

COLLEGE OF THE MARSHALL ISLANDS

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

YEARS ENDED SEPTEMBER 30, 2015 AND 2014

COLLEGE OF THE MARSHALL ISLANDS

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INDEPENDENT AUDITORS' REPORT

Board of Regents
College of the Marshall Islands:

Report on the Financial Statements

We have audited the accompanying financial statements of the College of the Marshall Islands (the College), a component unit of the Republic of the Marshall Islands, which comprise the statements of net position as of September 30, 2015 and 2014, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter Regarding Going Concern

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 has suffered recurring losses from operations and has a deficient unrestricted net position that raises substantial doubt about its ability to continue as a going concern. Management's plans in regards to these matters are also described in Note 10 to the financial statements. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

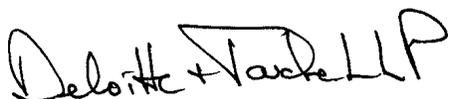
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 10 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 22, 2016, 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* in considering the College's internal control over financial reporting and compliance.



June 22, 2016

COLLEGE OF THE MARSHALL ISLANDS

Management's Discussion and Analysis
Years Ended September 30, 2015 and 2014

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, 2015. 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 combined financial statements, just as in a business concern. This contrasts with the accounting by funds presentation.

For 2015, 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, 2015, as compared to two Fiscal Years 2014 and 2013. This discussion has been prepared by 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, 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 Position* presents information on all of the College's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position 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.

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Management's Discussion and Analysis, Continued Years Ended September 30, 2015 and 2014

- The *Statement of Revenues, Expenses and Changes in Net Position* presents the revenues earned and the expenses incurred during the year. All changes in net position 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 health of the College. These include its strategic direction, financial status, student enrollment, human resources, facilities, 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. Although the total net position of the College had a modest decline of \$875,473 or 4.91% from that of FY2014, other indicators show that the College's overall financial position continuously improved.

Statement of Net Position

The Statement of Net Position represents the overall financial condition of the College of the Marshall Islands at the end of September 30, 2015. Total net position represents the difference between total assets and total liabilities and is one of the indicators of the current financial condition of the College. Readers of the Statement of Net Position are able to determine the assets available to continue the operation of the College. Over time, changes in net position are indicators of the improvement or erosion of the College's financial health when considered along with non-financial facts, such as enrollment changes and the conditions of the facilities.

The assets and liabilities are categorized between current and noncurrent. Current assets and current liabilities mature or become payable within the normal 12-month accounting cycles while noncurrent assets and liabilities mature or become payable after 12-months. For September 30, 2015, the College's current assets consist primarily of cash, receivables, and inventories while noncurrent assets consist primarily of long-term investments and capital assets-including property, plant, and equipment maintained by the College. All of the College's liabilities are short term.

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Management's Discussion and Analysis, Continued
Years Ended September 30, 2015 and 2014

At the end of September 30, the total Net Position for the College stood at \$16,946,364 which represents a modest decrease of \$875,473 or 4.91% from that of previous year. This is attributed to the continuous decline of the capital assets due to the significant provision of non-cash expense that reduced the net book value amounting to \$1,175,301 or 6.72%.

Table I
Summary of Statements of Net Position

	<u>2015</u>	<u>2014</u>	<u>2013</u>	% change	
				<u>14-15</u>	<u>13-14</u>
Assets					
Current assets	\$ 3,037,889	\$ 2,844,945	\$ 3,161,483	6.78%	(10.01%)
Investments	1,021,926	1,054,293	60,947	(3.07%)	1629.85%
Property, plant and equipment, net	<u>16,314,230</u>	<u>17,489,530</u>	<u>18,800,294</u>	<u>(6.72%)</u>	<u>(6.97%)</u>
Total assets	\$ <u>20,374,045</u>	\$ <u>21,388,768</u>	\$ <u>22,022,724</u>	<u>(4.74%)</u>	<u>(2.88%)</u>
Liabilities					
Current liabilities	<u>3,427,681</u>	<u>3,566,931</u>	<u>4,401,069</u>	<u>(3.90%)</u>	<u>(18.95%)</u>
Total liabilities	<u>3,427,681</u>	<u>3,566,931</u>	<u>4,401,069</u>	<u>(3.90%)</u>	<u>(18.95%)</u>
Net position					
Net investment capital assets	16,314,230	17,489,530	18,800,294	(6.72%)	(6.97%)
Restricted-nonexpendable	1,021,926	1,054,293	60,947	(3.07%)	1629.85%
Unrestricted	<u>(389,792)</u>	<u>(721,986)</u>	<u>(1,239,586)</u>	<u>(46.01%)</u>	<u>(41.76%)</u>
Total net position	<u>16,946,364</u>	<u>17,821,837</u>	<u>17,621,655</u>	<u>(4.91%)</u>	<u>1.14%</u>
Total liabilities & net position	\$ <u>20,374,045</u>	\$ <u>21,388,768</u>	\$ <u>22,022,724</u>	<u>(4.74%)</u>	<u>(2.88%)</u>

Total assets showed a decrease of \$1,014,723 from \$21,388,768 for FY2014 to \$20,374,045 for FY2015 or 4.74%. This was brought by the following:

1. Net decrease in cash and cash equivalents totaling \$68,276 or 12.47% compared to prior year due to decline in student enrollment during the period reporting.
2. Decline in accounts receivable and unbilled charges amounting to \$125,283 or 9.42% due to ongoing collections of student receivables and a slight decrease in enrollment figures in FY2015.
3. Slump in both bookstore inventory and investments by \$56,317 or 8.01% and \$32,367 or 3.07%, respectively.
4. Decrease in property, plant and equipment by \$1,175,300 or 6.87% due to the regular provision of depreciation expense on capital assets which reduce the net book value of the capital assets and the culmination of CMI's Capital Improvement Projects three (3) years ago. In the absence of major capital projects or major acquisitions of capital assets, this downward trend on capital assets will likely continue. For additional information concerning capital assets, please refer to Note 6 to the financial statements.
5. The combined amounts of the aforementioned accounts negated the significant increment in prepaid items amounting to \$266,911 or 609.19% vis-à-vis prior year.

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Management's Discussion and Analysis, Continued Years Ended September 30, 2015 and 2014

6. The scarcity and timing of the inflow of cash that perpetually hounds the College still remains a major constraint in meeting CMI's plans and programs but CMI's conservative approach to its overall finances enables the College to continue serving its students, vendors, employees and other government agencies. The payments of financial obligations to these cohorts have to be prioritized and queued despite the privilege of an advance method of payment for Title IV funds and other federal grants. The College has not incurred any long term debt to date.
7. One of the financial indicators that is used to measure the College's financial capacities to meet current obligations is the current or liquidity ratio. At the end of September 30, 2015, the College's current ratio or liquidity ratio continues to improve at 0.89:1. This benchmark can be interpreted that CMI has only 89 cents in its coffers for every 1 dollar current obligation. This is an improvement compared to FY2012, FY2013 & FY2014 which were pegged at 56 cents, 72 cents and 80 cents, respectively. The increasing trend on current or liquidity ratio demonstrates that CMI is still on track on the road to financial recovery.
8. The net position is highlighted by the contraction of the negative unrestricted net position by \$332,194 or approximately 46.01% from FY2014. The favorable outcome of unrestricted net position which is the difference of current assets and current liabilities was a major development going forward since this has been CMI's bottleneck in FY2012 and earlier years. This is the third year in a row that CMI narrowed the gap following years of accumulated deficits in working capital.

Statement of Revenues, Expenses and Changes in Net Position

The purpose of this statement is to present the revenues received and expenses paid by the College, both operating and non-operating, as well as any other revenues, expenses, gains and losses received or spent by the institution over a period of time.

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

	% change				
	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>14-15</u>	<u>13-14</u>
Operating revenues	\$ 7,951,882	\$ 8,405,781	\$ 6,865,347	(5.40%)	22.44%
Operating expenses	<u>11,801,210</u>	<u>12,345,797</u>	<u>11,085,203</u>	<u>(4.41%)</u>	<u>11.37%</u>
Operating loss	(3,849,328)	(3,940,016)	(4,219,856)	(2.30%)	(6.63%)
Non-operating revenues	2,754,384	2,835,116	2,900,114	(2.85%)	(2.24%)
Capital contributions	219,471	309,596	589,671	(29.11%)	(47.50%)
Special item-contribution to CMI Foundation Inc.	_____ -	<u>995,486</u>	_____ -	<u>0.00%</u>	<u>0.00%</u>
Change in net position	(875,473)	200,182	(730,071)	(537.34%)	(127.42%)
Net position - beginning of year	<u>17,821,837</u>	<u>17,621,655</u>	<u>18,351,726</u>	<u>1.14%</u>	<u>(3.98%)</u>
Net position - end of year	\$ <u>16,946,364</u>	\$ <u>17,821,837</u>	\$ <u>17,621,655</u>	<u>(4.91%)</u>	<u>1.14%</u>

Generally speaking, operating revenues are received for providing goods and/or services to the students, customers and various constituencies of the College. Operating expenses are paid to acquire

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Management's Discussion and Analysis, Continued Years Ended September 30, 2015 and 2014

or produce the goods and services that are provided in return for operating revenues, thus carrying out the mission of the College. Non-operating revenues are receipts for which no goods and/or services are provided. In the case of the College, there are two (2) main sources of such revenues and these are the REPMAR contributions and other pass-through grants (e.g., Compact Funds) that are appropriated and considered non-operating because they are given to the College without directly providing goods and/or services to the RMI government.

For FY2015, total operating revenues showed a substantial decrease by \$453,899 or 5.40% as compared to FY2014. This decrease is attributed to the following:

1. There was a minimal decrease revenues collected from student tuition & fees amounting to \$218,149 or 5.04%. This was the result of decreasing number in enrollment figures compared with prior fiscal years specifically for FY2013 and FY2014.
2. As a direct result of decreasing number in enrollment figures, U.S. federal grants indicated a significant decrease of \$925,620 or 13.95%.
3. Corollary to the decrease in enrollment figures, auxiliary enterprises also suffered a modest blow totaling \$128,781 or 13.17%. Other revenues which showed a significant increase amounting to \$185,478 or 74.50% compared with FY2014.
4. It is worthy to note however that private, gifts, grants and donations showed a modest increase of \$277,494 or 98.33% due to a steady growth in number of petty grants received. CMI is increasingly being invited by partner institutions to prepare collaborative grants to enhance health care; science and mathematics preparation in the region.

Total operating expenditures for FY2015 depicted a major decrease in the amount of \$544,587 or 4.41% in comparison with FY2014. Major drivers to the decrement in numbers were Instruction (\$897,747 or 15.96%), student services (\$156,219 or 24.24%), and operations & maintenance (\$266,969 or 9.49%).

For FY2015, total operating revenues was overshadowed by the total operating expenditures and it resulting in a total operating loss of \$3,849,328 but this amount indicates an improvement of \$90,688 or 2.30% in comparison to FY2014 figures.

CMI's non-operating revenues (expenses) delineated a downward trend beginning FY2013. For this year in review, it showed a combined net amount of \$2,754,384 which is likewise down by \$80,732 or 2.85% from FY2014. This can be attributed to annual budget cuts as well as government's delay in disbursing the funds on time. It is worthy to note that REPMAR contributions and Compact funds channeled through the RMI from the Compact of Free Association with the U.S. were classified as non-operating revenues. CMI is a chartered governmental institution whose mission is to provide higher education services to the Marshall Islands and within the Pacific Rim. The College operation depends heavily on the RMI government through the annual subsidies which has committed to provide an annual \$3 million dollar subsidy (less audit fees) to CMI through a five-year MOA signed in October 2014. For FY2015, CMI received a total of \$2,818,604 for the annual subsidy (\$1,818,604) and Compact money (\$1,000,000) from the RMI government which is slightly down by \$56,276 compared with FY2014 figures.

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Management's Discussion and Analysis, Continued
Years Ended September 30, 2015 and 2014

Capital Contributions include revenues received in the form of contributed capital assets, non-exchange grants and contributions restricted to capital purposes, and fees and charges restricted to capital asset acquisition. For FY2015, capital contributions decreased by \$90,125 or 29.11% compared to 2014.

Change in net position for FY2015 resulted to a substantial turnaround from a positive \$200,182 in FY2014 to a negative \$875,473 in FY2015 totaling \$1,075,655 or 537.34%. This is attributed to money transferred from CMI Foundation to CMI Endowment Fund in the latter part of FY2014 which was considered as special item due to the nature of the transaction which is unusual and infrequent in occurrence. The transfer between two different funds within the College has zero effect on the College's financial health.

Statement of Cash Flows

The Statement of Cash Flows presents detailed information about cash receipts and cash payments of the College. This statement helps users of this report to assess the College ability to generate future cash flows, the ability to meet obligations as they become due, and its needs for external financing. It also shows how changes in the statement of net position and the statement of revenues, expenses and changes in net position affect cash and cash equivalents, and breaks the analysis into operating, investing and financing activities.

Table III
Summary of Statements of Cash Flows

	<u>2015</u>	<u>2014</u>	<u>2013</u>	% change	
				<u>14-15</u>	<u>13-14</u>
Cash provided by (used in):					
Operating activities	\$ (3,064,644)	\$ (3,333,464)	\$ (2,058,799)	(8.06%)	61.91%
Noncapital financing activities	2,866,811	2,812,007	2,975,044	1.95%	(5.48%)
Capital and related financing activities	160,966	230,615	(390,055)	(30.20%)	(159.12%)
Investing activities	<u>(31,409)</u>	<u>(23,842)</u>	<u>(15,091)</u>	<u>31.74%</u>	<u>57.99%</u>
Net change in cash	(68,276)	(314,684)	511,099	(78.30%)	(161.57%)
Cash-beginning of year	<u>547,430</u>	<u>862,114</u>	<u>351,015</u>	<u>(36.50%)</u>	<u>145.61%</u>
Cash & cash equivalents-end of year	\$ <u>479,154</u>	\$ <u>547,430</u>	\$ <u>862,114</u>	<u>(12.47%)</u>	<u>(36.50%)</u>

For FY2015, net change in cash and cash equivalents was pegged at \$68,276 but such amount has improved by \$246,408 or 78.30% compared to FY2014. This was brought by the following, to wit:

1. Cash inflows from operating activities were primarily from student tuition and fees, US Federal grants and other receipts with aggregate amount of \$7,423,179. Cash outflows from operating activities amounting to \$10,487,823 were payment to employees, consultants, contractors and suppliers for various goods and/or services rendered. The net cash used in operating activities for FY2015 resulted in a negative \$3,064,644 and compared to FY2014, it showed a slight improvement of \$268,820 or 8.06%.
2. For FY2015, a minimal increase in the noncapital financing activities totaling to \$54,804 or 1.95% compared with FY2014. This was due to the shortfall of RMI Subsidy (\$56,276) and a slight increase in Compact funding (\$111,080) received during the year in review.

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Management's Discussion and Analysis, Continued Years Ended September 30, 2015 and 2014

3. Cash in the amount of \$219,471 were used in the purchase of property, plant and equipment while total cash provided through capital contributions amounted to \$380,437. Net cash provided by capital and related financing activities totaled \$160,966 which showed a decrease amounting to \$69,649 or 30.20% compared to FY2014 figures.
4. Net cash used in investing activities showed a minimal amount of \$31,409. This was brought by the difference of cash outflows for the purchase of investments totaling \$41,570 along with the interest and dividends received amounting to \$10,161. In comparison to FY2014 figures, there was an increase in investing activities by \$7,567 or 31.74%.

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., banking, construction, restaurant, wholesale, retail.). 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, copra, sugar, pineapple, 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

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 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 MOU between the College and 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 FY2017 and renewable on a yearly basis.

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).

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Management's Discussion and Analysis, Continued Years Ended September 30, 2015 and 2014

Summary:

- 1) CMI's total net position for FY2015 is \$16,946,364.
- 2) CMI's investment (Endowment Fund) for FY2015 is \$1,021,926.
- 3) Current or liquidity ratio of 89 cents to 1 dollar. This is an improvement compared to FY2012, FY2013 & FY2014 which were pegged at 56, 72 and 80 cents, respectively.
- 4) The statement of net position is highlighted by the contraction of the negative unrestricted net position by \$332,194 or approximately 46% from FY2014. This is the 3rd-year-in-a-row that CMI narrowed the gap following years of accumulated deficits in working capital since FY2012 which shows the College's full commitment on the Financial Recovery Plan.
- 5) The RMI Government has a financial commitment with CMI through a Memorandum of Agreement (MOA) amounting to \$3,000,000 which is due for renewal at the end of 2017. The RMI government pays this subsidy with funds available through the Compact of Free Association with the U.S. and from its General Fund.
- 6) 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 to these funds.

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

Management's Discussion and Analysis for the year ended September 30, 2014 is set forth in the College's report on the audit of financial statements, which is dated May 29, 2015. That Discussion and Analysis explains the major factors impacting the 2014 financial statements and can be obtained from the College's President at info@cmi.edu.

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Statements of Net Position
September 30, 2015 and 2014

<u>ASSETS</u>	<u>2015</u>	<u>2014</u>
Current assets:		
Cash and cash equivalents	\$ 479,154	\$ 547,430
Accounts receivable and unbilled charges, net	1,204,368	1,329,652
Due from RepMar	-	122,074
Due from grantor agencies	396,774	98,791
Prepaid items	310,725	43,814
Inventory	<u>646,868</u>	<u>703,184</u>
Total current assets	<u>3,037,889</u>	<u>2,844,945</u>
Noncurrent assets:		
Investments	1,021,926	1,054,293
Capital assets:		
Nondepreciable capital assets	372,306	372,306
Capital assets, net of accumulated depreciation	<u>15,941,924</u>	<u>17,117,224</u>
Total noncurrent assets	<u>17,336,156</u>	<u>18,543,823</u>
Total assets	<u>\$ 20,374,045</u>	<u>\$ 21,388,768</u>
<u>LIABILITIES AND NET POSITION</u>		
Current liabilities:		
Accounts payable	\$ 1,097,211	\$ 850,651
Withholding taxes payable	51,260	297,918
Social security taxes payable	193,627	178,412
Student refunds payable	62,518	257,157
Due to RepMar	87,098	-
Accrued liabilities	556,412	441,873
Unearned revenue	<u>1,379,555</u>	<u>1,540,920</u>
Total current liabilities	<u>3,427,681</u>	<u>3,566,931</u>
Commitments and contingencies		
Net position:		
Net investment in capital assets	16,314,230	17,489,530
Restricted:		
Endowment -nonexpendable	1,021,926	1,054,293
Unrestricted	<u>(389,792)</u>	<u>(721,986)</u>
Total net position	<u>16,946,364</u>	<u>17,821,837</u>
Total liabilities and net position	<u>\$ 20,374,045</u>	<u>\$ 21,388,768</u>

See accompanying notes to financial statements.

COLLEGE OF THE MARSHALL ISLANDS

Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2015 and 2014

	2015	2014
Operating revenues:		
Student tuition and fees	\$ 4,110,403	\$ 4,328,552
Less: Scholarship discounts and allowances	(3,552,723)	(3,741,275)
	557,680	587,277
U.S. federal grants	5,711,146	6,636,766
Private gifts, grants and donations - restricted	559,711	282,217
Auxiliary enterprises	848,769	977,550
Other	434,434	248,956
Total operating revenues	8,111,740	8,732,766
Bad debts provision	(159,858)	(326,985)
Net operating revenues	7,951,882	8,405,781
Operating expenses:		
Instruction	4,728,445	5,626,192
Institutional support	2,448,858	1,963,653
Operations and maintenance	2,547,292	2,814,261
Auxiliary enterprises	1,017,555	882,301
Academic support	570,685	414,796
Student services	488,375	644,594
Total operating expenses	11,801,210	12,345,797
Operating loss	(3,849,328)	(3,940,016)
Nonoperating revenues (expenses):		
RepMar contributions	1,818,604	1,874,880
Compact funding	1,000,000	1,000,000
Loss on disposal/transfer of fixed assets	(444)	(13,782)
Investment loss	(63,776)	(25,982)
Total nonoperating revenues, net	2,754,384	2,835,116
Capital contributions	219,471	309,596
Special item - Transfers from former Foundations	-	995,486
Change in net position	(875,473)	200,182
Net position at beginning of the year	17,821,837	17,621,655
Net position at end of the year	\$ 16,946,364	\$ 17,821,837

See accompanying notes to financial statements.

COLLEGE OF THE MARSHALL ISLANDS

Statements of Cash Flows
Years Ended September 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Cash received from student tuition and fees	\$ 184,530	\$ 522,142
Cash received from U.S. federal grants	5,413,163	5,901,146
Other receipts	1,825,486	1,563,680
Cash payments to employees for services	(4,608,883)	(4,595,795)
Cash payments to suppliers for goods and services	<u>(5,878,940)</u>	<u>(6,724,637)</u>
Net cash used in operating activities	<u>(3,064,644)</u>	<u>(3,333,464)</u>
Cash flows from noncapital financing activities:		
RepMar contributions received	1,818,604	1,874,880
Compact funding received from RepMar	<u>1,048,207</u>	<u>937,127</u>
Net cash provided by noncapital financing activities	<u>2,866,811</u>	<u>2,812,007</u>
Cash flows from capital and related financing activities:		
Purchases of property, plant and equipment, net	(219,471)	(309,596)
Capital contributions received	<u>380,437</u>	<u>540,211</u>
Net cash provided by capital and related financing activities	<u>160,966</u>	<u>230,615</u>
Cash flows from investing activities:		
Purchases of investments	(41,570)	(1,023,670)
Fund transfers from the former Foundations	-	995,486
Interest and dividends received	<u>10,161</u>	<u>4,342</u>
Net cash used in investing activities	<u>(31,409)</u>	<u>(23,842)</u>
Net change in cash and cash equivalents	(68,276)	(314,684)
Cash and cash equivalents at beginning of year	<u>547,430</u>	<u>862,114</u>
Cash and cash equivalents at end of year	<u>\$ 479,154</u>	<u>\$ 547,430</u>

See accompanying notes to financial statements.

COLLEGE OF THE MARSHALL ISLANDS

Statements of Cash Flows, Continued
Years Ended September 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (3,849,328)	\$ (3,940,016)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	1,394,328	1,606,578
Bad debts	159,858	326,985
Changes in assets and liabilities:		
Accounts receivable and unbilled charges	(34,574)	(9,540)
Prepaid items	(266,912)	(13,761)
Due from grantor agencies	(297,984)	(98,791)
Inventory	56,316	(370,781)
Accounts payable	246,561	(44,730)
Withholding taxes payable	(246,658)	(107,930)
Social security taxes payable	15,215	12,933
Student refunds payable	(194,639)	133,516
Payable to grantor agencies	-	(636,829)
Accrued liabilities	114,538	(56,944)
Unearned revenue	<u>(161,365)</u>	<u>(134,154)</u>
 Net cash used in operating activities	 <u>\$ (3,064,644)</u>	 <u>\$ (3,333,464)</u>

See accompanying notes to financial statements.

COLLEGE OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2015 and 2014

(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 Foundations, as legally separate, tax-exempt entities, were previously presented as discretely presented component units in accordance with GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. On May 15, 2013, the 501(c)(3) tax-exempt status of the Foundations were revoked by the United States Internal Revenue Service. Accordingly, management considers that the accompanying financial statements are no longer required to include the accounts of the Foundations. On July 16, 2014, the College was able to recover \$995,486 in funds from the former Foundations, which is recorded as a special item – transfers from former Foundations account in the accompanying statements of revenues, expenses and changes in net position.

(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 position, revenues, expenses, changes in net position, 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.

COLLEGE OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2015 and 2014

(2) Summary of Significant Accounting Policies, Continued

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 maturity dates within three months of acquisition 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. Bad debts are written-off against the allowance on the specific identification method.

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 Outflows of Resources

In addition to assets, the statements of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (deduction of net position) until then. The College has no items that qualify for reporting in this category.

Unearned Revenue

Unearned 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.

COLLEGE OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2015 and 2014

(2) Summary of Significant Accounting Policies, Continued

Compensated Absences

The College recognizes the cost of accrued annual leave at the time such leave is earned. As of September 30, 2015 and 2014, the College recorded of \$155,557 and \$142,130, respectively, accrued annual leave, which is included within the statements of net position as accrued liabilities. The College does not participate in an employee pension plan.

Deferred Inflows of Resources

In addition to liabilities, the statements of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (additions to net position) until then. The College has no items that qualify for reporting in this category.

Net Position

The College's net position is classified as follows:

Net Investment In Capital Assets - This represents the College's total investment in capital assets, net of accumulated depreciation.

Restricted Net Position - Expendable restricted net position includes resources in which the College is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties. *Nonexpendable* restricted net position consists 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 Position - Unrestricted net position represents 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.

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, 2015 and 2014

(2) Summary of Significant Accounting Policies, Continued

Classification of Revenues and Expenses

The College has classified its revenues and expenses as either operating or nonoperating according to the following criteria:

Operating - Operating revenues and expenses 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 - Nonoperating revenues and expenses 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 Position. 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 the year ended September 30, 2015, the College implemented the following pronouncements:

- GASB *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 implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB *Statement No. 69, Government Combinations and Disposals of Government Operations*, which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The implementation of this statement did not have a material effect on the accompanying financial statements.

COLLEGE OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2015 and 2014

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

- GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, which addresses an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The implementation of this statement did not have a material effect on the accompanying financial statements.

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*, which addresses accounting and financial reporting issues related to fair value measurements and requires entities to expand their fair value disclosures by determining major categories of debt and equity securities within the fair value hierarchy on the basis of the nature and risk of the investment. The provisions in Statement 72 are effective for fiscal years beginning after June 15, 2015. Management believes that the implementation of this statement only requires additional disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques and will not have a material effect on the financial statements.

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements 67 and 68 with the reporting requirements in Statement 68. The provisions in Statement No. 73 are effective for fiscal years beginning after June 15, 2015, with the exception of the provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and addresses financial reporting requirements for governments whose employees are provided with postemployment benefits other than pensions (other postemployment benefits or OPEB). The provisions in Statement No. 74 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. The provisions in Statement No. 75 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

COLLEGE OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2015 and 2014

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which eliminates two of the four categories of authoritative GAAP that exist under the existing hierarchy prescribed by Statement 55. The two categories that will remain under the new standard are (1) GASB Statements and (2) GASB technical bulletins and implementation guides in addition to AICPA guidance that the GASB clears. The provisions in Statement No. 76 are effective for fiscal years beginning after June 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements. The provisions in Statement No. 77 are effective for fiscal years beginning after December 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

(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, and fixed income securities, as follows:

Global equities	60%
Fixed income	<u>40%</u>
Total portfolio	<u>100%</u>

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.

As of September 30, 2015 and 2014, the carrying amounts of the College's total cash and cash equivalents were \$479,154 and \$547,430, respectively, and the corresponding bank balances were \$536,448 and \$640,171, respectively. Of the bank balance amounts, \$70,469 and \$268,997, respectively, are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. The remaining amounts of \$465,979 and \$371,174, 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. As of September 30, 2015 and 2014, bank deposits in the amount of \$70,469 and \$250,000 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.

COLLEGE OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2015 and 2014

(3) Deposits and Investments, Continued

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, 2015 and 2014, 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, 2015 and 2014, 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, 2015 and 2014, investments at fair value are as follows:

	<u>2015</u>	<u>2014</u>
Money market funds	\$ 8,608	\$ 11,429
Equity securities	181,950	191,178
Mutual funds	<u>831,368</u>	<u>851,686</u>
	<u>\$ 1,021,926</u>	<u>\$ 1,054,293</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 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.

COLLEGE OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2015 and 2014

(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, 2015 and 2014, the College received \$2,818,604 and \$2,874,880, respectively, from RepMar to administer various postsecondary functions and to improve facilities, of which \$14,666 and \$62,873 was receivable from RepMar at September 30, 2015 and 2014, respectively. The Nitijela of RepMar subsequently provided for an appropriation of \$2,958,300 to fund operations of the College for fiscal year 2016 and an additional \$500,000 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 \$303,500 was appropriated in both the years ended September 30, 2015 and 2014. During the years ended September 30, 2015 and 2014, the College received \$578,500 and \$309,596, respectively, from RepMar under these appropriations to fund various capital improvements, of which \$101,764 and \$59,201 was payable to and receivable from RepMar at September 30, 2015 and 2014, respectively.

(8) Functional Classifications with Natural Classifications

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

2015								
	<u>Salaries</u>	<u>Benefits</u>	<u>Services</u>	<u>Supplies</u>	<u>Insurance, Utilities and Rent</u>	<u>Depreciation</u>	<u>Miscellaneous</u>	<u>Total</u>
Instruction	\$ 2,399,026	\$ 636,120	\$ 103,899	\$ 147,999	\$ 63,137	\$ 138,497	\$ 1,239,767	\$ 4,728,445
Academic support	291,537	62,498	71,212	16,826	-	42,391	86,221	570,685
Student services	321,469	77,107	3,190	34,961	200	2,524	48,924	488,375
Institutional Support	1,031,793	657,996	30,000	112,509	176,965	26,655	412,940	2,448,858
Operations and Maintenance	654,586	97,495	-	134,782	446,371	1,150,448	63,610	2,547,292
Auxiliary Enterprises	<u>25,010</u>	<u>3,809</u>	<u>-</u>	<u>1,632</u>	<u>42,525</u>	<u>33,813</u>	<u>910,766</u>	<u>1,017,555</u>
	<u>\$ 4,723,421</u>	<u>\$ 1,535,025</u>	<u>\$ 208,301</u>	<u>\$ 448,709</u>	<u>\$ 729,198</u>	<u>\$ 1,394,328</u>	<u>\$ 2,762,228</u>	<u>\$11,801,210</u>
2014								
	<u>Salaries</u>	<u>Benefits</u>	<u>Services</u>	<u>Supplies</u>	<u>Insurance, Utilities and Rent</u>	<u>Depreciation</u>	<u>Miscellaneous</u>	<u>Total</u>
Instruction	\$ 2,489,092	\$ 682,692	\$ 36,650	\$ 144,524	\$ 38,984	\$ 124,365	\$ 2,109,885	\$ 5,626,192
Academic support	289,564	51,848	32,143	4,006	(7,500)	33,255	11,480	414,796
Student services	324,589	61,219	155,600	27,837	91	1,989	73,269	644,594
Institutional Support	782,825	546,423	102,200	69,493	138,109	18,013	306,590	1,963,653
Operations and Maintenance	627,634	90,156	35,500	71,815	560,200	1,428,956	-	2,814,261
Auxiliary Enterprises	<u>25,146</u>	<u>3,056</u>	<u>-</u>	<u>3,275</u>	<u>74,958</u>	<u>-</u>	<u>775,866</u>	<u>882,301</u>
	<u>\$ 4,538,850</u>	<u>\$ 1,435,394</u>	<u>\$ 362,093</u>	<u>\$ 320,950</u>	<u>\$ 804,842</u>	<u>\$ 1,606,578</u>	<u>\$ 3,277,090</u>	<u>\$12,345,797</u>

COLLEGE OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2015 and 2014

(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 March 31, 2044.

Future minimum lease payments under these leases are as follows:

<u>Year ending</u> <u>September 30,</u>	
2016	\$ 95,080
2017	95,080
2018	95,080
2019	95,080
2020	95,080
2021-2025	491,399
2026-2030	507,399
2031-2035	105,013
2036-2040	89,418
2041-2044	<u>63,533</u>
	<u>\$ 1,732,162</u>

(10) Contingencies

Going Concern

The accompanying financial statements have been prepared in conformity with GAAP, which contemplates the continuation of the College as a going concern. However, the College has sustained operating losses in recent years. Furthermore, at September 30, 2015, current liabilities exceed current assets by \$389,792 and a deficit unrestricted net position of \$389,792 exists at that date.

Management believes actions presently being undertaken 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 travel, and reduction in supplies expenditures and contractual services, will provide the opportunity for the College to continue as a going concern.

COLLEGE OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2015 and 2014

(10) Contingencies, Continued

Federal Grants

The College participates in a number of federally assisted grant programs and other various U.S. Department of Education grants. These programs are subject to financial and compliance audits to ascertain if Federal laws and guidelines have been followed. Questioned costs relating to fiscal year 2015 have been set forth in the College's Single Audit Report for the year ended September 30, 2015. The ultimate disposition of these questioned costs can be determined only by final action of the respective grantor agencies. Therefore, no provision for any liability that may result upon resolution of this matter has been made in the accompanying financial statements.

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, 2015 and 2014 was \$132,123 and \$139,695, 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, which was submitted on March 15, 2010. The Commission meets semi-annually in January and June to review the status of institutional reports. On July 3, 2013, WASC issued a Warning status and required the College to complete a Follow-Up report by March 15, 2014. Based on the comprehensive evaluation during June 2015, the Commission took action to remove the Warning, reaffirmed accreditation, and required that the College submit a Follow-Up Report in March 2016.

(11) Subsequent Event

In May 2016, WASC issued a Warning status to the College as a result of its evaluation of the College's Follow-up Report.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Regents
College of the Marshall Islands:

We have audited, in accordance with the 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, the financial statements of College of the Marshall Islands (the College), which comprise the statement of net position as of September 30, 2015, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 22, 2016. Our report includes an emphasis-of-matter paragraph regarding a going concern uncertainty, as described in our report on the College's financial statements.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the College's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we do not express an opinion on the effectiveness of the College's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as item 2015-001 that we consider to be significant deficiencies.

Compliance and Other Matters

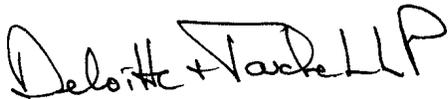
As part of obtaining reasonable assurance about whether the College's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The College's Responses to Findings

The College's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The College's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

June 22, 2016

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE;
AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED
BY OMB CIRCULAR A-133**

Board of Regents
College of the Marshall Islands:

Report on Compliance for Each Major Federal Program

We have audited College of the Marshall Island's (the College's) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the College's major federal programs for the year ended September 30, 2015. The College's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the College's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the College's compliance.

Opinion on Each Major Federal Program

In our opinion, the College complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2015.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2015-002. Our opinion on each major federal program is not modified with respect to this matter.

The College's responses to the noncompliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The College's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control Over Compliance

Management of the College is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the College's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

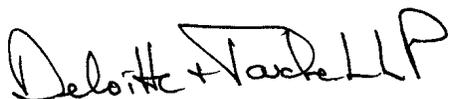
Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as item 2015-002, that we consider to be significant deficiencies.

The College's responses to the internal control over compliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The College's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of College of the Marshall Islands as of and for the year ended September 30, 2015, and have issued our report thereon dated June 22, 2016, which contained an unmodified opinion on those financial statements and which report includes an emphasis-of-matter paragraph regarding a going concern uncertainty. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the financial statements as a whole.

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

June 22, 2016

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2015

Federal Grantor/ Pass-Through Grantor's Program Title	Federal CFDA Number	Expenditures/ Adjustments FY15
<u>U.S. DEPARTMENT OF AGRICULTURE</u>		
<u>Direct Programs</u>		
Breadfruit & Pandanus for Food Security Grant	10.Unknown	\$ 6,645
American Recovery and Reinvestment Act Community Facilities Loans and Grants	10.780	<u>85,858</u>
Subtotal Direct Programs		92,503
<u>Pass-Through the University of Guam:</u>		
Distance Education Grants for Institutions of Higher Education in Insular Areas	10.322	95,050
<u>Pass-Through the University of Puerto Rico:</u>		
Resident Instruction Grants for Insular Area Activities	10.308	<u>264,024</u>
Subtotal Pass-Through the University of Guam and the University of Puerto Rico		<u>359,074</u>
TOTAL U.S. DEPARTMENT OF AGRICULTURE		<u>451,577</u>
<u>U.S. DEPARTMENT OF COMMERCE</u>		
<u>Pass-Through the Micronesian Conservation Trust:</u>		
Habitat Conservation	11.463	<u>11,044</u>
TOTAL U.S. DEPARTMENT OF COMMERCE		<u>11,044</u>
<u>U.S. DEPARTMENT OF THE INTERIOR</u>		
<u>Direct Program</u>		
Economic, Social and Political Development of the Territories: School Information System	15.875	<u>5,933</u>
<u>Pass-Through Republic of the Research Corporation of the University of Hawaii (RCUOH):</u>		
Partnership for Advance Marine Science	15.Unknown	26,338
<u>Pass-Through Republic of the Marshall Islands (RepMar)</u>		
Economic, Social and Political Development of the Territories: Compact of Free Association Program, As Amended, Sector Grants: Supplemental Education Grant	15.875	432,685
ESN-GED Program Ebeye	15.Unknown	<u>107,330</u>
Subtotal Pass-Through RepMar		<u>540,015</u>
Subtotal Pass-Through Programs		<u>566,353</u>
TOTAL U.S. DEPARTMENT OF THE INTERIOR		<u>572,286</u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Expenditures of Federal Awards, Continued
Year Ended September 30, 2015

Federal Grantor/ Pass-Through Grantor's Program Title	Federal CFDA Number	Expenditures/ Adjustments FY15
<u>NATIONAL SCIENCE FOUNDATION</u>		
<u>Pass-Through the Research Corporation of the University of Hawaii (RCUOH):</u>		
Research and Development Cluster:		
Education and Human Resources	47.076	4,865
Coastal Storms Program	47.Unknown	<u>69,894</u>
 TOTAL NATIONAL SCIENCE FOUNDATION		 <u>74,759</u>
 <u>U.S. DEPARTMENT OF EDUCATION</u>		
<u>Direct Program</u>		
Student Financial Assistance Cluster:		
Federal Pell Grant Program	84.063	4,338,441
 <u>Pass-Through RepMar:</u>		
Katakin Pre-Service Teacher Program	84.Unknown	<u>95,227</u>
 TOTAL U.S. DEPARTMENT OF EDUCATION		 <u>4,433,668</u>
 <u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>		
<u>Pass-Through the University of Guam:</u>		
Area Health Education Centers Infrastructure Development Awards	93.824	<u>190,678</u>
 TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		 <u>190,678</u>
 TOTAL FEDERAL AWARDS		 <u>\$ 5,734,012</u>
Reconciliation to financial statements:		
Total federal awards expenditure		5,734,012
Depreciation		1,394,328
Non-federal awards		<u>4,672,870</u>
Total expenses per financial statements		<u>\$ 11,801,210</u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

COLLEGE OF THE MARSHALL ISLANDS

Notes to Schedule of Expenditures of Federal Awards
Year Ended September 30, 2015

(1) Scope of Schedule

The College of the Marshall Islands (the College), a component unit of Republic of the Marshall Islands (RepMar), 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 RepMar's Cabinet. Previous to the Act, the College was a component of College of Micronesia (COM).

The accompanying Schedule of Expenditures of Federal Awards relates solely to those grants administered by the College, and does not incorporate any grants that may still be administered by College of Micronesia central office. The U.S. Department of the Interior has been designated as the College's cognizant agency.

- Programs Subject to OMB Circular A-133

The Schedule of Expenditures of Federal Awards presents each Federal program related to the U.S. Department of Agriculture, U.S. Department of Commerce, U.S. Department of the Interior, National Science Foundation, U.S. Department of Education, and U.S. Department of Health and Human Services, which are subject to OMB Circular A-133.

(2) Summary of Significant Accounting Policies

- Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the College and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. All program award amounts represent the total allotment or grant award received. All expenses and capital outlays are reported as expenditures.

(3) Indirect Cost Allocation

The College has not entered into an approved indirect cost negotiation agreement covering the year ended September 30, 2015.

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs
Year Ended September 30, 2015

Section I - Summary of Auditors' Results

Financial Statements

- | | | |
|----|---|------------|
| 1. | Type of auditors' report issued: | Unmodified |
| | Internal control over financial reporting: | |
| 2. | Material weakness(es) identified? | No |
| 3. | Significant deficiency(ies) identified? | Yes |
| 4. | Noncompliance material to financial statements noted? | No |

Federal Awards

- | | | |
|----|--|------------|
| | Internal control over major federal programs: | |
| 5. | Material weakness(es) identified? | No |
| 6. | Significant deficiency(ies) identified? | Yes |
| 7. | Type of auditors' report issued on compliance for major federal programs: | Unmodified |
| 8. | Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? | Yes |
| 9. | Identification of major federal programs: | |

<u>CFDA #</u>	<u>Name of Federal Program</u>
15.875	Economic, Social and Political Development of the Territories: Compact of Free Association, As Amended, Sector Grants
84.063	Federal Pell Grant Program

- | | | |
|-----|--|------------|
| 10. | Dollar threshold used to distinguish between Type A and Type B Programs: | \$ 300,000 |
| 11. | Auditee qualified as low-risk auditee? | No |

Section II - Financial Statement Findings

<u>Finding Number</u>	<u>Findings</u>
2015-001	Due To/Due From Grantor Agencies

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Section III - Federal Award Findings and Questioned Costs

<u>Finding Number</u>	<u>CFDA #</u>	<u>Findings</u>	<u>Questioned Costs</u>
2015-002	84.063	Special Tests and Provisions	-

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Finding No. 2015-001

Due From/Due To Grantor Agencies

Criteria: The Due From (To) Grantor Agencies account should be monitored and be timely closed out.

Condition: Numerous inactive (nonmoving) accounts were noted during a comparison with prior year balances ranging back to FY2000 – FY2013 . Due From (To) Grantor Agencies account included four inactive accounts with debit balances totaling \$86,212 and eighteen inactive accounts, aggregating to a credit balance of \$270,474, which are summarized by CFDA:

<u>Grantor Agency</u>	<u>Due From Grantor</u>	<u>Due (To) Grantor</u>
U.S. Agency for International Development	-	8,643
U.S. Department of Agriculture	-	41,033
U.S. Department of Commerce	-	34,939
U.S. Department of Education	-	28,163
U.S. Department of the Interior	(59,792)	64,099
U.S. Department of Labor	(24,589)	-
Unknown	(1,831)	93,598
	<u>(86,212)</u>	<u>270,474</u>

Cause: The College has not performed an assessment of the Due From (To) Grantor Agencies account for all inactive (nonmoving) accounts to determine resolution and/or necessary adjustments.

Effect: This has no effect on the fiscal year 2015 Schedule of Expenditures of Federal Awards, though the lack of assessment of inactive accounts may result in a request to return funds to grantor agencies or to write-off old receivables.

Recommendation: We recommend that the College perform periodic assessments of the Due From (To) Grantor Agencies accounts and establish procedures to determine that grants completed are timely closed out.

Auditee Response and Corrective Action:

The College of the Marshall Islands agrees with the finding and the recommendation.

The College has drafted guidelines procedures to ensure all grants are properly managed and utilized. In mid Fiscal Year 2016, the College established a *Grant Working Committee* that is tasked to review and monitor all grant related activities for the College. The grant committee meets every month to discuss grant related activities. The Business Office and the grant committee will work together to resolve this issue.

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Finding No.: 2015-002
Federal Agency: U.S. Department of Education
CFDA Program: 84.063 Federal Pell Grant Program
Grant Number: 03022400
Requirement: Special Tests and Provisions: Disbursements To or On Behalf of Students
Questioned Cost: \$0

Criteria: Per Chapter 1 of Volume 4: 2014-2015 Federal Student Aid Handbook: “It is the sole responsibility of the school to pay, or make available, any FSA credit balance within the 14-day regulatory time frames.” Further, pursuant to SY14-15 FSA Handbook, a school may hold the check for up to 21 days after the date it notifies the student. If the student does not pick up the check within this 21-day period, the institution must immediately mail the check to the student or parent, initiate an EFT to the student’s or parent’s bank account, or return the funds to the appropriate FSA program.

Condition: Tests of student refund disbursements and payable noted the following:

1. For two (or 6%) of thirty-four student refunds tested, totaling \$2,949 from a total population of \$244,840, the College did not release refunds owed within the 14-day time frame. Details are as follows:

Ref #	Pell Listing#	Check #	Refund Amount	Last Day to Charge Account	Refund Date	Days Elapsed
052-005	Pell Award#11 - Fall 2014	2503	\$35	11/28/2014	01/08/2015	30
077-019	Pell Award #12 - Fall 2014	2652	\$48	11/28/2014	01/06/2015	28

2. Student Refund Payable beyond 21 days old, amounting to \$28,634, should be returned to the Federal Programs. CMI has not performed an assessment of student refund payables older than 21 days for any necessary adjustments.

Cause: The cause of the above condition is the College’s implementation of a new accounting system at the bookstore.

Effect: The effect of the above condition is noncompliance with applicable special tests and provisions regarding disbursements to or on behalf of students. No questioned costs result since student refunds were consequently disbursed or subsequently returned to grantor.

Recommendation: We recommend that the College continue to strengthen internal control policies and procedures to comply with applicable federal regulations on issuing Pell refunds to students timely. Further, we recommend that the College perform an assessment for all unissued student refund checks periodically to make sure funds are timely returned to the federal program.

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Finding No.: 2015-002, Continued
Federal Agency: U.S. Department of Education
CFDA Program: 84.063 Federal Pell Grant Program
Grant Number: 03022400
Requirement: Special Tests and Provisions: Disbursements To or On Behalf of Students
Questioned Cost: \$0

Prior Year Status: The lack of controls over compliance with special tests and provisions regarding disbursements to or on behalf of student requirements was reported as finding 2014-004 in a Single Audit of the College.

Auditee Response and Corrective Action Plan:

The College of the Marshall Islands agrees with the finding and recommendation; however, the non-compliance was not due to the policies and procedures but rather an overlooked on the College's part in processing the refunds.

The College has already made the necessary adjustments in processing the refunds by adding a second review level to ensure proper reviewing of documents is sufficient and policies and procedures are observe at all time. As part of the College's corrective action plan, starting SY2016-2017, CMI will now require all registered CMI students to open a bank account with Bank of Marshall Islands and Bank of Guam. The Business Office of the College of the Marshall Islands will deposit any unclaimed refund checks in the student's respective bank accounts two weeks after refund checks are made available.

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Prior Audit Findings
Year Ended September 30, 2015

A schedule of the status of prior audit findings and questioned costs follows:

Finding Number	CFDA Number	Questioned Costs	Status as of September 30, 2015
2010-1	84.063	\$ -	Resolved per OMB Circular A-133, Subpart C - section .315.
2010-5	84.047/ 84.063	-	Resolved per OMB Circular A-133, Subpart C - section .315.
2011-3	15.875	-	Resolved per OMB Circular A-133, Subpart C - section .315.
2011-5	15.875	-	Resolved per OMB Circular A-133, Subpart C - section .315.
2012-3	15.875	-	Resolved per OMB Circular A-133, Subpart C - section .315.
2012-5	15.875	-	Resolved per OMB Circular A-133, Subpart C - section .315.
2013-2	15.875	-	Not corrected or resolved. Currently in communication with the grantor agency.
2013-3	84.063	4,210	Not corrected or resolved. Currently in communication with the grantor agency.
2014-2	15.875	-	Not corrected or resolved. Currently in communication with the grantor agency.
2014-3	84.063	-	Not corrected or resolved. Currently in communication with the grantor agency.
2014-4	84.063	-	Not corrected or resolved. Currently in communication with the grantor agency.
		<u>\$ 4,210</u>	