869,857	4.7%	12.6%
Investments	538,596	198,085	180,039	171.9%	10.0%
Property, Plant & Equip't, net	7,524,627	2,226,449	1,485,516	238.0%	49.9%
Total Assets	$ 12,624,104	$ 6,781,777	$ 5,535,412	86.1%	22.5%

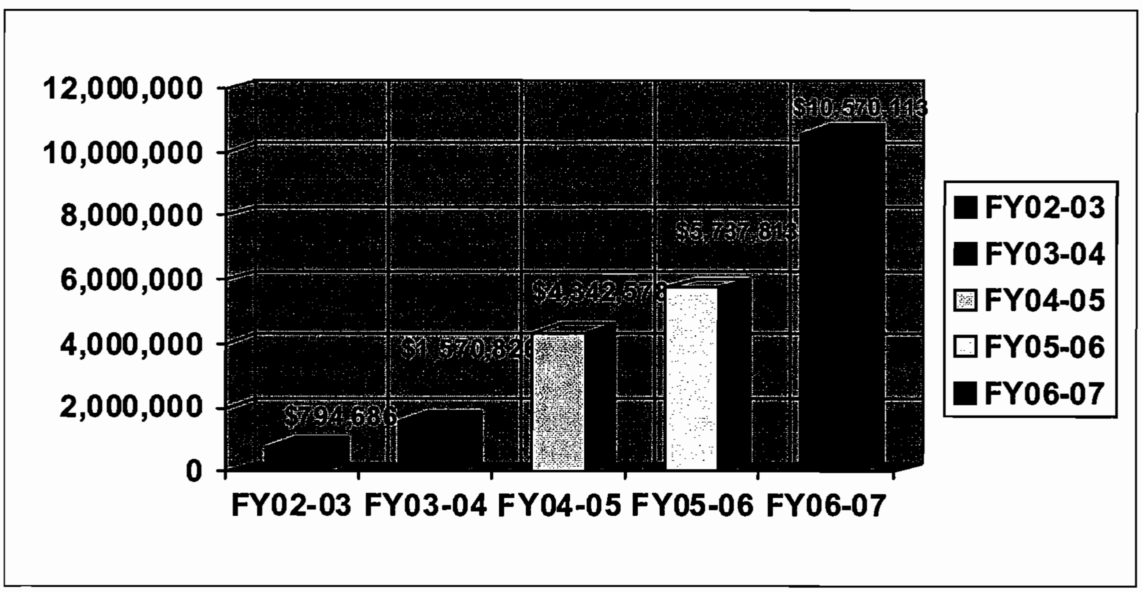
Statement of Net Assets (cont'd.)

Table I, Continued
Summary Statements of Net Assets, Continued

	2007	2006	2005	% Change 06-07	% Change 05-06
Liabilities					
Current Liabilities	$ 2,053,991	$ 1,043,964	$ 1,192,834	96.7%	-12.5%
Total Liabilities	2,053,991	1,043,964	1,192,834	96.7%	-12.5%
Net Assets					
Invested capital assets	7,524,627	2,226,449	1,485,516	238.0%	49.9%
Restricted-Nonexpendable	538,596	202,488	180,039	166.0%	12.5%
Restricted-Expendable	200	45,797	500	-99.6%	9059.4%
Unrestricted	2,506,690	3,263,079	2,676,523	-23.2%	21.9%
Total Net Assets	10,570,113	5,737,813	4,342,578	84.2%	32.1%
Total Liabilities and Net Assets	$ 12,624,104	$ 6,781,777	$ 5,535,412	86.1%	22.5%

The growth trend in Net Assets over the last five (5) years is illustrated in Exhibit A below.

EXHIBIT A
Net Assets 2003-2007



Current assets grew in 2007 by $203,638 (4%) over 2006, continuing a long term trend in this asset class.

The College constructed and occupied a new dormitory and substantially completed construction on a new Science and Nursing classroom building. Other significant capital improvements included the renovation of existing structures to create office space for administrative offices, provide additional meeting space, create new public restroom facilities, and enhance the electrical infrastructure of the campus. Capital assets represented the major area of asset growth (90% of total asset growth) for FY 2007. For additional information regarding the College's fixed assets, please refer to note 7 of the notes to financial statements.

The Board designated quasi-endowment was the primary source of investment asset growth. The fair market value of the College's Endowment Fund increased by $340,511 (a 171.9% growth rate). This was comprised of contributions totaling $310,000 from the College's strategic cash reserves and $30,511 in net earnings. Investment assets have grown 199% since FY 2005 when this initiative was announced.

Liabilities increased by $1,010,027 (96.7%). Construction contracts in progress ($736,935) and funds held in a fiduciary capacity for a local non-profit organization ($254,913) accounted for 98% of this increase. All liabilities of the College are current.

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 $4,832,300 increase in net assets - part of a growth trend in net assets that has been sustained for the past five years.

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

				% Change	
	2007	2006	2005	06-07	05-06
Operating Revenues	$ 3,910,309	$ 3,459,850	$ 3,821,521	13.0%	-9.5%
Operating Expenses	7,833,467	6,322,852	5,878,042	23.9%	7.6%
Operating Loss	(3,923,158)	(2,863,002)	(2,056,521)	37.0%	39.2%
Non-operating revenues (expenses)	3,248,424	3,258,237	4,720,427	-0.3%	-31.0%
Capital Contributions	5,507,034	1,000,000	107,846	450.7%	827.2%
Increase in Net Assets	4,832,300	1,395,235	2,771,752	246.3%	-49.7%
Net assets-beginning of year	5,737,813	4,342,578	1,570,826	32.1%	176.5%
Net Assets-end of year	$ 10,570,113	$ 5,737,813	$ 4,342,578	84.2%	32.1%

Appropriations or subsidies from the Republic of the Marshall Islands Government and subsidies flowing through the RMI Government from the Compact of Free Association with the United States 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 these appropriations and subsidies. This statement shows an operating loss, reflecting the nature of that relationship.

The College showed an operating loss in the amount of $3,923,158 for the year ended September 30, 2007. RMI government and Compact funding support for operations through appropriations and subsidies were $3,237,237, representing a 100% utilization of RMI governmental subsidies and Compact operational contributions for operational purposes. The balance of net operating losses were planned expenditures from Board designated reserve funds.

Statement of Cash Flows

The College's cash position at the end of the fiscal year remained strong in spite of the increased use of cash for operating and capital outlays. The College invested in money market funds during the fiscal year in an effort to reduce custodial risk of deposits in the bank and to maximize the interest income earning potential of funds. A cash management system has been adopted to have a better flexibility in planning and management of its operations.

Table III
Summary of Statement of Cash Flows

	2007	2006	2005	% Change 06-07	% Change 05-06
Cash provided by (used in):					
Operating activities	$ (3,295,069)	$ (2,735,752)	$ (1,778,674)	17.5%	53.8%
Noncapital financing activities	3,115,004	3,180,695	4,169,896	-2.1%	-23.7%
Capital and related financing activities	25,928	(640,927)	(248,824)	-54.3%	177.7%
Investing activities	(260,000)	(50,000)	-	420.0%	N/A
Net change in cash	(414,137)	(245,984)	2,142,398	68.4%	-111.5%
Cash-beginning of year	2,033,975	2,279,959	137,561	-10.8%	1557.4%
Cash-end of year	$ 1,619,838	$ 2,033,975	$ 2,279,959	-20.4%	-10.8%

Cash availability was strong at the end of September 30, 2007. Cash and cash equivalents were reduced by $414,137 (20%) during the year ended September 30, 2007 reflecting $705,738 in reimbursable cash advances for capital construction. This represented less than 9% of invested capital assets and was equivalent to a typical month's cash outflow for construction under the five year, $25,000,000 Capital Improvement Project. The other major cash outflow was due to a $310,000 non-mandatory transfer to a Board designated endowment.

During 2007, the College invested cash in money market funds to reduce risk and maximize the earnings potential of cash equivalents.

Management's Discussion and Analysis for the year ended September 30, 2006 is set forth in the College's report on the audit of financial statements, which is dated April 16, 2007. That Discussion and Analysis explains the major factors impacting the 2006 financial statements and can be obtained from College's Administrator via the contact information on page 9.

Economic Outlook

The Pacific island economies are a varied mix of subsistence agriculture; public sector employment (particularly in government services, education, and health care), and small though growing private sectors. Economic development in the American Affiliated Pacific Islands is best described as variable and highly dependent upon world and regional demand for selected commodities (such as fish, sugar, pineapple, copra, etc.); overseas visitors from Asian countries such as Japan and Korea; U.S. defense and selected military research projects; and governmental expenditures (U.S., local, and international) for infrastructure projects, operations, education, health, and welfare. While many current workers are imported contract employees (depending on the availability of particular skills in the specific entity), the long term sustainability of the respective local economies is dependent upon the ability of the local colleges to prepare local residents for the full range of employment opportunities.

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, which 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 RMI Government recognizes that meeting these standards will require a sustained effort both in terms of tailoring systems and procedures to the circumstances of the Marshall Islands and to upgrading the capacity of its staff. Implementation of a government decision to move to performance-based budgeting is in its fifth year, with an initial emphasis on the Ministries of Education and Health. The College is part of this initiative.

This economic support of the RMI Government is important due to the College's dependence on operational subsidies. The RMI Government also committed to fund its $3,000,000 operational subsidy to the College. 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 of Compact of Free Association funds 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) contributed an additional $2,000,000 (in FY 2005-2007).

Summary

1) Net assets continued to increase - a five year accumulation totaling nearly $10 million. For 2007, the growth rate was 84%.

2) Growth in net assets was attributable largely to implementation of a $25 million Capital Improvement Program through 2011 and the initiative to raise the endowment to $1 million by 2010.

a. Non-current assets increased by $5,298,178 in FY2007 primarily due to construction in progress. Investment increases for FY2007 consisted primarily of $340,511 in board designated endowment, donor restricted endowment transfers, and endowment fund earnings.
b. Current liabilities increased by $1 million, also mainly due to liabilities incurred related to the Capital Improvements Project, such as retention payable and contracts payable.

3) The RMI Government has continued its subsidy to the College at $3,000,000 per annum and extended the agreement through FY 2011. Annually the government may elect to pay some portion of this subsidy with funds available through the Compact of Free Association with the United States. The accompanying financial statements allocate the subsidy proportionately to the two sources.

4) As part of the $25,000,000 Capital Improvement Program through the agreement with the RMI Government through the Compact of Free Association, the RMI Government provided a $5 million subsidy to the College for FY2007 to fund Capital Improvements Projects for the fiscal year. This represents the first of five scheduled payments through 2011.

5) Overall operating expenses increased by $1.5 million due to efforts done across all Departments of the College to meet accreditation standards. Operating expenses growth rate is 23.9% for FY2007.

The College's financial condition improved markedly in FY 2007. This improvement is seen most notably in Net Assets across all asset classes and in a strong cash environment. 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.cmi.edu.

CONTACTING COLLEGE FINANCIAL MANAGEMENT

This financial report is designed to provide our constituients and others a general overview of the College's finances and to demonstrate its accountability for the money it receives. If you have questions about this report or need additional financial information, contact the President, P.O. Box 1258, Majuro, MH 96960.

COLLEGE OF THE MARSHALL ISLANDS

Statements of Net Assets
September 30, 2007 and 2006

	2007	2006
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,619,838	$ 2,033,975
Time certificate of deposit	-	50,000
Accounts receivable and unbilled charges, net	766,021	1,193,520
Due from RepMar	-	650,000
Due from grantor agencies	1,853,280	96,457
Prepaid items	38,484	60,814
Inventory	283,258	272,477
Total current assets	4,560,881	4,357,243
Noncurrent assets:		
Investments	538,596	198,085
Property, plant and equipment, net	7,524,627	2,226,449
Total noncurrent assets	8,063,223	2,424,534
Total assets	$ 12,624,104	$ 6,781,777
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	$ 174,654	$ 153,648
Contracts payable	453,719	-
Retention payable	283,216	-
Payable to UESC	254,913	-
Social security taxes payable	146,326	-
Accrued liabilities	248,670	225,378
Deferred revenue	492,493	664,938
Total current liabilities	2,053,991	1,043,964
Commitments and contingencies		
Net assets:		
Invested in capital assets	7,524,627	2,226,449
Restricted:		
Nonexpendable	538,596	202,488
Expendable	200	45,797
Unrestricted	2,506,690	3,263,079
Total net assets	10,570,113	5,737,813
Total liabilities and net assets	$ 12,624,104	$ 6,781,777

See accompanying notes to financial statements.

COLLEGE OF THE MARSHALL ISLANDS

Statements of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2007 and 2006

	2007	2006
Operating revenues:		
Student tuition and fees	$ 2,109,972	$ 2,155,079
Less: Scholarship discounts and allowances	(1,925,436)	(1,982,817)
	184,536	172,262
U.S. federal grants	3,251,246	2,865,945
Private gifts, grants and donations - restricted	85,043	78,789
Auxiliary enterprises	336,855	291,382
Other	52,629	51,472
Total operating revenues	3,910,309	3,459,850
Operating expenses:		
Instruction	3,692,843	3,016,404
Academic support	524,558	475,317
Student services	594,909	469,472
Institutional support	1,562,040	1,196,849
Operations and maintenance	1,188,958	961,783
Auxiliary enterprises	270,159	203,027
Total operating expenses	7,833,467	6,322,852
Operating loss	(3,923,158)	(2,863,002)
Nonoperating revenues:		
RepMar contributions	1,988,000	2,000,000
Compact funding	1,249,237	1,226,435
Other U.S. federal grants	-	13,756
Loss on disposal of fixed asset	(19,324)	-
Investment income, net	30,511	18,046
Total nonoperating revenues	3,248,424	3,258,237
Capital contributions	5,507,034	1,000,000
Change in net assets	4,832,300	1,395,235
Net assets at beginning of the year	5,737,813	4,342,578
Net assets at end of the year	$ 10,570,113	$ 5,737,813

See accompanying notes to financial statements.

COLLEGE OF THE MARSHALL ISLANDS

Statements of Cash Flows
Years Ended September 30, 2007 and 2006

	2007	2006
Cash flows from operating activities:		
Cash received from student tuition and fees	$ 118,824	$ 92,106
Cash received from U.S. federal grants	3,248,071	3,032,268
Cash received from RepMar for UESC project	497,000	-
Other receipts	373,419	542,985
Cash payments to employees for services	(3,323,684)	(2,992,719)
Cash payments to suppliers for goods and services	(4,208,699)	(3,410,392)
Net cash used in operating activities	(3,295,069)	(2,735,752)
Cash flows from noncapital financing activities:		
RepMar contributions received	1,988,000	2,000,000
Compact funding received from RepMar	1,127,004	1,133,532
Other U.S. federal grants received	-	47,163
Net cash provided by noncapital financing activities	3,115,004	3,180,695
Cash flows from capital and related financing activities:		
Purchases of property, plant and equipment	(4,844,422)	(990,927)
Capital contributions received	4,870,350	350,000
Net cash provided by (used in) capital and related financing activities	25,928	(640,927)
Cash flows from investing activities:		
Purchase of time certificate of deposit	-	(50,000)
Additions to investments	(260,000)	-
Net cash used in investing activities	(260,000)	(50,000)
Net change in cash and cash equivalents	(414,137)	(245,984)
Cash and cash equivalents at beginning of year	2,033,975	2,279,959
Cash and cash equivalents at end of year	$ 1,619,838	$ 2,033,975
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	$ (3,923,158)	$ (2,863,002)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	263,855	249,994
Bad debts expense	77,143	42,111
Changes in assets and liabilities:		
Accounts receivable and unbilled charges	350,356	(40,545)
Prepaid items	22,330	(50,216)
Due from grantor agencies	(347,906)	166,323
Inventory	(10,781)	(91,547)
Accounts payable	21,006	100,162
Payable to UESC	254,913	-
Social security taxes payable	146,326	(358,202)
Accrued liabilities	23,292	27,439
Deferred revenue	(172,445)	81,731
Net cash used in operating activities	$ (3,295,069)	$ (2,735,752)

See accompanying notes to financial statements.

COLLEGE OF THE MARSHALL ISLANDS

Statements of Cash Flows, Continued
Years Ended September 30, 2007 and 2006

	2007	2006
Summary disclosure of noncash activities:		
Increase in property, plant and equipement	$ 1,009,675	$ -
Construction work-in-progress	(272,740)	-
Contracts payable	(453,719)	-
Retention payable	(283,216)	-
	$ -	$ -

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 and Cash Equivalents and Time Certificate of Deposit

Cash and cash equivalents include cash on hand, cash held in demand and savings accounts, and short-term investments in U.S. Treasury obligations with a maturity date within three months of the date acquired by the College. Deposits maintained in time certificates of deposit with original maturity dates greater than three months are separately classified on the statement of net assets.

Investments

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

(2) Summary of Significant Accounting Policies, Continued

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, 2007 and 2006, the College recorded accrued annual leave in the amounts of $131,499 and $108,256, respectively, which is included within the statement of net assets as accrued liabilities. The College does not participate in an employee pension plan.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses 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 April 2004, GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. GASB Statement No. 43 establishes uniform financial reporting for other postemployment benefit plans by state and local governments. The provisions of this statement are effective for periods beginning after December 15, 2006. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the College.

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. GASB Statement No. 45 establishes standards for the measurement, recognition, and display of other post employment benefits expense/expenditures and related liabilities, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The provisions of this statement are effective for periods beginning after December 15, 2007. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the College.

In September 2006, GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfer of Assets and Future Revenues*. GASB Statement No. 48 establishes criteria that governments will use to ascertain whether certain transactions should be regarded as a sale or a collateralized borrowing. The statement also includes a provision that stipulates that governments should not revalue assets that are transferred between financial reporting entity components. The provisions of this statement are effective for periods beginning after December 15, 2006. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the College.

In December 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. GASB Statement No. 49 provides guidance and consistency under which a governmental entity would be required to report a liability related to pollution remediation. The provisions of this statement are effective for periods beginning after December 15, 2007. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the College.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In May 2007, GASB issued Statement No. 50, *Pension Disclosures an amendment of GASB Statements No. 25 and 27*. GASB Statement No. 50 more closely aligns the financial reporting requirements for pensions with those for other post-employment benefits. The provisions of this statement are effective for periods beginning after June 15, 2007. Management does not believe the implementation of this statement will have a material effect on the financial statements of the College.

In June 2007, GASB issued statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. GASB Statement No. 51 addresses whether and when intangible assets should be considered capital assets for financial reporting purposes. The provisions of this statement are effective for periods beginning after June 15, 2009. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the College.

Reclassifications

Certain reclassifications have been made to the 2006 financial statements in order to conform with the 2007 presentation.

(3) Deposits and Investments

GASB Statement No. 40 addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk. As an element of interest rate risk, disclosure is required of investments that have fair values that are highly sensitive to changes in interest rates. GASB Statement No. 40 also requires disclosure of formal policies related to deposit and investment risks.

The deposit and investment policies of the College are governed by the Board of Regents. As such, the Board of Regents is authorized to delegate certain responsibilities to third parties. Investment managers have discretion to purchase, sell, or hold the specific securities to meet the objectives set forth in the investment policy.

Generally, the College can invest in cash and cash equivalents, bonds, U.S. and non-U.S. equities, REITs, and commodities, as follows:

U.S. equities	24%
Non-U.S. equities	24%
Fixed income	40%
Alternative asset classes	12%
Total portfolio	100%

(3) Deposits and Investments, Continued

A. Deposits

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

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

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

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

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

As of September 30, 2007 and 2006, the carrying amounts of the College's total cash and cash equivalents and time certificate of deposit were $1,619,838 and $2,083,975, respectively, and the corresponding bank balances were $1,731,129 and $2,385,122, respectively, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2007 and 2006, bank deposits in the amount of $200,000 and $100,000, respectively, were FDIC insured. The College does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

B. Investments

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

Category 1 Investments that are insured or registered, or securities held by the College or its agent in the College's name;

Category 2 Investments that are uninsured and unregistered for which the securities are held by the counterparty's trust department or agent in the College's name; or

Category 3 Investments that are uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the College's name.

(3) Deposits and Investments, Continued

B. Investments, Continued

GASB Statement No. 40 amended GASB Statement No. 3 to in effect eliminate disclosure for investments falling into categories 1 and 2, and provided for disclosure requirements addressing other common risks of investments such as credit risk, interest rate risk, concentration of credit risk, and foreign currency risk. GASB Statement No. 40 did retain and expand the element of custodial credit risk in GASB Statement No. 3.

Credit risk for investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. With the exception of investments in U.S. government securities, which are explicitly or implicitly guaranteed by the United States government, all other investments must be rated in accordance with the College's investment policy.

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the College will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. As of September 30, 2007 and 2006, the College's investments were held in the College's name and were administered by investment managers in accordance with the College's investment policy.

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. GASB Statement No. 40 requires disclosure by issuer and amount of investments in any one issuer that represents five percent (5%) or more of total investments for the College. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this requirement. As of September 30, 2007 and 2006, there were no investments in any one issuer that exceeded 5% of total investments.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of debt instruments. 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.

As of September 30, 2007 and 2006, investments at fair value are as follows:

	2007	2006
Cash	$ 3,109	$ -
U.S. and non-U.S. equities	99,907	-
Mutual funds	435,580	198,085
	$ 538,596	$ 198,085

(4) 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 from these risks have not exceeded commercial insurance coverage in any of the past three years.

(5) Accounts Receivable and Unbilled Charges

Summarized below is the College's accounts receivable and unbilled charges as of September 30, 2007 and 2006:

	2007	2006
Student tuition and fees	$ 933,563	$ 1,385,027
College of Micronesia	149,293	53,362
Employees and officers	10,022	3,343
Other	14,721	16,223
	1,107,599	1,457,955
Less allowance for doubtful accounts	(341,578)	(264,435)
Net accounts receivable and unbilled charges	$ 766,021	$ 1,193,520

(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, 2007 and 2006, are as follows:

	2007	2006
Balance at beginning of year	$ 96,457	$ 203,284
Deductions - federal program outlays	10,087,340	4,162,385
Additions - cash receipts from grantor agencies	(8,330,517)	(4,269,212)
	$ 1,853,280	$ 96,457

(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, 2007 and 2006:

		2007			
	Estimated Useful Lives	Balance at October 1, 2006	Additions	Deletions	Balance at September 30, 2007
Nondepreciable capital assets:					
Land and improvements		$ 214,562	$ 75,000	$ -	$ 289,562
Construction work-in-progress		985,089	3,309,415	(272,740)	4,021,764
		1,199,651	3,384,415	(272,740)	4,311,326
Depreciable capital assets:					
Furniture, vehicles and equipment	3 - 5 years	1,236,316	166,833	(74,981)	1,328,168
Buildings and improvements	20 years	1,399,276	2,302,849	(31,359)	3,670,766
		2,635,592	2,469,682	(106,340)	4,998,934
Less accumulated depreciation		(1,608,794)	(263,855)	87,016	(1,785,633)
		1,026,798	2,205,827	(19,324)	3,213,301
Net investment in plant		$ 2,226,449	$ 5,590,242	$ (292,064)	$ 7,524,627

(7) Property, Plant and Equipment, Continued

	Estimated Useful Lives	2006 Balance at October 1, 2005	Additions	Deletions	Balance at September 30, 2006
Nondepreciable capital assets:					
Land and improvements		$ -	$ 214,562	$ -	$ 214,562
Construction work-in-progress		648,665	417,740	(81,316)	985,089
		648,665	632,302	(81,316)	1,199,651
Depreciable capital assets:					
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
		2,230,625	444,263	(39,296)	2,635,592
Less accumulated depreciation		(1,393,774)	(249,994)	34,974	(1,608,794)
		836,851	194,269	(4,322)	1,026,798
Net investment in plant		$ 1,485,516	$ 826,571	$ (85,638)	$ 2,226,449

Construction work-in-progress totaling $567,350 as of September 30, 2007 and 2006, 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) 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, 2007 and 2006, the College received $3,237,237 and $3,226,435, respectively, from RepMar to administer various postsecondary functions and to improve facilities. At September 30, 2007, the Nitijela of RepMar provided for an appropriation of $3,000,000 to fund the operations of the College for fiscal year 2008 and an additional $5,000,000 to fund capital improvements.

For the years ended September 30, 2007 and 2006, the College was appropriated capital contributions from RepMar totaling $5,000,000 and $1,000,000, respectively, of which $4,870,350 and $350,000, respectively, were received during the years then ended.

In accordance with Cabinet Minute 136 (2006), the Cabinet of RepMar approved a Memorandum of Agreement (MOA) with the Uliga Elementary School Consortium (UESC) concerning the relocation and eventual replacement of the Uliga Elementary School. The College, in a custodial capacity, is acting as a trustee of funds received from RepMar for and on behalf of UESC. During the year ended September 30, 2007, the College received $497,000 from RepMar under this MOA. Of this amount, $254,913 remained unexpended at September 30, 2007, and is recorded within the accompanying statement of net assets as payable to UESC.

(9) Functional Classifications with Natural Classifications

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

	2007								
	Salaries	Benefits	Services	Supplies	Insurance, Utilities and Rent	Depreciation	Bad Debts	Miscellaneous	Totals
Instruction	$1,753,277	$ 699,393	$ 46,650	$ 97,823	$ 25,843	$ 36,944	$ -	$1,032,913	$3,692,843
Academic support	209,461	47,786	11,624	63,166	28,411	58,646	-	105,464	524,558
Student services	355,517	132,165	300	25,092	11,832	3,176	-	66,827	594,909
Institutional support	647,171	382,295	251,289	21,962	34,367	4,140	77,143	143,673	1,562,040
Operations and maintenance	381,941	39,932	68,541	38,592	401,694	160,949	-	97,309	1,188,958
Auxiliary enterprises	-	-	-	-	-	-	-	270,159	270,159
	$3,347,367	$1,301,571	$378,404	$246,635	$502,147	$263,855	$ 77,143	$1,716,345	$7,833,467

	2006								
	Salaries	Benefits	Services	Supplies	Insurance, Utilities and Rent	Depreciation	Bad Debts	Miscellaneous	Totals
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
	$3,056,416	$1,079,175	$187,699	$284,593	$432,336	$249,994	$ 42,111	$990,528	$6,322,852

(10) 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.

On October 1, 2006, the College executed a lease agreement for the main campus location in Uliga. This lease commenced October 1, 2006 for a term of twenty-five years, ending on September 30, 2031, with an option to extend in increments of five years for a total of twenty-five years.

On April 20, 2007, the College executed a sublease agreement for a parcel of land adjacent to the main campus in Uliga. The lease commenced March 1, 2007 for a term of thirty years, ending on February 13, 2037.

(10) Commitments, Continued

Future minimum lease payments under these leases are as follows:

Year ending September 30,	
2008	$ 83,280
2009	84,113
2010	84,913
2011	87,313
2012	87,313
2013-2017	443,765
2018-2022	459,765
2023-2027	475,765
2028-2032	292,652
2033-2037	21,875
	$ 2,120,754

As of September 30, 2007, the College had entered into several construction contracts and a services agreement totaling $10 million. Payments made during the year ended September 30, 2007 against these contracts amounted to $4.7 million.

(11) 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, 2007 and 2006 was $186,762 and $170,484, 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 9-11, 2008 continued the College on "warning status." The Commission's Action Letter of January 31, 2008 observes that "the College of the Marshall Islands has made steady, significant, and meaningful progress in addressing the deficiencies noted by previous accreditation teams" and that "their resolution is almost completed." The College is required to submit a Progress Report by October 15, 2008 indicating its resolution of remaining deficiencies. The Commission meets semi-annually in January and June to review the status of institutional reports.

The College is due for its next comprehensive review in March 2009. The College is currently engaged in a Self Study process which will produce a Report for the Commission by January 2009.