COLLEGE OF THE MARSHALL ISLANDS

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2012 AND 2011

COLLEGE OF THE MARSHALL ISLANDS

Table of Contents
Years Ended September 30, 2012 and 2011

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INDEPENDENT AUDITORS' REPORT

Board of Regents
College of the Marshall Islands:

We have audited the accompanying financial statements of the College of the Marshall Islands (the College) and its discretely presented component units, collectively a component unit of the Republic of the Marshall Islands, as of and for the years ended September 30, 2012 and 2011, and which collectively comprise the College's basic financial statements as set forth in Section II of the foregoing table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express opinions 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the College of the Marshall Islands and its discretely presented component units as of September 30, 2012 and 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the College will continue as a going concern. As discussed in Note 10 to the financial statements, the College's recurring losses from operations and a net restricted deficiency raise substantial doubt about its ability to continue as a going concern. Management plans concerning these matters are also described in Note 10. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 29, 2013, 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 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Deloitte + Touche LLP

June 29, 2013

Introduction

This section of the College of the Marshall Islands (the College or CMI) Annual Financial Report presents an analysis of the financial activities of the College for fiscal year ended September 30, 2012. 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 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 2009, 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, 2012, as compared to two Fiscal Years 2011 and 2010. 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 financial condition of the College. These include its strategic direction, financial status, student enrollment, human resources, 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 FY2012, the College overall financial position decreased by $31,411 or 0.2% vis-à-vis the prior year.

Statement of Net Assets

The Statement of Net Assets presents the overall financial condition of CMI at the end of September 30, 2012. Total Net Assets position stood at $18,351,726 which represents a slight decreased of $31,411 or 0.2% from that of previous year. This is attributed to the significant provision of non-cash expense that reduced the net book value of the capital assets and to the conclusion of CMI's 5-year Facilities Master Plan on the later part of FY2012.

Table I
Summary of Statement of Net Assets

	2012	2011	2010	% change 11-12	% change 10-11
Assets					
Current Assets	$ 2,212,901	$ 2,948,660	$ 2,501,193	(25.0%)	17.9%
Investments	41,089	36,255	86,268	13.3%	(58.0%)
Property, Plant and Equipment, net	20,079,847	19,495,338	17,450,408	3.0%	11.7%
Total Assets	$ 22,333,837	$ 22,480,253	$ 20,037,869	(0.7%)	12.2%
Liabilities					
Current Liabilities	$ 3,982,111	$ 4,097,116	$ 3,152,125	(2.8%)	30.0%
Total Liabilities	3,982,111	4,097,116	3,152,125	(2.8%)	30.0%
Net Assets					
Invested capital assets	20,079,847	19,495,338	17,450,408	3.0%	11.7%
Restricted-Nonexpendable	41,089	36,255	86,268	13.3%	(58.0%)
Restricted-Expendable	-	-	-	-	-
Unrestricted	(1,769,210)	(1,148,456)	(650,932)	54.1%	76.4%
Total Net Assets	18,351,726	18,383,137	16,885,744	(1.7%)	8.9%
Total Liabilities & Net Assets	$ 22,333,837	$ 22,480,253	$ 20,037,869	(0.7%)	12.2%

All Current Assets items (Cash and Cash Equivalents, Accounts Receivable & Unbilled Charges, Due From Repmar, Due From Grantor Agencies, Prepaid Items and Inventory) decreased by an aggregate amount of $735,759 or 25% compared to last year's figures. Investments showed a negligible increased of $4,834 or 13.3% while Capital Assets moderately increased by $584,509 or 3%. The scarcity of cash that perpetually hounds the College remains the major constraint in executing CMI's plans and programs as shown by the increased in excess of current assets over current liabilities by $620,754 or 54%. The College has not incurred any Long Term Debt to date.

CMI's perennial liquidity problem in prior years rolled in FY2012 as shown by the unfavorable Current Ratio which is 0.56:1. This benchmark indicated that CMI has only 50 cents in its coffers for every $1 dollar it needs for its current obligation.

Statement of Revenues, Expenses and Changes in Net Assets

The Statement of Revenues, Expenses and Changes in Net Assets provides a detail of operating and non-operating revenues along with expenditures.

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

				% Change	
	2012	2011	2010	11-12	10-11
Operating Revenues	$ 7,020,791	$ 6,091,000	$ 5,663,230	15.26%	7.55%
Operating Expenses	12,480,975	11,312,616	11,784,535	10.33%	(4.00%)
Operating Loss	(5,460,184)	(5,221,616)	(6,121,305)	4.57%	(14.70%)
Non-operating revenues (expenses)	3,093,989	2,495,541	3,584,888	23.98%	(30.39%)
Capital Contributions	2,334,784	4,273,468	3,294,760	(45.37%)	29.70%
Special item-contribution to CMI Foundation Inc.	-	(50,000)	(100,000)	100%	(50.00%)
(Decrease) increase in Net Assets	(31,411)	1,497,393	658,343	(102.10%)	127.45%
Net assets-beginning of year	18,383,137	16,885,744	16,227,401	8.87%	4.06%
Net assets-end of year	$ 18,351,726	$ 18,383,137	$ 16,885,744	(0.17%)	8.87%

The Operating Revenues showed a modest increased of $929,791 or 15.26% compared with FY2011. This was brought by the slight increment in Tuition and Fees of $10,311 or 0.27% due to the steady growth in enrollment figures. Corollary to the increase in number of students was the increased in U.S. Federal Grants by $949,676 or 20.81%. Private, Gifts, Grants and Donations showed a remarkable increase of $203,790 or 1,137.73% due to the transfer of MIMRA's Maritime Vocational Training Program to CMI.

Subsidies from RMI government and Compact Fund channeled through the RMI from the Compact of Free Association with the U.S. were classified as Non-Operating Revenues. As a chartered governmental institution whose mission is to provide higher education services to the Marshall Islands and within the Pacific Rim, the College is heavily dependent on the RMI's support. In FY2012, CMI received the same level of funding for the subsidy from the RMI government while the number of students increased which in effect reduced the dollar equivalent per student vis-à-vis the subsidy.

The gain of Net Assets at the beginning of the year was eclipsed by the Net Assets at end of FY2012 which showed a slight decreased of $31,411 or 0.2%. This can be attributed to the significant provision of non-cash expense that reduced the net book value of the capital assets and to the conclusion of CMI's 5-year Facilities Master Plan on the later part of FY2012.

Statement of Cash Flows

The College's cash flow position for FY2012 was unstable due to unfavorable patterns of operational spending specifically on the implementation of new program initiatives and expansions of existing programs which were not supported by a concrete budget structure.

Table III
Summary of Statement of Cash Flows

	2012	2011	2010	% Change 11-12	% Change 10-11
Cash Provided by (used in):					
Operating Activities	$ (3,058,800)	$ (3,227,195)	$ (4,415,620)	(5.22%)	(26.91%)
Noncapital financing activities	2,895,077	3,001,769	3,515,120	(3.55%)	(14.60%)
Capital and related financing activities	(34,375)	315,928	521,140	(110.88%)	(39.38%)
Investing activities	94	-	-	100%	0%
Net Change in cash	(198,004)	90,502	(379,360)	(318.78%)	(123.9%)
Cash-beginning of year	549,019	458,517	837,877	19.74%	(45.28%)
Cash & cash equivalents-end of year	$ 351,015	$ 549,019	$ 458,517	(36.54%)	(19.74%)

Cash used in operating activities decreased by $168,395 or 5.22% for FY2012. The ongoing saga on cash flow constraints served as a major challenge to CMI in executing its plans and programs on a timely manner. It is worthy to note that CMI is still enjoying the privilege of an advance method of payment for Title IV funds and other federal grants resulting to an easy access and timely reimbursement of expenditures to these funds. To further strengthen cash availability, CMI must receive the RMI Subsidy and Compact Funding from the RMI government on a timely manner to have more leverage in paying the services to employees, various vendors and other government agencies.

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 (e.g., wholesale, retail, restaurant, banking, construction). 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.[1]

[1] Barbara Beno, Micheal Rota, Floyd Takeuchi, et al., *Enhancing and Sustaining Higher Education Quality in the Pacific: Challenges Facing Institutions Seeking to Acquire and Maintain WASC-Accreditation* (San Francisco: Accrediting Commission of Community and Junior Colleges, 2006).

The economic health of the RMI Government is important to the College because of its dependence on operational subsidies. The RMI Government's financial agreement with the U.S. Government under the Compact of Free Association and the U.S. commitment to long-term financial support for the RMI after an extended period of negotiation raised the confidence levels of all sectors of the RMI national economy. The amended Compact of Free Association financial assistance package as formally agreed with the U.S. Government in December 2003 that represents a major change in financial relations between the two countries, affects the level of funding such as, the allocation of funds, and internal systems for managing public funds. The allocation package provides for a large shift of expenditures toward the main sectors of health and education as well as for capital improvement and maintenance.

The amended assistance package provides for the adoption of financial accountability and management standards similar to those expected of U.S. state and local governments. The 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 fifth 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 highly important because of the College's dependence on operational subsidies. The RMI Government also committed to fund its $3,000,000 operational subsidy to CMI as represented by a Memorandum of Understanding through the end of FY2012 and renewable on a yearly basis. This allows for better planning for cash flow purposes and increased flexibility for management to achieve better outcomes in a short period of time.

In support of the College's efforts to maintain physical facilities that meet the standards for accreditation, the RMI Government gave $25,000,000 of Compact of Free Association funds to CMI and the 5-year Facilities Master Plan ended on the later part of FY2012.

Summary:

1) CMI's Total Net Assets stood at $18,351,726 for FY2012.

2) Robust growth of Net Assets spanning the years was attributed largely to the $25 million Capital Improvement Project which ended on the later part of FY2012.

   a. All Current Assets items plummeted for an aggregate amount of $735,759 or 25% vis-à-vis prior year while all Non-current Assets items notably increased by $589,343 or 3% primarily due to the capital asset expenditures.

   b. The dearth of cash that perpetually hounds the College remains the major constraint in executing CMI's plans and programs as shown by the increased in excess of current assets over current liabilities by $620,754 or 54%. Payments of financial obligations to various vendors, employees and other government agencies have to be prioritized and queued despite the privilege of an advance method of payment for Title IV funds and other federal grants.

3) The RMI Government has continued its subsidy to CMI at $2,850,000 per annum as represented by a Memorandum of Agreement through the end of FY2012 and renewable on a yearly basis. The RMI government pays this subsidy with funds available through the Compact of Free Association with the U.S. and from its General Fund.

4) With CMI's efforts to have Capital Assets that meet the standards for accreditation, the RMI Government gave $25,000,000 of Compact of Free Association funds to CMI and the 5-year Facilities Master Plan ended on the later part of FY2012. Refer to note 6 for additional information on capital assets.

5) CMI is still enjoying the privilege of an advance method of payment for Title IV funds and other federal grants resulting to an easy access and timely reimbursement of expenditures to these funds.

6) CMI's cash flow position at the end of the fiscal year was unstable due to unfavorable patterns of operational spending specifically on the implementation of new program initiatives and expansions of existing programs which were not supported by a concrete budget structure.

Management's Discussion and Analysis for the year ended September 30, 2011 is set forth in the College's report on the audit of financial statements, which is dated June 25, 2012. That Discussion and Analysis explains the major factors impacting the 2011 financial statements and can be obtained from the College's President at info@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.**

COLLEGE OF THE MARSHALL ISLANDS

Statements of Net Assets
September 30, 2012 and 2011

ASSETS	2012	2011
Current assets:		
Cash and cash equivalents	$ 351,015	$ 549,019
Accounts receivable and unbilled charges, net	1,247,695	1,389,026
Due from RepMar	239,907	325,324
Due from grantor agencies	96,184	233,090
Prepaid items	17,119	111,735
Inventory	260,981	340,466
Total current assets	2,212,901	2,948,660
Noncurrent assets:		
Investments	41,089	36,255
Capital assets:		
Nondepreciable capital assets	347,306	1,601,220
Capital assets, net of accumulated depreciation	19,732,541	17,894,118
Total noncurrent assets	20,120,936	19,531,593
Total assets	$ 22,333,837	$ 22,480,253
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	$ 766,226	$ 883,751
Contracts payable	147,514	491,714
Retention payable	118,255	87,829
Withholding taxes payable	383,226	487,123
Social security taxes payable	349,499	182,657
Student refunds payable	121,263	18,720
Accrued liabilities	454,042	399,876
Deferred revenue	1,642,086	1,545,446
Total current liabilities	3,982,111	4,097,116
Commitments and contingencies		
Net assets:		
Invested in capital assets	20,079,847	19,495,338
Restricted:		
Endowment -nonexpendable	41,089	36,255
Unrestricted	(1,769,210)	(1,148,456)
Total net assets	18,351,726	18,383,137
Total liabilities and net assets	$ 22,333,837	$ 22,480,253

See accompanying notes to financial statements.

COLLEGE OF THE MARSHALL ISLANDS

Combined Statements of Financial Position - Component Units
September 30, 2012 and 2011

ASSETS	2012	2011
Cash and cash equivalents	$ 48,505	$ 45,694
Investment in mutual funds	795,385	724,357
Investments in stocks	127,531	99,821
	$ 971,421	$ 869,872
NET ASSETS		
Net assets:		
Unrestricted	43,908	43,908
Temporarily restricted	927,513	825,964
Total net assets	971,421	869,872
	$ 971,421	$ 869,872

See accompanying notes to financial statements.

COLLEGE OF THE MARSHALL ISLANDS

Statements of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2012 and 2011

	2012	2011
Operating revenues:		
Student tuition and fees	$ 3,890,470	$ 3,880,159
Less: Scholarship discounts and allowances	(3,472,991)	(3,299,550)
	417,479	580,609
U.S. federal grants	5,514,197	4,564,521
Private gifts, grants and donations - restricted	221,702	17,912
Auxiliary enterprises	684,383	724,714
Other	183,030	203,244
Total operating revenues	7,020,791	6,091,000
Operating expenses:		
Instruction	5,573,063	4,438,035
Academic support	435,168	555,344
Student services	547,159	603,950
Institutional support	2,099,493	1,979,049
Operations and maintenance	3,268,314	3,262,320
Auxiliary enterprises	557,778	473,918
Total operating expenses	12,480,975	11,312,616
Operating loss	(5,460,184)	(5,221,616)
Nonoperating revenues (expenses):		
RepMar contributions	1,874,880	1,876,770
Compact funding	1,214,181	1,196,394
Contributions to the College of Marshall Islands Foundation, Inc.	-	(50,000)
Loss on disposal/transfer of fixed assets	-	(577,610)
Investment income (loss)	4,928	(13)
Total nonoperating revenues (expenses), net	3,093,989	2,445,541
Capital contributions	2,334,784	4,273,468
Change in net assets	(31,411)	1,497,393
Net assets at beginning of the year	18,383,137	16,885,744
Net assets at end of the year	$ 18,351,726	$ 18,383,137

See accompanying notes to financial statements.

COLLEGE OF THE MARSHALL ISLANDS

Combined Statements of Activities - Component Units
Years Ended September 30, 2012 and 2011

	2012 Unrestricted	2012 Temporarily Restricted	2012 Total	2011 Unrestricted	2011 Temporarily Restricted	2011 Total
Revenues, gains and other income (losses):						
Net investment income (losses)	$ -	$ 111,971	$ 111,971	$ -	$ (24,747)	$ (24,747)
Contributions	-	-	-	-	57,000	57,000
Fundraising activities - pin match support	-	-	-	-	-	-
Total revenues	-	111,971	111,971	-	32,253	32,253
Expenses and losses:						
Support services:						
Management and other fees	-	10,422	10,422	-	40,042	40,042
Training expenses	-	-	-	-	-	-
Total support services	-	10,422	10,422	-	40,042	40,042
Total expenses	-	10,422	10,422	-	40,042	40,042
Change in net assets	-	101,549	101,549	-	(7,789)	(7,789)
Net assets at beginning of year	-	825,964	825,964	-	833,753	833,753
Net assets at end of year	$ -	$ 927,513	$ 927,513	-	$ 825,964	$ 825,964

See accompanying notes to financial statements.

COLLEGE OF THE MARSHALL ISLANDS

Statements of Cash Flows
Years Ended September 30, 2012 and 2011

	2012	2011
Cash flows from operating activities:		
Cash received from student tuition and fees	$ 375,740	$ 117,836
Cash received from U.S. federal grants	5,651,103	4,316,307
Other receipts	1,214,838	839,173
Cash payments to employees for services	(4,485,786)	(4,534,156)
Cash payments to suppliers for goods and services	(5,814,695)	(3,966,355)
Net cash used in operating activities	(3,058,800)	(3,227,195)
Cash flows from noncapital financing activities:		
RepMar contributions received	1,874,880	1,876,770
Compact funding received from RepMar	1,020,197	1,124,999
Net cash provided by noncapital financing activities	2,895,077	3,001,769
Cash flows from capital and related financing activities:		
Purchases of property, plant and equipment, net	(2,648,560)	(4,485,724)
Capital contributions received	2,614,185	4,801,652
Net cash (used in) provided by capital and related financing activities	(34,375)	315,928
Cash flows from investing activities:		
Interest and dividends received	94	-
Net change in cash and cash equivalents	(198,004)	90,502
Cash and cash equivalents at beginning of year	549,019	458,517
Cash and cash equivalents at end of year	$ 351,015	$ 549,019

See accompanying notes to financial statements.

COLLEGE OF THE MARSHALL ISLANDS

Statements of Cash Flows, Continued
Years Ended September 30, 2012 and 2011

	2012	2011
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	$ (5,460,184)	$ (5,221,616)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	1,750,277	1,783,588
Bad debts expense	256,530	180,077
Changes in assets and liabilities:		
Accounts receivable and unbilled charges	(115,199)	(916,757)
Prepaid items	94,616	92,271
Due from grantor agencies	136,906	(233,090)
Inventory	79,485	63,745
Accounts payable	(117,525)	496,170
Withholding taxes payable	(103,897)	193,050
Social security taxes payable	166,842	12,606
Student refunds payable	102,543	(7,720)
Payable to grantor agencies	-	(15,124)
Accrued liabilities	54,166	(9,402)
Deferred revenue	96,640	355,007
Net cash used in operating activities	$ (3,058,800)	$ (3,227,195)
Summary disclosure of noncash activities:		
Increase in property, plant and equipment, net	$ 2,775,612	$ 1,462,789
Construction work-in-progress	(2,775,612)	(1,462,789)
	$ -	$ -

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.

The College of the Marshall Islands Foundation, Inc. and Friends of the College of the Marshall Islands, Inc. (collectively, the Foundations) were founded on January 14, 2008 as non-profit, public benefit corporations, which operate under separate Board of Directors' from that of the College. The accompanying financial statements include the accounts of the Foundations.

(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.*

The College has adopted GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, and presents the Foundations, legally separate, tax-exempt entities, as discretely presented component units. The Foundations provide financial support for the objectives, purposes and programs of the College. Although the College does not control the timing, purpose, or amount of receipts from the Foundations, the resources (and income thereon) which the Foundations hold and invest are restricted to the activities of the College. Because the resources held by the Foundations can only be used by, or for the benefit of, the College, the Foundations are considered as component units of the College and its Combined Statements of Financial Position and Combined Statements of Activities and Changes in Net Assets are separately presented in the College's financial statements. In addition, significant notes are summarized under Foundations Investments.

(2) Summary of Significant Accounting Policies, Continued

The Foundations are private organizations that report under accounting standards established by the Financial Statement Accounting Standards Board (FASB), which is the source of generally accepted accounting principles for not-for-profit entities. The financial statement presentation follows the recommendations of the Accounting Standards Codification (ASC) 958, *Not-for-Profit Entities*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation financial information in the College's financial reporting entity for these differences.

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 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.

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.

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 are added to the allowance.

(2) Summary of Significant Accounting Policies, Continued

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, 2012 and 2011, the College recorded accrued annual leave in the amount of $178,714 and $166,008, respectively, which is included within the statements of net assets as accrued liabilities. The College does not participate in an employee pension plan.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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.

(2) Summary of Significant Accounting Policies, Continued

Net Assets, Continued

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.

Reclassifications

Certain account balances in 2011 have been reclassified to conform with the 2012 financial statement presentation.

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.

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.

Foundation Investments

The Foundations have adopted the accounting guidance within ASC 320, *Investments - Debt and Equity Securities*, which require that the Foundation's account for their investments at market value.

(2) Summary of Significant Accounting Policies, Continued

Foundation Investments, Continued

At September 30, 2012 and 2011, investments recorded are recorded at market value, are comprised of the following:

	2012	2011
Equities and related	$ 127,531	$ 99,821
Mutual funds	795,385	724,357
Cash and equivalents	4,597	1,786
	$ 927,513	$ 825,964

The following represents the composition of investment income (loss) for the years ended September 30, 2012 and 2011:

	2012	2011
Unrealized investment income (losses)	$ 93,321	$ (48,142)
Net interest income and dividends	18,650	23,395
	$ 111,971	$ (24,747)

It is the policy of the Foundations to limit investment of funds to no-load mutual funds, unit investment trusts, real estate investments trust, no-load variable annuities, closed end mutual funds and other diversified securities. In addition, investments in limited partnerships and other vehicles that do not have readily objective valuations shall not be permitted.

New Accounting Standards

During the year ended September 30, 2012, the College implemented the following pronouncements:

- GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which amends Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and addresses issues related to the frequency and timing of measurements for actuarial valuations first used to report funded status information in OPEB plan financial statements. The implementation of this pronouncement did not have a material effect on the accompanying financial statements.

- GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions (an amendment of GASB Statement No. 53)*, which will improve financial reporting by state and local governments by clarifying the circumstances in which hedge accounting continues to be applied when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The implementation of this pronouncement did not have a material effect on the accompanying financial statements.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In December 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements,* which addresses how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the College.

In December 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus,* which is designed to improve financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity,* and No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments,* to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively. The provisions of this statement are effective for periods beginning after June 15, 2012. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the College.

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the College.

In July 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which establishes guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. The provisions of this statement are effective for periods beginning after December 15, 2011. Management has not yet determined the effect of implementation of this statement on the financial statements of the College.

In April 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities,* which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of the College.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In April 2012, GASB issued Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of the College.

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans,* which revises existing guidance for the financial reports of most pension plans, and Statement No. 68, *Accounting and Financial Reporting for Pensions,* which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 67 are effective for financial statements for periods beginning after June 15, 2013. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of these statements on the financial statements of the College.

(3) Deposits and Investments

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%

A. Deposits

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.

(3) Deposits and Investments, Continued

A. Deposits, Continued

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, 2012 and 2011, the carrying amounts of the College's total cash and cash equivalents were $351,015 and $549,019, respectively, and the corresponding bank balances were $411,146 and $666,840, respectively. Of the bank balance amounts, $200,138 and $540,353, respectively, are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. The remaining amounts of $211,009 and $126,486, respectively, represent short-term investments held and administered by the College's trustee. Based on negotiated trust and custody agreements, all of these investments were held by the College's trustee in the College's name. 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

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, 2012 and 2011, 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, 2012 and 2011, 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, 2012 and 2011, investments at fair value are as follows:

	2012	2011
Money market funds	$ 841	$ 217
Equity securities	15,127	9,018
Mutual funds	25,121	27,020
	$ 41,089	$ 36,255

(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, 2012 and 2011:

	2012	2011
Student tuition and fees	$ 2,357,528	$ 2,116,606
College of Micronesia	122,621	226,504
Employees and officers	13,109	43,249
Other	44,440	36,140
	2,537,698	2,422,499
Less allowance for doubtful accounts	(1,290,003)	(1,033,473)
Net accounts receivable and unbilled charges	$ 1,247,695	$ 1,389,026

(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, 2012 and 2011:

		2012			
	Estimated Useful Lives	Balance at October 1, 2011	Additions	Deletions	Balance at September 30, 2012
Nondepreciable capital assets:					
Land and improvements		$ 347,306	$ -	$ -	$ 347,306
Construction work-in-progress		1,253,914	1,521,698	(2,775,612)	-
		1,601,220	1,521,698	(2,775,612)	347,306
Depreciable capital assets:					
Furniture, vehicles and equipment	3 - 5 years	3,992,569	397,080	-	4,389,649
Buildings and improvements	20 years	20,525,993	3,191,620	-	23,717,613
		24,518,562	3,588,700	-	28,107,262
Less accumulated depreciation		(6,624,444)	(1,750,277)	-	(8,374,721)
		17,894,118	1,838,423	-	19,732,541
Net investment in plant		$ 19,495,338	$ 3,360,121	$ (2,775,612)	$ 20,079,847

(6) Property, Plant and Equipment, Continued

	Estimated Useful Lives	2011 Balance at October 1, 2010	Additions	Deletions	Balance at September 30, 2011
Nondepreciable capital assets:					
Land and improvements		$ 347,306	$ -	$ -	$ 347,306
Construction work-in-progress		2,030,139	1,253,914	(2,030,139)	1,253,914
		2,377,445	1,253,914	(2,030,139)	1,601,220
Depreciable capital assets:					
Furniture, vehicles and equipment	3 - 5 years	3,711,271	324,888	(43,590)	3,992,569
Buildings and improvements	20 years	16,235,878	4,290,115	-	20,525,993
		19,947,149	4,615,003	(43,590)	24,518,562
Less accumulated depreciation		(4,874,186)	(1,783,588)	33,330	(6,624,444)
		15,072,963	2,831,415	(10,260)	17,894,118
Net investment in plant		$ 17,450,408	$ 4,085,329	$ (2,040,399)	$ 19,495,338

(7) RepMar Contributions

The College is dependent upon RepMar to provide annual appropriations in an amount sufficient to provide stable financial backing to meet educational and vocational needs of the community. During the years ended September 30, 2012 and 2011, the College received $3,098,376 and $3,073,164, respectively, from RepMar to administer various postsecondary functions and to improve facilities, of which $340,146 and $146,162 was receivable from RepMar at September 30, 2012 and 2011, respectively. The Nitijela of RepMar subsequently provided for an appropriation of $2,890,000 to fund the operations of the College for fiscal year 2013 and an additional $280,000 to fund repairs and maintenance of capital projects.

Commencing fiscal year 2006, the College was appropriated $25,000,000 of capital contributions from RepMar of which $420,000 and $5,000,000 was appropriated during the years ended September 30, 2012 and 2011, respectively. During the years ended September 30, 2012 and 2011, the College received $2,334,784 and $4,273,468, respectively, from RepMar under these appropriations to fund various capital improvements, of which ($100,239) and $179,162 was due to and receivable from RepMar at September 30, 2012 and 2011, respectively.

(8) Functional Classifications with Natural Classifications

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

2012	Salaries	Benefits	Services	Supplies	Insurance, Utilities and Rent	Depreciation	Bad Debts	Miscellaneous	Total
Instruction	$ 2,696,752	$ 696,321	$ 104,033	$152,687	$ 20,592	$ 88,857	$ -	$ 1,813,821	$ 5,573,063
Academic support	219,410	55,807	-	11,179	3,576	1,758	-	143,438	435,168
Student services	302,642	75,809	56,981	27,683	1,669	1,497	-	80,878	547,159
Institutional Support	686,217	505,821	197,404	57,348	186,124	21,348	256,530	188,701	2,099,493
Operations and Maintenance	628,748	84,136	31,027	182,914	704,672	1,636,817	-	-	3,268,314
Auxiliary Enterprises	21,063	7,257	-	1,467	90,430	-	-	437,561	557,778
	$ 4,554,832	$ 1,425,151	$ 389,445	$ 433,278	$ 1,007,063	$ 1,750,277	$ 256,530	$ 2,664,399	$12,480,975

(8) Functional Classifications with Natural Classifications, Continued

	2011								
	Salaries	Benefits	Services	Supplies	Insurance, Utilities and Rent	Depreciation	Bad Debts	Miscellaneous	Total
Instruction	$ 2,573,162	$ 579,834	$ 11,589	$ 364,580	$ 11,719	$ 70,060	$ -	$ 827,091	$ 4,438,035
Academic support	258,512	104,506	-	29,360	1,963	1,690	-	159,313	555,344
Student services	430,129	87,961	-	30,072	6,229	1,883	-	47,676	603,950
Institutional Support	777,998	560,966	75,233	71,355	119,948	15,167	180,077	178,304	1,979,049
Operations and Maintenance	627,248	111,092	54,234	139,511	635,448	1,694,788	-	-	3,262,320
Auxiliary Enterprises	-	-	-	1,330	45,747	-	-	426,841	473,918
	$ 4,667,049	$ 1,444,359	$ 141,056	$ 636,208	$ 821,054	$ 1,783,588	$ 180,077	$ 1,639,225	$ 11,312,616

(9) 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.

Future minimum lease payments under these leases are as follows:

Year ending September 30,	
2013	$ 87,313
2014	88,113
2015	90,513
2016	90,513
2017	90,513
2018-2022	459,765
2023-2027	475,765
2028-2032	292,652
2033-2037	21,042
	$ 1,696,189

(10) Contingencies

Going Concern

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplates the continuation of the College as a going concern. However, the College has sustained operating losses in recent years. Further, at September 30, 2012, current liabilities exceed current assets by $1,769,210 and a net unrestricted deficiency of $1,769,210.

Management believes that actions presently being taken to revise the College's operating requirements in the implementation of a Financial Recovery Plan, which includes employee salary and benefits reduction, electric energy conservation efforts, reduction of adjunct and overload rates and limited employee travels, will provide the opportunity for the College to continue as a going concern.

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, 2012 and 2011 was $183,894 and $159,124, 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 June 9-11, 2009 reaffirmed accreditation of the College with a requirement that the College complete a follow-up report by March, 2010. The follow up report was submitted by the College on March 15, 2010. The Commission meets semi-annually in January and June to review the status of institutional reports.

The College is due for its next comprehensive evaluation during Spring 2015.