

**COLLEGE OF THE MARSHALL ISLANDS**

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**FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT**

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**YEARS ENDED SEPTEMBER 30, 2008 AND 2007**

## **INDEPENDENT AUDITORS' REPORT**

Board of Regents  
College of the Marshall Islands:

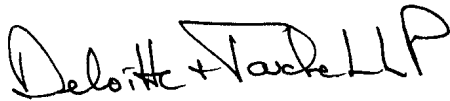
We have audited the accompanying statements of net assets of the College of the Marshall Islands (the College), a component unit of the Republic of the Marshall Islands, as of September 30, 2008 and 2007, and the related statements of revenues, expenses and changes in net assets and of cash flows for 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, 2008 and 2007, 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 11 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 January 7, 2009, 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 + Touche LLP". The signature is written in a cursive, stylized font.

January 7, 2009

# COLLEGE OF THE MARSHALL ISLANDS

## Management's Discussion and Analysis For the Year Ended September 30, 2008

### 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, 2008. 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.

### Accounting Standards

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

In 2003, the College implemented GASB Statement No. 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 2008, the College presents three years of financial statements in accordance with GASB Statement No. 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, 2008, as compared to both 2007 and 2006. This discussion has been prepared by the College's 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.

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.

## COLLEGE OF THE MARSHALL ISLANDS

### Management's Discussion and Analysis, Continued For the Year Ended September 30, 2008

- 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 the 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 financing activities, capital and related financing activities, and investing activities. It provides the net increase or decrease in cash between the beginning and the end of the fiscal year. This statement assists in evaluating financial viability and the College's ability to meet financial obligations as they become due.
- The Notes to the Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the entity-wide financial statements.

#### **Financial Highlights**

There are many factors used to evaluate the health of the College. These include its strategic direction, financial status, student enrollment, and institutional capacity. In evaluating financial status, one of the most important questions is whether the institution is financially better off at the beginning of the year or at the end of the year. In 2008, the College significantly improved its overall financial position, as evidenced by the increase in net assets from \$10,570,113 in FY2007 to \$13,470,847 in FY2008- an increase of 27.4%.

There is a continuing growth trend in Net Assets, dominated mainly by the capital and investment categories due to the continuation of construction under a five-year, \$27 million 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 at year-end. As of September 30, 2008, the net asset position of the College was \$13,470,847. This represents an increase of \$2,900,734 or 27.4% and a continuation of a five-year growth trend (see Exhibit A).

## COLLEGE OF THE MARSHALL ISLANDS

### Management's Discussion and Analysis, Continued For the Year Ended September 30, 2008

#### Statement of Net Assets (cont'd.)

**Table I**  
**Summary of Statement of Net Assets**

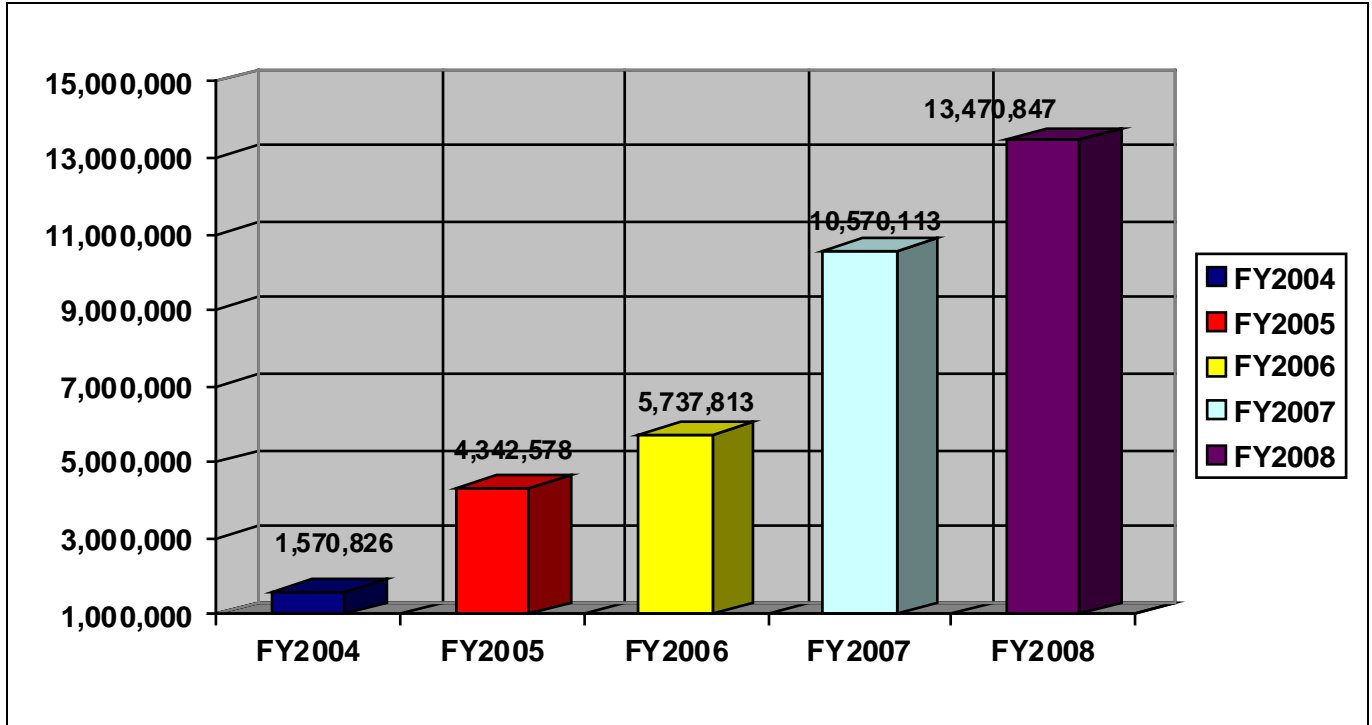
	<u>2008</u>	<u>2007</u>	<u>2006</u>	% change	
				<u>07-08</u>	<u>06-07</u>
<b>Assets</b>					
Current Assets	\$ 3,987,205	\$ 4,560,881	\$ 4,357,243	-12.6%	4.7%
Investments	71,400	538,596	198,085	-86.7%	171.9%
Property, Plant and Equip't, net	<u>11,794,464</u>	<u>7,524,627</u>	<u>2,226,449</u>	<u>56.7%</u>	<u>238.0%</u>
<b>Total Assets</b>	<b>\$ <u>15,853,069</u></b>	<b>\$ <u>12,624,104</u></b>	<b>\$ <u>6,781,777</u></b>	<b><u>25.6%</u></b>	<b><u>86.1%</u></b>
<b>Liabilities</b>					
Current Liabilities	\$ <u>2,382,222</u>	\$ <u>2,053,991</u>	\$ <u>1,043,964</u>	<u>16.0%</u>	<u>96.7%</u>
<b>Total Liabilities</b>	<b><u>2,382,222</u></b>	<b><u>2,053,991</u></b>	<b><u>1,043,964</u></b>	<b><u>16.0%</u></b>	<b><u>96.7%</u></b>
<b>Net Assets</b>					
Invested in capital assets	11,794,464	7,524,627	2,226,449	56.7%	238.0%
Restricted-Nonexpendable	71,400	538,596	202,488	-86.7%	166.0%
Restricted-Expendable	-	200	45,797	-100.0%	-99.6%
Unrestricted	<u>1,604,983</u>	<u>2,506,690</u>	<u>3,263,079</u>	<u>-36.0%</u>	<u>-23.2%</u>
<b>Total Net Assets</b>	<b><u>13,470,847</u></b>	<b><u>10,570,113</u></b>	<b><u>5,737,813</u></b>	<b><u>27.4%</u></b>	<b><u>84.2%</u></b>
<b>Total Liabilities &amp; Net Assets</b>	<b>\$ <u>15,853,069</u></b>	<b>\$ <u>12,624,104</u></b>	<b>\$ <u>6,781,777</u></b>	<b><u>25.6%</u></b>	<b><u>86.1%</u></b>

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

**COLLEGE OF THE MARSHALL ISLANDS**

Management's Discussion and Analysis, Continued  
For the Year Ended September 30, 2008

**EXHIBIT A**  
**Net Assets Trend**  
**FY2004 to FY2008**



Current assets decreased by 12.6% from FY2008 due to a decrease in receivables from RepMar and federal grantor agencies. The College was identified as a low-risk auditee as defined in OMB Circular A-133 and has been returned to the advanced method of payment for Title IV funds and other federal grants. This has enabled the College to drawdown federal funds on a timely basis.

The College has a Board designated quasi-endowment as the primary source of investment income. For FY2008, the College transferred \$500,000 from the quasi-endowment fund to the newly established CMI Foundation, Inc. thus a decrease in the investment asset from FY2007. The CMI Foundation has been created to support the Friends of the College of the Marshall Islands Foundation, Inc., a District of Columbia non-profit corporation, whose sole purpose is to support and advance the purposes of the College of the Marshall Islands through the solicitation and receipt of gifts, grants and contributions and the utilization of these funds to advance these purposes.

For FY2008, the College completed construction of a new Science and Nursing classroom building, the Tolmour Hall. 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, enhance the electrical infrastructure of the campus and promote alternate energy projects. Construction also began on two major projects in the Facilities Master Plan: Classroom Block 2 and the Energy Maintenance Building. Capital assets represented the major area of asset growth (56.7% growth from FY2007) for FY 2008. Please refer to Note 6 to the financial statements for additional information on capital assets.

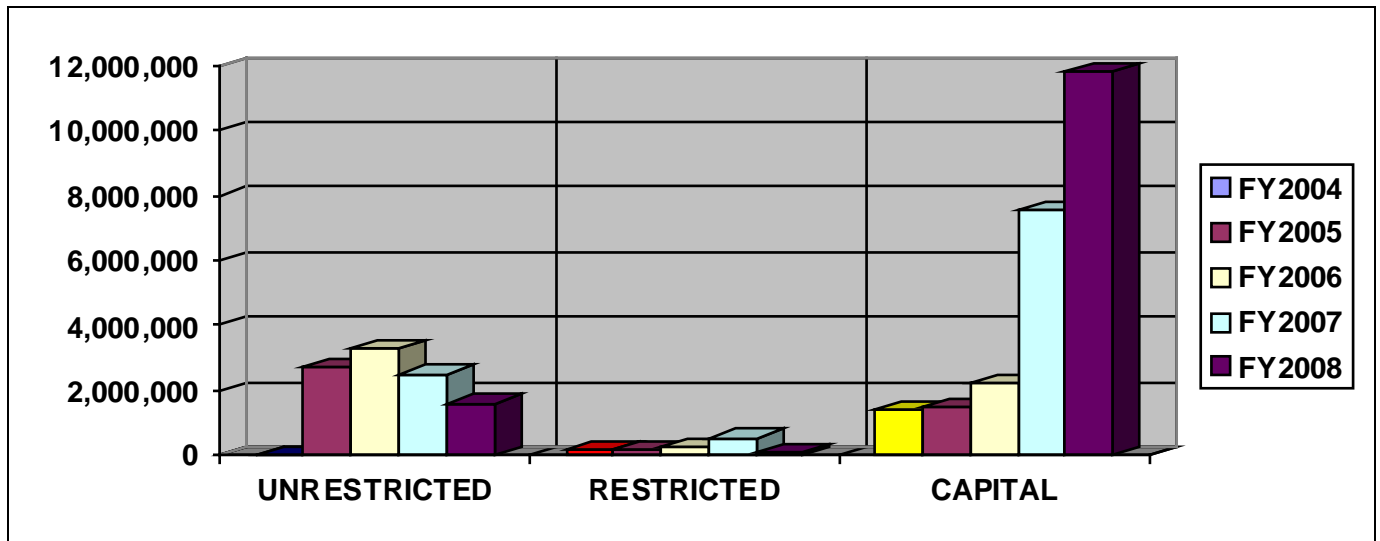
# COLLEGE OF THE MARSHALL ISLANDS

## Management's Discussion and Analysis, Continued For the Year Ended September 30, 2008

Liabilities of the College for FY2008 are all current. Liabilities increased by \$328,231 (16%) from FY2007. Construction contracts in progress (\$739,251) and deferred revenues from Fall 2008 semester (\$735,090) accounts for 61.88% of total current liabilities.

A large component of the Net Assets for the past five fiscal years that are invested in capital assets is due to the implementation of the 5-year Facilities Master Plan of the College. For FY2008, capital assets comprise 87.55% of the total net assets.

### EXHIBIT B Net Assets Allocation FY2004 to FY2008



### 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 expenses that resulted in a \$2,900,734 increase in net assets -- part of a growth trend in net assets that has been sustained for five years.

## COLLEGE OF THE MARSHALL ISLANDS

Management's Discussion and Analysis, Continued  
For the Year Ended September 30, 2008

### Statement of Revenues, Expenses and Changes in Net Assets, Continued

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

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>% Change</u>	
				<u>07-08</u>	<u>06-07</u>
Operating Revenues	\$ 3,878,776	\$ 3,910,309	\$ 3,459,850	(0.81%)	13.00%
Operating Expenses	<u>8,383,451</u>	<u>7,833,467</u>	<u>6,322,852</u>	<u>7.02%</u>	<u>23.90%</u>
Operating Loss	<u>(4,504,675)</u>	<u>(3,923,158)</u>	<u>(2,863,002)</u>	<u>14.82%</u>	<u>37.00%</u>
Non-operating revenues (expenses)	3,057,108	3,248,424	3,258,237	(5.89%)	(0.30%)
Capital Contributions	4,848,301	5,507,034	1,000,000	(11.96%)	450.70%
Special item-contribution to CMI Foundation Inc.	<u>(500,000)</u>	<u>-</u>	<u>-</u>	n/a	
Increase in Net Assets	2,900,734	4,832,300	1,395,235	(39.97%)	246.30%
Net assets-beginning of year	<u>10,570,113</u>	<u>5,737,813</u>	<u>4,342,578</u>	<u>84.22%</u>	<u>32.10%</u>
<b>Net Assets-end of year</b>	<b>\$ <u>13,470,847</u></b>	<b>\$ <u>10,570,113</u></b>	<b>\$ <u>5,737,813</u></b>	<b><u>27.44%</u></b>	<b><u>84.20%</u></b>

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 \$4,504,675 for the year ended September 30, 2008. This was covered by RMI government and Compact funding support for operations through appropriations and subsidies amounting to \$3,092,687 and capital contributions amounting to \$4,848,301.

Revenues in excess of expenses in fiscal years 2006 to 2008 have permitted the structuring of institutional strategic reserves, cash flow management through short-term and long-term investment, and the creation of a CMI Foundation for the purposes of generating additional revenue to support the mission of the institution.

## COLLEGE OF THE MARSHALL ISLANDS

### Management's Discussion and Analysis, Continued For the Year Ended September 30, 2008

#### Statement of Cash Flows

The College's cash position at the end of the fiscal year remained strong inspite of increased use of cash for capital expenditures. The College invested in money market funds during fiscal year 2008 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 better flexibility in planning and management of operations.

**Table III**  
**Summary of Statement of Cash Flows**

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>% Change</u>	
				<u>07-08</u>	<u>06-07</u>
Cash provided by (used in):					
Operating activities	\$(3,699,534)	\$(3,295,069)	\$( 2,735,752)	(12.27%)	(17.50%)
Noncapital financing activities	3,088,000	3,115,004	3,180,695	(0.87%)	(2.10%)
Capital and related financing activities	359,921	25,928	(640,927)	1288.16%	(54.30%)
Investing activities	<u>440,580</u>	<u>(260,000)</u>	<u>(50,000)</u>	269.45%	
Net change in cash	188,967	(414,137)	(245,984)	145.63%	(68.40%)
Cash and cash equivalents – beginning of year	<u>1,619,838</u>	<u>2,033,975</u>	<u>2,279,959</u>	(20.36%)	(10.80%)
Cash and cash equivalents – end of year	\$ <u>1,808,805</u>	\$ <u>1,619,838</u>	\$ <u>2,033,975</u>	<u>11.67%</u>	<u>(20.40%)</u>

Cash availability remained strong at the end of September 30, 2008 reflecting an increase in Cash and Cash Equivalents by \$188,967 (11.67%) from FY2007. The College has been returned to the advanced method of payment for Title IV funds and other federal grants resulting in easier access to these funds and to timely reimbursement of funds.

#### 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.

## COLLEGE OF THE MARSHALL ISLANDS

Management's Discussion and Analysis, Continued  
For the Year Ended September 30, 2008

### Economic Outlook, Continued

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

This economic support of the RMI Government is important because of the College's dependence on operational subsidies. The RMI Government also committed to fund its \$3,000,000 operational subsidy to the College as represented by a Memorandum of Understanding through fiscal year 2011. This allows for better planning for cash flow purposes and increased flexibility for management. The Memorandum of Understanding is subject to extension of beginning in fiscal year 2010.

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 over a five year accumulation totaling \$13 million. For 2008, the growth rate was 27.4%.
- 2) Growth in net assets was attributed largely to the implementation of a \$27 million Capital Improvement Campaign through 2011.
  - a. Non-current assets increased by \$3,802,641 in FY2008 primarily due to construction in progress. Investment decreased in FY2008 due to the transfer of \$500,000 of endowment funds to CMI Foundation, Inc. The financial market conditions affected the College's endowment fund but the effect was offset due to the continuous contributions by donors.
  - b. Current liabilities increased by \$328,231 also mainly due to liabilities incurred related to the Capital Improvements Project, such as Retainage Payable and Contracts Payable.
- 3) The RMI Government has continued its subsidy to the College at \$3,000,000 per annum and has 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.

## COLLEGE OF THE MARSHALL ISLANDS

### Management's Discussion and Analysis, Continued For the Year Ended September 30, 2008

- 4) As part of the \$25,000,000 agreement with the RMI government through the Compact of Free Association to the College for physical facilities improvement, the RMI Government provided a \$5 million subsidy to the College for FY2008 to fund Capital Improvements Projects for the fiscal year. This represents the second of five scheduled payments through 2011.
- 5) Overall operating expenses increased 7% due to the continuous efforts and activities performed across all Departments of the College to meet accreditation requirements.

The College's financial condition continued to improve in FY 2008. This improvement is seen most notably in Net Assets and 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.

Management's Discussion and Analysis for the year ended September 30, 2007 is set forth in the College's report on the audit of financial statements, which is dated June 20, 2008. That Discussion and Analysis explains the major factors impacting the 2007 financial statements and can be obtained from the College's President at [www.cmi.edu](http://www.cmi.edu).

For further news and up-to-date information concerning the College of the Marshall Islands, please visit the College website at [www.cmi.edu](http://www.cmi.edu).

#### CONTACTING COLLEGE FINANCIAL MANAGEMENT

This financial report is designed to provide our constituents 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, 2008 and 2007

	<u>2008</u>	<u>2007</u>
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 1,808,805	\$ 1,619,838
Accounts receivable and unbilled charges, net	744,978	766,021
Due from RepMar	595,053	1,510,850
Due from grantor agencies	270,264	342,430
Prepaid items	305,396	38,484
Inventory	<u>262,709</u>	<u>283,258</u>
Total current assets	3,987,205	4,560,881
Noncurrent assets:		
Investments	71,400	538,596
Property, plant and equipment, net	<u>11,794,464</u>	<u>7,524,627</u>
Total noncurrent assets	<u>11,865,864</u>	<u>8,063,223</u>
Total assets	<u>\$ 15,853,069</u>	<u>\$ 12,624,104</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Accounts payable	\$ 395,311	\$ 174,654
Contracts payable	308,307	453,719
Retention payable	430,944	283,216
Payable to UESC	-	254,913
Social security taxes payable	144,629	146,326
Accrued liabilities	367,941	248,670
Deferred revenue	<u>735,090</u>	<u>492,493</u>
Total current liabilities	<u>2,382,222</u>	<u>2,053,991</u>
Commitments and contingencies		
Net assets:		
Invested in capital assets	11,794,464	7,524,627
Restricted:		
Nonexpendable	71,400	538,596
Expendable	-	200
Unrestricted	<u>1,604,983</u>	<u>2,506,690</u>
Total net assets	<u>13,470,847</u>	<u>10,570,113</u>
Total liabilities and net assets	<u>\$ 15,853,069</u>	<u>\$ 12,624,104</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, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Operating revenues:		
Student tuition and fees	\$ 1,887,213	\$ 2,109,972
Less: Scholarship discounts and allowances	<u>(1,616,521)</u>	<u>(1,925,436)</u>
	270,692	184,536
U.S. federal grants	3,189,629	3,251,246
Private gifts, grants and donations - restricted	43,175	85,043
Auxiliary enterprises	311,809	336,855
Other	<u>63,471</u>	<u>52,629</u>
Total operating revenues	<u>3,878,776</u>	<u>3,910,309</u>
Operating expenses:		
Instruction	3,778,845	3,692,843
Academic support	537,797	524,558
Student services	511,385	594,909
Institutional support	1,487,957	1,562,040
Operations and maintenance	1,733,852	1,188,958
Auxiliary enterprises	<u>333,615</u>	<u>270,159</u>
Total operating expenses	<u>8,383,451</u>	<u>7,833,467</u>
Operating loss	<u>(4,504,675)</u>	<u>(3,923,158)</u>
Nonoperating revenues (expenses):		
RepMar contributions	1,988,000	1,988,000
Compact funding	1,104,687	1,249,237
Loss on disposal of fixed asset	(8,963)	(19,324)
Investment (loss) income	<u>(26,616)</u>	<u>30,511</u>
Total nonoperating revenues (expenses), net	<u>3,057,108</u>	<u>3,248,424</u>
Capital contributions	<u>4,848,301</u>	<u>5,507,034</u>
Special item:		
Contribution to College of Marshall Islands Foundation	<u>(500,000)</u>	<u>-</u>
Change in net assets	2,900,734	4,832,300
Net assets at beginning of the year	<u>10,570,113</u>	<u>5,737,813</u>
Net assets at end of the year	<u>\$ 13,470,847</u>	<u>\$ 10,570,113</u>

See accompanying notes to financial statements.

## COLLEGE OF THE MARSHALL ISLANDS

### Statements of Cash Flows Years Ended September 30, 2008 and 2007

	2008	2007
Cash flows from operating activities:		
Cash received from student tuition and fees	\$ 661,663	\$ 463,463
Cash received from U.S. federal grants	3,261,795	2,903,340
Cash received from RepMar for UESC project	-	497,000
Other receipts	311,028	373,419
Cash payments to employees for services	(3,248,618)	(3,177,357)
Cash payments to suppliers for goods and services	(4,685,402)	(4,354,934)
Net cash used in operating activities	(3,699,534)	(3,295,069)
Cash flows from noncapital financing activities:		
RepMar contributions received	1,988,000	1,988,000
Compact funding received from RepMar	1,100,000	1,127,004
Net cash provided by noncapital financing activities	3,088,000	3,115,004
Cash flows from capital and related financing activities:		
Purchases of property, plant and equipment, net	(4,908,864)	(4,844,422)
Contribution to Endowment Foundation	(500,000)	-
Capital contributions received	5,768,785	4,870,350
Net cash provided by capital and related financing activities	359,921	25,928
Cash flows from investing activities:		
Net sales, purchases, and maturities of investments	415,256	(326,959)
Withdrawal from time certificate of deposit	-	50,000
Interest and dividends received	25,324	16,959
Net cash provided by (used in) investing activities	440,580	(260,000)
Net change in cash and cash equivalents	188,967	(414,137)
Cash and cash equivalents at beginning of year	1,619,838	2,033,975
Cash and cash equivalents at end of year	\$ 1,808,805	\$ 1,619,838
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (4,504,675)	\$ (3,923,158)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	632,380	263,855
Bad debts expense	51,349	77,143
Changes in assets and liabilities:		
Accounts receivable and unbilled charges	(30,306)	350,356
Prepaid items	(266,912)	22,330
Due from grantor agencies	72,166	(347,906)
Inventory	20,549	(10,781)
Accounts payable	220,657	21,006
Payable to UESC	(254,913)	254,913
Social security taxes payable	(1,697)	146,326
Accrued liabilities	119,271	23,292
Deferred revenue	242,597	(172,445)
Net cash used in operating activities	\$ (3,699,534)	\$ (3,295,069)

See accompanying notes to financial statements.

**COLLEGE OF THE MARSHALL ISLANDS**

Statements of Cash Flows, Continued  
Years Ended September 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Summary disclosure of noncash activities:		
Increase in property, plant and equipment	\$ 3,259,902	\$ 1,009,675
Construction work-in-progress	(3,257,586)	(272,740)
Decrease (increase) in contracts payable	145,412	(453,719)
Increase in retention payable	<u>(147,728)</u>	<u>(283,216)</u>
	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to financial statements.

# COLLEGE OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2008 and 2007

## (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.

## COLLEGE OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2008 and 2007

### (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, 2008 and 2007, the College recorded accrued annual leave in the amounts of \$135,625 and \$131,499, 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.

## COLLEGE OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2008 and 2007

### (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, 2008 and 2007

### (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

During fiscal year 2008, the College implemented GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfer of Assets and Future Revenues*, and GASB Statement No. 50, *Pension Disclosures an amendment of GASB Statements No. 25 and 27*. GASB Statement No. 43 establishes uniform financial reporting for other postemployment benefit plans by state and local governments and GASB Statement No. 50 more closely aligns the financial reporting requirements for pensions with those for other post-employment benefits. 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, and includes a provision that stipulates that governments should not revalue assets that are transferred between financial reporting entity components. The implementation of these pronouncements did not have a material effect on the accompanying financial statements.

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 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.

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.

## COLLEGE OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2008 and 2007

### (2) Summary of Significant Accounting Policies, Continued

#### New Accounting Standards, continued

In November 2007, GASB issued Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*. GASB Statement No. 52 improves the quality of financial reporting by requiring endowments to report their land and other real estate investments at fair value, creating consistency in reporting among similar entities that exist to invest resources for the purpose of generating income. The provisions of this statement are effective for periods beginning after June 15, 2008. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the College.

In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. GASB Statement No. 53 is intended to improve how state and local governments report information about derivative instruments – financial arrangements used by governments to manage specific risks or make investments – in their financial statements. 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 2007 financial statements to conform to the 2008 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	<u>12%</u>
Total portfolio	<u>100%</u>

## COLLEGE OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2008 and 2007

### (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 the College or its agent in the 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 the 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 the 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, 2008 and 2007, the carrying amounts of the College's total cash and cash equivalents were \$1,808,805 and \$1,619,838, respectively, and the corresponding bank balances were \$2,076,688 and \$1,731,129, respectively, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2008 and 2007, bank deposits in the amount \$100,000 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.

## COLLEGE OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2008 and 2007

### (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, 2008 and 2007, 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, 2008 and 2007, 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, 2008 and 2007, investments at fair value are as follows:

	<u>2008</u>	<u>2007</u>
Cash	\$ 1,931	\$ 3,109
U.S. and non-U.S. equities	11,203	99,907
Mutual funds	<u>58,266</u>	<u>435,580</u>
	\$ <u>71,400</u>	\$ <u>538,596</u>

### (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 usually elects to purchase commercial insurance from independent third parties for the risks of loss to which it is exposed. However, as of September 30, 2008, the College is self-insured for any losses that could befall its capital assets. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three years.

## COLLEGE OF THE MARSHALL ISLANDS

### Notes to Financial Statements September 30, 2008 and 2007

#### (5) Accounts Receivable and Unbilled Charges

Summarized below is the College's accounts receivable and unbilled charges as of September 30, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Student tuition and fees	\$ 856,442	\$ 933,563
College of Micronesia	240,525	149,293
Employees and officers	26,362	10,022
Other	<u>14,576</u>	<u>14,721</u>
	1,137,905	1,107,599
Less allowance for doubtful accounts	<u>(392,927)</u>	<u>(341,578)</u>
Net accounts receivable and unbilled charges	\$ <u>744,978</u>	\$ <u>766,021</u>

#### (6) Property, Plant and Equipment

Summarized below is the College's investment in property, plant and equipment and changes for the years ended September 30, 2008 and 2007:

		2008			
	Estimated Useful Lives	Balance at October 1, 2007	Additions	Deletions	Balance at September 30, 2008
Nondepreciable capital assets:					
Land and improvements		\$ 289,562	\$ 152,000	\$ -	\$ 441,562
Construction work-in-progress		<u>4,021,764</u>	<u>3,043,732</u>	<u>(3,257,586)</u>	<u>3,807,910</u>
		<u>4,311,326</u>	<u>3,195,732</u>	<u>(3,257,586)</u>	<u>4,249,472</u>
Depreciable capital assets:					
Furniture, vehicles and equipment	3 - 5 years	1,328,168	673,862	(34,918)	1,967,112
Buildings and improvements	20 years	<u>3,670,766</u>	<u>4,299,172</u>	<u>-</u>	<u>7,969,938</u>
		4,998,934	4,973,034	(34,918)	9,937,050
Less accumulated depreciation		<u>(1,785,633)</u>	<u>(632,380)</u>	<u>25,955</u>	<u>(2,392,058)</u>
		<u>3,213,301</u>	<u>4,340,654</u>	<u>(8,963)</u>	<u>7,544,992</u>
Net investment in plant		\$ <u>7,524,627</u>	\$ <u>7,536,386</u>	\$ <u>(3,266,549)</u>	\$ <u>11,794,464</u>
		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		<u>985,089</u>	<u>3,309,415</u>	<u>(272,740)</u>	<u>4,021,764</u>
		<u>1,199,651</u>	<u>3,384,415</u>	<u>(272,740)</u>	<u>4,311,326</u>
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	<u>1,399,276</u>	<u>2,302,849</u>	<u>(31,359)</u>	<u>3,670,766</u>
		2,635,592	2,469,682	(106,340)	4,998,934
Less accumulated depreciation		<u>(1,608,794)</u>	<u>(263,855)</u>	<u>87,016</u>	<u>(1,785,633)</u>
		<u>1,026,798</u>	<u>2,205,827</u>	<u>(19,324)</u>	<u>3,213,301</u>
Net investment in plant		\$ <u>2,226,449</u>	\$ <u>5,590,242</u>	\$ <u>(292,064)</u>	\$ <u>7,524,627</u>

## COLLEGE OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2008 and 2007

### (6) Property, Plant and Equipment, Continued

Construction work-in-progress totaling \$567,350 as of September 30, 2008 and 2007, relates to renovations and improvements at the Gugeegue Campus, which are currently on hold due to 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 obtaining of full accreditation for the College.

### (7) 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, 2008 and 2007, the College received \$3,092,687 and \$3,237,237, respectively, from RepMar to administer various postsecondary functions and to improve facilities, of which \$228,853 and \$224,166 was due and receivable from RepMar at September 30, 2008 and 2007, respectively. At September 30, 2008, the Nitijela of RepMar provided for an appropriation of \$3,225,000 to fund the operations of the College for fiscal year 2009 and an additional \$5,000,000 to fund capital improvements.

Commencing fiscal year 2006, the College was appropriated capital contributions from RepMar totaling to \$11,000,000, of which \$5,000,000 was appropriated during the years ended September 30, 2008 and 2007. During the years ended September 30, 2008 and 2007, the College received \$4,848,301 and \$5,507,034, respectively, from RepMar under these appropriations to fund various capital improvements, of which \$366,200 and \$1,286,684 was due and receivable from RepMar at September 30, 2008 and 2007, respectively.

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, \$0 and \$254,913 remained unexpended at September 30, 2008 and 2007, respectively, and is recorded within the accompanying statement of net assets as payable to UESC.

### (8) Special item - Contributions to College of the Marshall Islands Foundation

The College of the Marshall Islands Foundation, Inc. (CMIF) and the Friends of the College of the Marshall Islands (FCMI) were founded in January 2008, as non-profit, public benefit corporations, for the purpose of stimulating voluntary private support from alumni, parents, friends, corporations, foundations and others to advance the mission of the College. The CMIF and FCMI operate under a separate Board of Directors from that of the College.

On its December 10, 2007 meeting, the College's Board of Regents authorized the transfer of the Endowment Fund to the CMIF. As of September 30, 2008, total transfers to the CMIF amounted to \$500,000.

The accounts of the CMIF and the FCMI will be included in the College's financial statements beginning fiscal year 2009.

## COLLEGE OF THE MARSHALL ISLANDS

### Notes to Financial Statements September 30, 2008 and 2007

#### (9) Functional Classifications with Natural Classifications

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

	2008								
	Salaries	Benefits	Services	Supplies	Insurance, Utilities and Rent	Depreciation	Bad Debts	Miscellaneous	Totals
Instruction	\$1,631,345	\$ 735,084	\$ 117,545	\$ 81,454	\$ 13,818	\$ 20,926	\$ -	\$ 1,178,673	\$ 3,778,845
Academic support	255,263	45,188	75,541	40,588	3,134	7,258	-	110,825	537,797
Student services	327,994	76,652	9,134	31,046	7,819	3,155	-	55,585	511,385
Institutional support	638,142	516,628	161,118	28,909	17,152	12,775	51,349	61,884	1,487,957
Operations and maintenance	442,168	68,481	29,207	60,845	390,861	588,266	-	154,024	1,733,852
Auxiliary enterprises	-	-	-	981	3,336	-	-	329,298	333,615
	<u>\$ 3,294,912</u>	<u>\$ 1,442,033</u>	<u>\$ 392,545</u>	<u>\$ 243,823</u>	<u>\$ 436,120</u>	<u>\$ 632,380</u>	<u>\$ 51,349</u>	<u>\$ 1,890,289</u>	<u>\$8,383,451</u>

	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
	<u>\$3,347,367</u>	<u>\$1,301,571</u>	<u>\$378,404</u>	<u>\$246,635</u>	<u>\$502,147</u>	<u>\$263,855</u>	<u>\$ 77,143</u>	<u>\$1,716,345</u>	<u>\$7,833,467</u>

#### (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. However, in January 2008, the RepMar government extended its Land Use Agreement for the same land for a period of five (5) years. Thus, the College has not made any payments pursuant to the lease agreement.

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.

## COLLEGE OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2008 and 2007

### (10) Commitments

Future minimum lease payments under these leases are as follows:

<u>Year ending</u> <u>September 30,</u>	
2009	\$ 84,113
2010	84,913
2011	87,313
2012	87,313
2013	87,313
2014-2018	446,965
2019-2023	462,965
2024-2028	478,965
2029-2033	200,739
2034-2038	<u>16,042</u>
	\$ <u>2,036,641</u>

As of September 30, 2008, the College had entered into several construction contracts and a services agreement in the cumulative amount of \$7,796,351, of which outstanding commitments of \$3,575,693 remain.

### (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, 2008 and 2007 was \$191,380 and \$186,762, 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 has submitted a Progress Report to the Commission on 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 and submitted a report on the self study to the Commission on January 1, 2009.