COLLEGE OF THE MARSHALL ISLANDS

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2013 AND 2012

COLLEGE OF THE MARSHALL ISLANDS

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Years Ended September 30, 2013 and 2012

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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, 2013 and 2012, 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 opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the discretely presented component unit were not audited in accordance with *Government Auditing Standards*.

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, 2013 and 2012, 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 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 2, 2014, 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.

Deloitte & Touche LLP

June 2, 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, 2013. This discussion has been prepared by management along with the financial statements and related footnote disclosures and should be read in conjunction with them. Consequently management assumes full responsibility for the completeness and reliability of the information presented in this report. This discussion is designed to focus on current activities, resulting changes and current known facts.

Accounting Standards

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

In 2003, the College implemented Government Accounting Standard Board Standard 35 (GASB 35). With the new standard the College's funds are now presented in consolidated financial statements, just as in a business concern. This contrasts with the accounting by funds presentation from previous years.

For 2009, the College presents three years of financial statements in accordance with GASB 35 standards, allowing comparisons of year-to-year performance. The following is management's discussion and analysis of the College's financial performance during the fiscal year ended September 30, 2013, as compared to two Fiscal Years 2012 and 2011. This discussion has been prepared by the College management and should be read in conjunction with the financial statements and related notes that follow.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to College of the Marshall Islands' basic financial statements, which are comprised of entity-wide financial statements prepared in accordance with the accrual basis of accounting, and notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

The entity-wide financial statements are designed to provide readers with a broad overview of the College's finances, in a manner similar to a private-sector business. These statements focus on the financial condition of the College, the results of operations, and cash flows of the College as a whole. The entity-wide statements are comprised of the following:

- The *Statement of Net 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.

- 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 condition of the College. These include its strategic direction, financial status, student enrollment, human resources, and institutional capacity. In evaluating financial status, one of the most important questions is whether the institution is financially better off at the beginning of the year or at the end of the year. In FY2013, the College overall financial position declined compared to the beginning of the year.

Statement of Net Position

The Statement of Net Position presents the overall financial condition of CMI at the end of September 30, 2013. Total Net Position stood at $17,621,655 which represents a modest decrease of $730,071 or 4.0% from that of previous year. This can be attributed to the significant provision of non-cash expense that reduced the net book value of the capital assets amounting to $1,279,553 or 6.4% and also the fact that CMI's Capital Improvement Projects are now completed.

Table I
Summary of Statement of Net Position

	2013	2012	2011	% change 12-13	% change 11-12
Assets					
Current Assets	$ 3,161,483	$ 2,212,901	$ 2,948,660	42.9%	(25.0%)
Investments	60,947	41,089	36,255	48.3%	13.3%
Property, Plant and Equipment, net	18,800,294	20,079,847	19,495,338	(6.4%)	3.0%
Total Assets	$ 22,022,724	$ 22,333,837	$ 22,480,253	(1.4%)	(0.7%)
Liabilities					
Current Liabilities	$ 4,401,069	$ 3,982,111	$ 4,097,116	10.5%	(2.8%)
Total Liabilities	4,401,069	3,982,111	4,097,116	10.5%	(2.8%)
Net Position					
Invested in capital assets	18,800,294	20,079,847	19,495,338	(6.4%)	3.0%
Restricted	60,947	41,089	36,255	48.3%	13.3%
Unrestricted	(1,239,586)	(1,769,210)	(1,148,465)	(29.9%)	54.1%
Total Net Position	17,621,655	18,351,726	18,383,137	(4.0%)	(1.7%)
Total Liabilities and Net Position	$ 22,022,724	$ 22,333,837	$ 22,480,253	(1.4%)	(0.7%)

All Current Assets (Cash and Cash Equivalents, Accounts Receivable & Unbilled Charges, Due from Repmar, Prepaid Items and Inventory) sans for Due from Grantor Agencies, increased by an aggregate amount of $1,044,766 or 49% compared to last year's figures. Investments also showed a moderate increase of $19,858 or 48%. The substantial gains in Current Assets and Investments were eclipsed by the continuous erosion of Capital Assets of $1,279,553 or 6.4% due to the significant provision of non-cash expense that reduced the net book value of the capital assets. It is worthy to note that this downward trend in Capital Assets will likely continue in the next few years. For additional information on CMI's capital assets, please refer to Note 6 to the financial statements.

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 as shown by the increased in Current Liabilities by $418,958 or 10.5%. The payments of financial obligations to various vendors, employees and other government agencies have to be prioritized and queued despite the privilege of an advance method of payment for Title IV funds and other federal grants. CMI does not qualify as a low-risk auditee as defined in OMB Circular A-133. The College has not incurred any Long-Term Debt to date.

One of the financial indicators that is used to measure the institution's financial position is the current ratio. At the end September 30, 2013, the College's current ratio was reported at 0.72:1. This benchmark can be interpreted that CMI has only 72 cents in its coffers for every 1 dollar of current obligations, which is considered unfavorable; however, this is an improvement compared to prior year of 56 cents, which is an increase of 29%.

The Statement of Net Position is highlighted by the eventual contraction of the negative Unrestricted Net Position by $529,624 or approximately 30% from FY2012. The positive outcome of Unrestricted Net Position which is the difference of Current Assets and Current Liabilities was a breakthrough going forward since this has been CMI's bottleneck in prior years.

Statement of Revenues, Expenses and Changes in Net Position

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

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

	2013	2012	2011	% Change 12-13	% Change 11-12
Operating revenues	$ 7,004,776	$ 7,020,791	$ 6,091,000	(0.23%)	15.26%
Operating expenses	11,224,632	12,480,975	11,312,616	(10.07%)	10.33%
Operating loss	(4,219,856)	(5,460,184)	(5,221,616)	(22.72%)	4.57%
Non-operating revenues (expenses)	2,900,114	3,093,989	2,495,541	(6.27%)	23.98%
Capital contributions	589,671	2,334,784	4,273,468	(74.74%)	(45.37%)
Special item-contribution to CMI Foundation Inc.	-	-	(50,000)	0.00%	100.00%
Change in net position	(730,071)	(31,411)	1,497,393	2,224.25%	(102.10%)
Net position-beginning of year	18,351,726	18,383,137	16,885,744	(0.17)%	8.87%
Net position-end of year	$17,621,655	$18,351,726	$18,383,137	(4.00%)	(0.17%)

For FY2013, Total Operating Revenues decreased by $16,015 or 0.23%. This could be attributed to the following, to wit:

Student Tuition & Fees less Scholarship Discounts and Allowances showed a modest increase of $128,825 or 3.7% vis-à-vis FY2012 due to the steady growth in enrollment figures. However, U.S. Federal Grants showed a significant decrease of $282,373 or 5.12% due to late awarding of Pell Grants by the Financial Aid Office to various students which was only done after the end of the fiscal year and has a significant effect on the timing of fund's drawdown, notwithstanding the not-so-encouraging growing in the number of non-eligible students.

Private, Gifts, Grants and Donations showed a minimal increase of $11,198 or 5.05%. Auxiliary Enterprises slightly decreased by $24,322 or 3.55% while Other Operating Revenues showed a remarkable growth by $60,938 or 33.29% due to various petty federal and non-federal grants received during the fiscal year.

Total Operating Expenses decreased exponentially by $1,256,343 or 10.07% due to the aggressive implementation of the Financial Recovery Plan, a road map to the ultimate goal of CMI to be financially sustainable and continue its operations as a going concern. This dramatic improvement brought by the unpopular reduction of personnel costs and other non-value added monetary costs that were eliminated without any major interruption to CMI's mission and vision.

Total Operating Revenues paled in comparison to Total Operating Expenses as it resulted to an Operating Loss of $4,219,856 but a substantial turnaround of $1,240,328 or 22.72% compared with last year's figures. This unprecedented decrement showed more definite signs of CMI's financial sustainability and road to recovery as an inherent result of the Financial Recovery Plan.

With CMI's controlled level of spending in FY2013, there is no doubt that if the Financial Recovery Plan will be implemented aggressively all through out of FY2014 and beyond, operational cost will undoubtedly decline. CMI is still awaiting approval from the RMI government concerning the cabinet paper request made for an increase in RMI subsidy due to the steady growth in number of students.

RMI Subsidies from government and Compact Funds channeled through the RMI from the Compact of Free Association with the U.S. were classified as Non-Operating Revenues. As a chartered governmental institution whose mission is to provide higher education services to the Marshall Islands and within the Pacific Rim, the College is heavily dependent on the RMI's support. In FY2013, CMI received an additional $110,000 in subsidy on top of the regular subsidy and compact funding from the RMI government while the number of students increased which in effect reduced the dollar equivalent per student vis-à-vis the regular subsidy.

The Net Position at the beginning of the year was overshadowed by the Net Position at year end of FY2013 which showed a decrease of $730,071 or 3.98%. This can be attributed to the significant provision of non-cash expense that reduced the net book value of the capital assets and small addition on Capital Assets for FY2013.

Statement of Cash Flows

The College's cash flow position for FY2013 showed a significant increase by $511,099 or 145.61% compared to FY2012. The implementation of the Financial Recovery Plan had a tremendous impact on the cash position at year end.

Table III
Summary of Statement of Cash Flows

	2013	2012	2011	% Change 12-13	% Change 11-12
Cash provided by (used in):					
Operating activities	$ (2,058,799)	$ (3,058,800)	$ (3,227,195)	(32.69%)	(5.22%)
Noncapital financing activities	2,975,044	2,895,077	3,001,769	2.76%	(3.55%)
Capital and related financing activities	(390,055)	(34,375)	315,928	1,034.71%	(110.88%)
Investing activities	(15,091)	94	-	(16,154.26)%	100%
Net change in cash	511,099	(198,004)	90,502	(358.14%)	(318.78%)
Cash and cash equivalents-beginning of year	351,015	549,019	458,517	(36.07%)	19.74%
Cash and cash equivalents-end of year	$ 862,114	$ 351,015	$ 549,019	145.61%	(36.54%)

Cash used in operating activities decreased by $1,000,001 or 32.69% for FY2013 due to the implementation of CMI's Financial Recovery Plan. The primary areas that contributed to FY2013 net change in financial position were salaries, electricity, elimination of GED Subsidy from CMI, etc. To increase effectiveness of the plan and addressing other areas of financial needs, CMI must maintain this fiscal discipline throughout FY2014 and the years to come.

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. To further strengthen cash availability, Financial Aid Office to work doubly hard in preparing the Disbursement List for all eligible students to US-DOE. In addition, CMI must receive the RMI Subsidy and Compact Funding from the RMI government on a timely manner to have more leverage in paying the services to employees, various vendors and other government agencies.

Economic Outlook

The Pacific island economies are a varied mix of subsistence agriculture; public sector employment (particularly in government services, education, and health care), and small though growing private sectors (e.g., wholesale, retail, restaurant, banking, construction). Economic development in the American Affiliated Pacific Islands is best described as variable and highly dependent upon world and regional demand for selected commodities (such as fish, sugar, pineapple, copra, etc.); overseas visitors from Asian countries such as Japan, and Korea; U.S. defense and selected military research projects; and governmental expenditures (U.S., local, and international) for infrastructure projects, operations, education, health, and welfare. While many current workers are imported contract employees (depending on the availability of particular skills in the specific entity), the long term sustainability of the respective local economies is dependent upon the ability of the local colleges to prepare local residents for the full range of employment opportunities.[1]

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.

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[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).

This economic support of the RMI Government is highly important because of the College's dependence on operational subsidies. The RMI Government committed to fund its $3,000,000 operational subsidy to CMI as represented by a Memorandum of Understanding through the end of FY2013 and renewable on a yearly basis. On top of this, the RMI government made an additional $110,000 in subsidy in the later part of FY2013. This allows for better planning for cash flow purposes and increased flexibility for management to achieve better outcomes in a short period of time.

Summary:

1) CMI's Total Net Position for FY2013 was pegged at $17,621,655.

2) All Current Assets items sans Due from Grantor Agencies, increased by an aggregate amount of $1,044,766 or 49 percentage points.

3) The Statement of Net Position is underscored by the contraction of the negative Unrestricted Net Position by $529,624 or approximately 30% from FY2012.

4) Total Operating Expenses decreased exponentially by $1,256,343 or 10.07% due to the aggressive implementation of the Financial Recovery Plan, a road map to the ultimate goal of CMI to be financially sustainable and continue its operations as a going concern.

5) Cash Flow position for FY2013 showed a significant increase by $511,099 or 145.61% compared to FY2012.

6) Cash used in operating activities decreased by $1,000,001 or 32.69% for FY2013 due to the implementation of CMI's Financial Recovery Plan. Primary areas that contributed to FY2013 net change in financial position were salaries, electricity, and elimination of GED Subsidy from CMI.

7) The RMI Government has continued its subsidy to CMI at $2,850,000 per annum as represented by a Memorandum of Understanding through the end of FY2013 and renewable on a yearly basis. The RMI government pays this subsidy with funds available through the Compact of Free Association with the U.S. and from its General Fund.

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

Management's Discussion and Analysis for the year ended September 30, 2012 is set forth in the College's report on the audit of financial statements, which is dated June 29, 2013. That Discussion and Analysis explains the major factors impacting the 2012 financial statements and can be obtained from the College's President at info@cmi.edu.

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

COLLEGE OF THE MARSHALL ISLANDS

Statements of Net Position
September 30, 2013 and 2012

ASSETS	2013	2012
Current assets:		
Cash and cash equivalents	$ 862,114	$ 351,015
Accounts receivable and unbilled charges, net	1,647,097	1,247,695
Due from RepMar	289,816	239,907
Due from grantor agencies	-	96,184
Prepaid items	30,053	17,119
Inventory	332,403	260,981
Total current assets	3,161,483	2,212,901
Noncurrent assets:		
Investments	60,947	41,089
Capital assets:		
Nondepreciable capital assets	372,306	347,306
Capital assets, net of accumulated depreciation	18,427,988	19,732,541
Total noncurrent assets	18,861,241	20,120,936
Total assets	$ 22,022,724	$ 22,333,837
LIABILITIES AND NET POSITION		
Current liabilities:		
Accounts payable	$ 895,381	$ 766,226
Contracts payable	-	147,514
Retention payable	-	118,255
Withholding taxes payable	405,848	383,226
Social security taxes payable	165,479	349,499
Student refunds payable	123,641	121,263
Payable to grantor agencies	636,829	-
Accrued liabilities	498,817	454,042
Unearned revenue	1,675,074	1,642,086
Total current liabilities	4,401,069	3,982,111
Commitments and contingencies		
Net position:		
Net investment in capital assets	18,800,294	20,079,847
Restricted:		
Endowment -nonexpendable	60,947	41,089
Unrestricted	(1,239,586)	(1,769,210)
Total net position	17,621,655	18,351,726
Total liabilities and net position	$ 22,022,724	$ 22,333,837

See accompanying notes to financial statements.

COLLEGE OF THE MARSHALL ISLANDS

Statements of Revenues, Expenses and Changes in Net Position
September 30, 2013 and 2012

	2013	2012
Operating revenues:		
Student tuition and fees	$ 4,237,839	$ 3,890,470
Less: Scholarship discounts and allowances	(3,601,816)	(3,472,991)
	636,023	417,479
U.S. federal grants	5,231,824	5,514,197
Private gifts, grants and donations - restricted	232,900	221,702
Auxiliary enterprises	660,061	684,383
Other	243,968	183,030
Total operating revenues	7,004,776	7,020,791
Operating expenses:		
Instruction	4,109,109	5,573,063
Academic support	646,007	435,168
Student services	700,809	547,159
Institutional support	2,025,009	2,099,493
Operations and maintenance	3,099,543	3,268,314
Auxiliary enterprises	644,155	557,778
Total operating expenses	11,224,632	12,480,975
Operating loss	(4,219,856)	(5,460,184)
Nonoperating revenues (expenses):		
RepMar contributions	1,984,000	1,874,880
Compact funding	916,667	1,214,181
Loss on disposal/transfer of fixed assets	(5,320)	-
Investment income	4,767	4,928
Total nonoperating revenues (expenses), net	2,900,114	3,093,989
Capital contributions	589,671	2,334,784
Change in net position	(730,071)	(31,411)
Net position at beginning of the year	18,351,726	18,383,137
Net position at end of the year	$ 17,621,655	$ 18,351,726

See accompanying notes to financial statements.

COLLEGE OF THE MARSHALL ISLANDS

Statements of Cash Flows
September 30, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Cash received from student tuition and fees	$ 148,435	$ 375,740
Cash received from U.S. federal grants	5,964,837	5,651,103
Other receipts	1,121,052	1,214,838
Cash payments to employees for services	(4,206,373)	(4,485,786)
Cash payments to suppliers for goods and services	(5,086,750)	(5,814,695)
Net cash used in operating activities	(2,058,799)	(3,058,800)
Cash flows from noncapital financing activities:		
RepMar contributions received	1,984,000	1,874,880
Compact funding received from RepMar	991,044	1,020,197
Net cash provided by noncapital financing activities	2,975,044	2,895,077
Cash flows from capital and related financing activities:		
Purchases of property, plant and equipment, net	(589,671)	(2,648,560)
Capital contributions received	199,616	2,614,185
Net cash used in capital and related financing activities	(390,055)	(34,375)
Cash flows from investing activities:		
Purchases of investments	(16,452)	-
Interest and dividends received	1,361	94
Net cash (used in) provided by investing activities	(15,091)	94
Net change in cash and cash equivalents	511,099	(198,004)
Cash and cash equivalents at beginning of year	351,015	549,019
Cash and cash equivalents at end of year	$ 862,114	$ 351,015

See accompanying notes to financial statements.

COLLEGE OF THE MARSHALL ISLANDS

Statements of Cash Flows, Continued
Years Ended September 30, 2013 and 2012

	2013	2012
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	$ (4,219,856)	$ (5,460,184)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	1,863,904	1,750,277
Bad debts	139,429	256,530
Changes in assets and liabilities:		
Accounts receivable and unbilled charges	(538,831)	(115,199)
Prepaid items	(12,934)	94,616
Due from grantor agencies	96,184	136,906
Inventory	(71,422)	79,485
Accounts payable	129,155	(117,525)
Withholding taxes payable	22,622	(103,897)
Social security taxes payable	(184,020)	166,842
Student refunds payable	2,378	102,543
Payable to grantor agencies	636,829	-
Accrued liabilities	44,775	54,166
Unearned revenue	32,988	96,640
Net cash used in operating activities	$ (2,058,799)	$ (3,058,800)
Summary disclosure of noncash activities:		
Increase in property, plant and equipment, net	$ -	$ 2,775,612
Construction work-in-progress	-	(2,775,612)
	$ -	$ -

See accompanying notes to financial statements.

(1) Organization

On April 1, 1993, the College of the Marshall Islands (the College), a component unit of the Republic of the Marshall Islands, was established as an independent institution pursuant to the College of the Marshall Islands Act of 1992 (Public Law 1992-13). The Act established the College as an independent institution governed by a Board of Regents appointed by the Republic of the Marshall Islands (RepMar) Cabinet. Previous to the Act, the College was a component of the College of Micronesia (COM). The College operates another program, the Land Grant program, but results of its operations are substantially reported within the financial statements of COM. Therefore, the accompanying financial statements relate solely to those accounting records maintained within the College and do not incorporate any accounts related to its operations that may be accounted for as a separate component of COM.

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

(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.

Cash and Cash Equivalents and Time Certificate of Deposit

Cash and cash equivalents include cash on hand, cash held in demand and savings accounts, and short-term investments in U.S. Treasury obligations with a maturity date within three months of the date acquired by the College.

(2) Summary of Significant Accounting Policies, Continued

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 statement 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.

(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, 2013 and 2012, the College recorded of $127,667 and $178,714, 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 statement 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.

(2) Summary of Significant Accounting Policies, Continued

Classification of Revenues

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

Operating Revenues - Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, (2) sales and services of auxiliary enterprises, and (3) most federal, state and local grants.

Nonoperating Revenues - Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources that are defined as nonoperating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB Statement No. 34, such as RepMar appropriations and investment income.

Scholarship Discounts and Allowances - Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the Statement of Revenues, Expenses, and Changes in Net 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, 2013, the College implemented the following pronouncements:

- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which addressed how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. The implementation of this statement did not have a material effect on the accompanying financial statements.

- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus,* which improved financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity,* and *No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments,* to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively. The implementation of this statement did not have a material effect on the accompanying financial statements.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which enhanced the usefulness of its Codification by incorporating guidance that previously could only be found in certain FASB and American Institute of Certified Public Accountants (AICPA) pronouncements issued on or before November 30, 1989, which does not conflict or contradict GASB pronouncements. GASB Statement No. 62 superseded GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. The implementation of this statement did not have a material effect on the accompanying financial statements.

- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which established guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. These Statements amend the net asset reporting requirements in Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. With the implementation of GASB Statement No. 63 and Statement No. 65, the Statement of Net Assets was renamed the Statement of Net Position. In addition, the Statement of Net Position includes two new classifications separate from assets and liabilities. Amounts reported as deferred outflows of resources are reported in a separate section following assets. Likewise, amounts reported as deferred inflows of resources are reported in a separate section following liabilities.

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

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

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In January 2013, GASB issued 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 provisions in Statement 69 are effective for fiscal years beginning after December 15, 2013. Management has not yet determined the effect of implementation of these statements on the financial statements of the College.

In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. The provisions in Statement 70 are effective for fiscal years beginning after June 15, 2013. Management has not yet determined the effect of implementation of these statements on the financial statements of the College.

(3) Deposits and Investments

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

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

Global equities	60%
Fixed income	40%
Total portfolio	100%

A. Deposits

Custodial credit risk is the risk that in the event of a bank failure, the College’s deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized or collateralized with securities held by the pledging financial institution but not in the College’s name. The College does not have a deposit policy for custodial credit risk.

Custodial credit risk is the risk that in the event of a bank failure, the College’s deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized or collateralized with securities held by the pledging financial institution but not in the College’s name. The College does not have a deposit policy for custodial credit risk.

(3) Deposits and Investments, Continued

A. Deposits, Continued

As of September 30, 2013 and 2012, the carrying amounts of the College's total cash and cash equivalents were $862,114 and $351,015, respectively, and the corresponding bank balances were $980,144 and $411,146, respectively. Of the bank balance amounts, $250,000 and $200,138, respectively, are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. The remaining amounts of $730,144 and $211,008, respectively, represent short-term investments held and administered by the College's trustee. Based on negotiated trust and custody agreements, all of these investments were held by the College's trustee in the College's name. The College does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

B. Investments

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

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the College will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. As of September 30, 2013 and 2012, 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, 2013 and 2012, 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, 2013 and 2012, investments at fair value are as follows:

	2013	2012
Money market funds	$ 95	$ 841
Equity securities	23,547	15,127
Mutual funds	37,305	25,121
	$ 60,947	$ 41,089

(4) Risk Management

The College is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The College has elected to purchase commercial insurance from independent third parties for the risks of loss to which it is exposed. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three years.

(5) Accounts Receivable and Unbilled Charges

Summarized below is the College's accounts receivable and unbilled charges as of September 30, 2013 and 2012:

	2013	2012
Student tuition and fees	$ 2,880,482	$ 2,357,528
College of Micronesia	129,043	122,621
Employees and officers	19,214	13,109
Other	47,790	44,440
	3,076,529	2,537,698
Less allowance for doubtful accounts	(1,429,432)	(1,290,003)
Net accounts receivable and unbilled charges	$ 1,647,097	$ 1,247,695

(6) Property, Plant and Equipment

Summarized below is the College's investment in property, plant and equipment and changes for the years ended September 30, 2013 and 2012:

		2013			
	Estimated Useful Lives	Balance at October 1, 2012	Additions	Deletions	Balance at September 30, 2013
Nondepreciable capital assets:					
Land and improvements		$ 347,306	$ 25,000	$ -	$ 372,306
Depreciable capital assets:					
Furniture, vehicles and equipment	3 - 5 years	4,389,649	504,150	(144,793)	4,749,006
Buildings and improvements	20 years	23,717,613	60,521	-	23,778,134
		28,107,262	564,671	(144,793)	28,527,140
Less accumulated depreciation		(8,374,721)	(1,863,904)	139,473	(10,099,152)
		19,732,541	(1,299,233)	(5,320)	18,427,988
Net investment in plant		$ 20,079,847	$ (1,274,233)	$ (5,320)	$ 18,800,294

(6) Property, Plant and Equipment, Continued

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

(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, 2013 and 2012, the College received $2,900,667 and $3,089,061, respectively, from RepMar to administer various postsecondary functions and to improve facilities, of which $0 and $340,146 was receivable from RepMar at September 30, 2013 and 2012, respectively. The Nitijela of RepMar subsequently provided for an appropriation of $2,993,500 to fund the operations of the College for fiscal year 2014 and an additional $250,000 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 $280,000 and $420,000 was appropriated during the years ended September 30, 2013 and 2012, respectively. During the years ended September 30, 2013 and 2012, the College received $589,671 and $2,334,784, respectively, from RepMar under these appropriations to fund various capital improvements, of which $289,816 and $100,239 was receivable from and due to RepMar at September 30, 2013 and 2012, respectively.

(8) Functional Classifications with Natural Classifications

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

2013

	Salaries	Benefits	Services	Supplies	Insurance, Utilities and Rent	Depreciation	Bad Debts	Miscellaneous	Total
Instruction	$ 2,405,549	$ 537,488	$ 89,466	$70,882	$ 1,233	$ 141,890	$ -	$ 862,601	$ 4,109,109
Academic support	250,579	97,038	-	19,661	54,917	15,338	-	208,474	646,007
Student services	315,276	93,345	196,840	22,595	1,696	1,760	-	69,297	700,809
Institutional Support	644,774	476,939	287,716	53,092	168,184	22,593	139,429	232,282	2,025,009
Operations and Maintenance	610,305	75,827	13,500	63,644	653,944	1,682,323	-	-	3,099,543
Auxiliary Enterprises	24,665	2,767	-	705	30,966	-	-	585,052	644,155
	$ 4,251,148	$ 1,283,404	$ 587,522	$ 230,579	$ 910,940	$ 1,863,904	$ 139,429	$ 1,957,706	$11,224,632

2012

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

(9) Commitments

On July 31, 2000, the College executed two lease agreements for parcels of land and attached buildings and improvements located on Arrak Island. The leases commenced on July 1, 2000 for periods of thirty years each, ending on June 30, 2030, with options to renew for additional terms of thirty years. The terms of the leases call for rent to be paid in equal quarterly installments, with increases totaling $800 in the quarterly installments, every five years.

On October 1, 2006, the College executed a lease agreement for the main campus location in Uliga. This lease commenced October 1, 2006 for a term of twenty-five years, ending on September 30, 2031, with an option to extend in increments of five years for a total of twenty-five years. However, in January 2008, the RepMar government extended its Land Use Agreement for the same land for a period of five (5) years. Thus, the College has not made any payments pursuant to the lease agreement.

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

(9) Commitments, Continued

Future minimum lease payments under these leases are as follows:

Year ending September 30,	
2014	$ 88,113
2015	90,513
2016	90,513
2017	90,513
2018	90,513
2019-2023	462,965
2024-2028	478,965
2029-2033	200,739
2034-2037	16,042
	$ 1,608,876

(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, 2013, current liabilities exceed current assets by $1,239,586 and a deficit unrestricted net position of $1,239,586 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 travels, will provide the opportunity for the College to continue as a going concern.

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 years 2010 through 2013 have been set forth in the College's Single Audit Report for the year ended September 30, 2013. 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, 2013 and 2012 was $126,706 and $183,894, respectively.

(10) Contingencies, Continued

Accreditation

The Accrediting Commission for Community and Junior Colleges (ACCJC) of the Western Association of Schools and Colleges (WASC) at its semi-annual meeting on June 9-11, 2009 reaffirmed accreditation of the College with a requirement that the College complete a follow-up report by March, 2010. The follow up report was submitted by the College on March 15, 2010. The Commission meets semi-annually in January and June to review the status of institutional reports. On July 3, 2013, WASC issued a Warning status and requires the College to complete a Follow-Up report by March 15, 2014. The College is due for its next comprehensive evaluation during Spring 2015.

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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 the College of the Marshall Islands (the College), which comprise the statement of net position as of September 30, 2013, and the related statements of revenues, expenses and changes in net position, and of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 2, 2014.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, a material weakness may exist that have not been identified.

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2013-001.

The College's Response 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 results 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.

Deloitte & Touche LLP

June 2, 2014

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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

The Board of Regents
College of the Marshall Islands:

Report on Compliance for Each Major Federal Program

We have audited the College of the Marshall Island's (the College's) compliance with the types of compliance requirements described in the *OMB Circular A-133 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, 2013. 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, 2013.

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 items 2013-002 through 2013-004. Our opinion on each major federal program is not modified with respect to these matters.

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 response was 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 items 2013-002 through 2013-004 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 the College of the Marshall Islands as of and for the year ended September 30, 2013, and have issued our report thereon dated June 2, 2014, which contained an unmodified opinion on those financial statements. 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.

Deloitte + Touche LLP

June 2, 2014

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2013

Federal Grantor/ Pass-Through Grantor's Program Title	Federal CFDA Number	Expenditures/ Adjustments FY13
U.S. DEPARTMENT OF AGRICULTURE		
Direct Program		
Community Facilities Loans and Grants	10.780	$ 194,809
Pass-Through from University of Arizona:		
Integrated Programs	10.303	6,947
Pass-Through from University of Guam:		
Resident Instruction Grants for Insular Area Activities	10.308	97,187
Distance Education Grants for Institutions of Higher Education in Insular Areas	10.322	87,797
Subtotal Pass-Through University of Arizona and University of Guam		191,931
TOTAL U.S. DEPARTMENT OF AGRICULTURE		386,740
U.S DEPARTMENT OF COMMERCE		
Direct Programs		
Habitat Conservation	11.463	26,675
Educational Partnership Program	11.481	377
Merrifield / UH Effects of Sea Level Grant	11.Unknown	149
TOTAL U.S. DEPARTMENT OF COMMERCE		27,201
U.S. DEPARTMENT OF THE INTERIOR		
Direct Programs		
Economic, Social and Political Development of the Territories:	15.875	
Community-based Conservation Project		7,582
School Information System		250,822
Subtotal Direct Programs		258,404
Pass-Through From Republic of the Marshall Islands (RepMar)		
Economic, Social and Political Development of the Territories:	15.875	
Compact of Free Association Program, As Amended, Sector Grants:		
Supplemental Education Grant		316,739
Section 211(d)(1) Public Infrastructure Sector		275,864
ESN-GED Program Ebeye	15.Unknown	40,235
Subtotal Pass-Through RepMar		632,838
TOTAL U.S. DEPARTMENT OF THE INTERIOR		891,242

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2013

Federal Grantor/ Pass-Through Grantor's Program Title	Federal CFDA Number	Expenditures/ Adjustments FY13
U.S. NATIONAL SCIENCE FOUNDATION		
Pass-Through University of Hawaii		
Education and Human Resources	47.076	3,000
Education and Human Resources	47.076	14,842
Coastal Storms Program - RCUH	47.Unknown	2,861
TOTAL U.S. NATIONAL SCIENCE FOUNDATION		20,703
U.S. DEPARTMENT OF EDUCATION		
Direct Programs		
TRIO - Upward Bound	84.047A	7,506
Federal Pell Grant Program	84.063	4,231,071
Subtotal Direct Programs		4,238,577
Pass-Through From RepMar:		
Katakin Pre-Service Teacher Program	84.Unknown	31,116
TOTAL U.S. DEPARTMENT OF EDUCATION		4,269,693
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		
Pass-Through University of Guam:		
Area Health Education Centers Infrastructure Development Awards	93.824	204,535
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		204,535
TOTAL FEDERAL AWARDS		$ 5,800,114

See accompanying notes to Schedule of Expenditures of Federal Awards.

(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, U.S. 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, 2013.

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs
Year Ended September 30, 2013

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?	None reported
4.	Noncompliance material to financial statements noted?	Yes

Federal Awards

	Internal control over major programs:	
5.	Material weakness(es) identified?	No
6.	Significant deficiency(ies) identified?	Yes
7.	Type of auditors' report issued on compliance for major 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 programs:	

CFDA #	Name of Federal Program
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

Finding Number	Findings
2013-001	Local Noncompliance - Taxes on Wages and Salaries

Section III - Federal Award Findings and Questioned Costs

Finding Number	CFDA #	Findings	Questioned Costs
2013-002	15.875	Equipment and Real Property Management	$ -
2013-003	84.063	Eligibility	$ 4,210
2013-004	84.063	Special Tests and Provisions	$ -

Finding No. 2013-001

Local Noncompliance - Taxes on Wages and Salaries

Criteria: Marshall Islands Revised Code 2004, Title 28 Chapter 1, *Income Tax*, Part II, *Tax on Wages and Salaries*, Section 105, *Employer to file return covering tax on wages and salaries*, states the following:

(1) The employer shall, once every four (4) weeks or thirteen (13) times per year, pay the taxes withheld under Section 104 of this Chapter. The employer shall, along with the taxes, within two (2) weeks following the preceding four (4) week period make a full, true and correct return showing all wages and salaries paid by the employer to the employees during the preceding four (4) week period and showing the tax due and withheld thereon as provided in Section 104 of this Chapter. The return shall contain such other information as shall be required or prescribed by the Secretary of Finance.

(2) Every employer required to deduct and withhold any tax on the salaries and wages of any employee shall furnish to each such employee, at least once every four (4) weeks, a written statement showing the wages and salaries paid by the employer to such employee during the preceding four (4) week period and the amount of tax deducted and withheld or paid with respect to such wages and salaries.

(3) Every employer who violates any of the provisions of this Section shall be guilty of an offense. Further, pursuant to P.L. 2006-64 (Repeal of Government Entities Tax Exemptions Act of 2005), the College's import tax payments for purchase of textbooks and other educational materials, and for purchase of building materials for construction projects are reimbursable upon submission of certification satisfactory to the Secretary of Finance. The College reimburses through application of resulting tax credits for the applicable import tax payments against employee withholding income taxes.

Condition: The College has withholding tax payable of $405,848 as of September 30, 2013 related to unremitted taxes in current and previous fiscal years. There is no calculation and approval documentation of a tax credit that can be offset pursuant to P.L 2006-64 provided in fiscal year 2013.

Cause: The College lacks funds to remit withholding taxes and failed to calculate, document and apply for applicable tax credits.

Effect: The College is in noncompliance with the applicable public law on tax on wages and salaries as noted in the criteria above.

Recommendation: The College should comply with Section 105, *Employer to file return covering tax on wages and salaries*. Furthermore, management should establish policies and procedures to determine the accuracy of withholding tax payments and the application of eligible tax reimbursements.

Finding No. 2013-001, Continued

Local Noncompliance - Taxes on Wages and Salaries, Continued

Prior Year Status: The College's lack of funds to remit withholding taxes and the failure to calculate, document and apply for applicable tax credits was reported as finding 2012-1 in the Single Audit of the College for fiscal year 2012.

Auditee Response and Corrective Action Plan: Although it is reported that the College of the Marshall Islands has withholding tax payable of $405,848 as of September 30, 2013 related to unremitted taxes in current and previous years; the final determination letter provided by the Ministry of Finance reported $322,148.91 as of September 30, 2013 and $236,529.38 as of March 05, 2014, which is a difference of $85,619.33. The difference as of March 05, 2014 is a results of offsetting of import tax duties for textbooks and other instructional related materials the Ministry of Finance owe the College. The College did not receive any confirmation of prior year withholding tax liabilities until after March 05, 2014.

The College is now working on a payment plan with the Ministry of Finance towards clearing the outstanding withholding taxes from prior years. The College is going to commit a monthly payment of $20,000 starting June 2014 until this is cleared. In addition to this plan, the College will continue to offset the remaining balance with the import tax duties with the Ministry of Finance. Pursuant to RMI PL 2006-64, CMI is exempted from import tax on selected items. Nevertheless, currently CMI is paying the import tax duties; therefore such will be used to offset the withholding tax liabilities on top the monthly $20,000 that will be committed to clear the withholding taxes from prior years with the Ministry of Finance.

Finding No.:	2013-002
Federal Agency:	U.S. Department of the Interior
CFDA Program:	15.875 Economic, Social and Political Development of the Territories
Grant Number:	Compact of Free Association, As Amended, Sector Grants
Requirement:	Equipment and Real Property Management
Questioned Cost:	$0

Criteria: Records for equipment acquired with Federal funds and federally-owned equipment shall be maintained accurately and include the following information: 1) a description of the equipment, 2) manufacturer's serial number, model number, Federal stock number, national stock number, or other identification number; 3) source of the equipment, including the award number; 4) whether title vests in the recipient or the Federal Government; 5) acquisition date (or date received, if the equipment was furnished by the Federal Government) and cost; 6) information from which one can calculate the percentage of Federal participation in the cost of the equipment; 7) location and condition of the equipment and the date the information was reported; 8) unit acquisition cost; and 9) ultimate disposition data, including date of disposal and sales price or the method used to determine current fair market value where a recipient compensates the Federal awarding agency for its share.

Furthermore, the recipient shall take a physical inventory of equipment and reconcile the results with the equipment records at least once every two years; maintain a control system to insure adequate safeguards to prevent loss, damage or theft of the equipment; and implement adequate maintenance procedures to keep the equipment in good condition.

Condition: The College represented that a complete inventory of fixed assets occurred in FY2013. We requested for copies of count sheets and related documentation evidencing the count and the resulting reconciliation with fixed asset records; however, such documentation has not been provided. As reported in the FY2012 audit, an inventory count and reconciliation was not completed. A listing of fixed assets funded by the program was provided on March 4, 2014 and we noted the following:

- The listing does not provide the condition of the equipment,
- Several items do not have tag or equivalent identification number and
- Some items do not have location

Cause: The College lacks control procedures over compliance with applicable equipment and real property management requirements.

Effect: The College is in noncompliance with applicable equipment and real property management requirements. No questioned cost is presented as we were unable to assess the overall cumulative monetary value of the deficiencies above.

Recommendation: The College should strengthen controls over compliance with applicable equipment and real property management requirements.

Prior Year Status: The lack of controls over compliance with equipment and real property management requirements was reported as finding 2012-3 in the College's 2012 Single Audit.

Finding No.:	2013-002, Continued
Federal Agency:	U.S. Department of the Interior
CFDA Program:	15.875 Economic, Social and Political Development of the Territories
Grant Number:	Compact of Free Association, As Amended, Sector Grants
Requirement:	Equipment and Real Property Management
Questioned Cost:	$0

Auditee Response and Corrective Action Plan: As part of the corrective action plans to address this finding, the College had already taken new steps to address the issues raised in Finding No. 2013-2. For example, it has already modified its fixed asset registry to include the missing required columns, revised the existing policies and procedures in handling and managing fixed assets, and will start conducting internal trainings for department heads on asset acquisitions and management. Additionally, the College now requires a periodical physical inventory and inspection of fixed assets twice a year, the first physical inventory has already started and is scheduled to be completed on the first week of May 2014.

Finding No.: 2013-003
Federal Agency: U.S. Department of Education
CFDA Program: 84.063 Federal Pell Grants
Grant Number: 03022400
Requirement: Eligibility
Questioned Cost: $4,210

Criteria: The Federal Student Aid Handbook states the following:

1. To be considered for student financial aid, CMI requires that students submit the following documents: 1) Financial Aid Application; 2) Free Application for Federal Student Assistance (FAFSA); 3) Household Verification; 4) Proof of Citizenship (Birth Certificate); 5) Proof of Income; and 6) High School Diploma or GED certificate.

2. Per Vol. 1- Student Eligibility of SY 2012–13 Federal Student Aid Handbook, a federal or state drug conviction can disqualify a student for FSA funds. The student self-certifies in applying for aid that he is eligible; it is not required to confirm this unless conflicting information exists.

3. Per Ch. 1 - The Application Process: FAFSA to ISIR of SY 2012–13 Federal Student Aid Handbook, for the 2012–2013 award year, applications are accepted beginning January 1, 2012, and will be accepted through June 30, 2013. There are no exceptions to these deadlines.

Condition: Of 75 Pell students tested totaling $186,441, we noted the following exceptions:

1. For seven student files (or 11%), the Birth Certificate (BC) name or date of birth (D.O.B.) was different from the name or DOB noted on school records and/or on the FAFSA. No questioned costs result since the applicants were eligible and verified through the student identification number assigned upon registration.

Reference	Term	Amount	Deficiency Noted
017-026	Fall 2012	$2,081	FAFSA D.O.B. does not match BC
027-015	Fall 2012	$2,775	FAFSA Name & D.O.B. do not match BC
027-023	Fall 2012	$2,775	FAFSA D.O.B. does not match BC
131-017	Fall 2012	$2,775	FAFSA D.O.B. does not match BC
240-074	Spring 2013	$2,775	FAFSA D.O.B. does not match BC
240-093	Spring 2013	$2,775	FAFSA D.O.B. does not match BC
314-021	Spring 2013	$4,856	FAFSA D.O.B. does not match BC

2. For one student file (or 1%), DOC# 608-016 was awarded $2,823 in Fall 2013, but the student's response to application form line 23C [Drug Conviction Affecting Eligibility?] in the Student Aid Report was "yes."

3. For one student file (or 1%) (DOC# 446-005), the student FAFSA was not accepted due to late submission; however, the student was awarded Title IV funds of $1,387 for Summer 2013.

Finding No.:	2013-003, Continued
Federal Agency:	U.S. Department of Education
CFDA Program:	84.063 Federal Pell Grants
Grant Number:	03022400
Requirement:	Eligibility
Questioned Cost:	$4,210

Cause: The College failed to ascertain that all required documents are submitted and to review forms for completeness and accuracy.

Effect: The College is potentially noncompliant with eligibility requirements, and questioned costs of $4,210 exist. This finding is reportable since the projected questioned costs exceed $10,000.

Recommendation: The College should strengthen internal control policies and procedures to verify student files for accuracy and completeness in accordance with applicable eligibility requirements.

Prior Year Status: The failure to ascertain that all required documents are submitted and to review forms for completeness and accuracy was reported as finding 2012-9 in the College's 2012 Single Audit.

Auditee Response and Corrective Action Plan: The College agrees with the finding and the recommendations. The College went through trial and error in Fall-2013 when it started implementing and testing the first phase of the new SIS System. As part of its corrective action plans, proper training on how to manually review the applications and proper way to best utilize the new system will be provided to the staff involved in the process. As part of its plan to properly implement the new system, a user friendly manual will also be developed and used as a guideline.

Finding No.: 2013-004
Federal Agency: U.S. Department of Education
CFDA Program: 84.063 Federal Pell Grants
Grant Number: 03022400
Requirement: Special Tests and Provisions
Questioned Cost: $0

Criteria: Per Chapter 1 of Volume 4: 2012-2013 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."

Condition: Tests of student receivables and disbursements noted that for five (or 25%) of twenty student receivable accounts tested totaling $42,430, the College did not release refunds owed within the 14-day time frame, as follows:

ID	Refund Owed	Refund of Pell Grant	Pell Drawdown Date	Days Elapsed between Drawdown and Refund Dates
236061	$ 225	12/23/2013	10/31/2013	38
235936	$ 268	12/23/2013	10/31/2013	38
224380	$ 79	12/23/2013	10/31/2013	38
234686	$ 586	12/23/2013	11/14/2013	28

Cause: The College failed to ascertain compliance with federal regulations and did not enforce controls over compliance with student refund policies.

Effect: The College is in noncompliance with the requirement to disburse refunds within a 14-day time frame.

Recommendation: The College should strengthen control policies and procedures to comply with applicable federal regulations on issuing Pell student refunds.

Auditee Response and Corrective Action Plan: As indicated in finding No. 2012-08, the College advances the students' anticipated refunds during the registration week after deducting all tuition and fees into the students' ID card which is used on CMI campus like the regular bank debit card. The students have full control of how and when their funds are spent using the student ID card. A month prior to the last day of instruction, all students' accounts are closed and if students have balance on their ID cards, it is refunded back to the students within the 14-day period. This was initiated to ensure students use their Pell grants for educational purposes.

Accordingly, the number of days elapsed between the drawdown and the refund dates should be based on when student accounts are closed. All student accounts were closed on November 01, 2013; therefore the number of days should be adjusted accordingly. Although the College closed the student accounts on November 01, 2013, the Business Office was not able to refund the students credit balance within the 14-day regulatory time frames due to technical systematic issues in testing the new SIS system. The issues had been resolved and the processing of student refunds should no longer be an issue.

COLLEGE OF THE MARSHALL ISLANDS

Unresolved Prior Year Findings and Questioned Costs
Year Ended September 30, 2013

Questioned Costs

The prior year Single Audit report on compliance with laws and regulations noted the following questioned costs and comments that were unresolved at September 30, 2013:

Questioned costs as previously reported:

At September 30, 2010	$ 122,900
At September 30, 2011	816,481
At September 30, 2012	197,541
Questioned costs as previously reported	1,136,922
Add: Questioned costs of fiscal year 2013 Single Audit	4,210
Unresolved questioned costs at September 30, 2013	$ 1,141,132

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

Finding Number	CFDA	Questioned Costs	Status
2010-1	84.063	$ 0	Not corrected or resolved. Currently in communication with the grantor agency.
2010-2	15.875	1,452	Not corrected. Currently in communication with U.S. DOI to resolve prior year findings on CFDA 15.875
2010-3	15.875	121,448	Not corrected. Currently in communication with U.S. DOI to resolve prior year findings on CFDA 15.875
2010-5	84.047/84.063	0	Not corrected or resolved. Currently in communication with the grantor agency.
2011-3	15.875	0	Not corrected. Currently in communication with U.S. DOI to resolve prior year findings on CFDA 15.875
2011-4	15.875	720,111	Not corrected. Currently in communication with U.S. DOI to resolve prior year findings on CFDA 15.875
2011-5	15.875	0	Not corrected. Currently in communication with US DOI to resolve prior year findings on CFDA 15.875
2011-7	10.308/84.047	96,370	Not corrected or resolved
2012-3	15.875	0	Not corrected. Currently in communication with U.S. DOI to resolve prior year findings on CFDA 15.875
2012-4	15.875	196,154	Not corrected. Currently in communication with U.S. DOI to resolve prior year findings on CFDA 15.875
2012-5	15.875	0	Not corrected. Currently in communication with U.S. DOI to resolve prior year findings on CFDA 15.875
2012-6	84.047	0	Resolved per CMI correspondence with U.S. DOE
2012-7	84.047	0	Resolved per CMI correspondence with U.S. DOE
2012-8	84.063	0	Not corrected or resolved. See Finding 2013-004.
2012-9	84.063	1,387	Not corrected or resolved. See Finding 2013-003.
		$ 1,136,922	