COLLEGE OF THE MARSHALL ISLANDS

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2016 AND 2015

COLLEGE OF THE MARSHALL ISLANDS

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Years Ended September 30, 2016 and 2015

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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, 2016 and 2015, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the College as of September 30, 2016 and 2015, 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.

Deloitte.

Emphasis-of-Matters

Implementation of New Accounting Standards

As discussed in Note 2 to the financial statements, the College adopted Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, effective October 1, 2014.

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 these matters.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 5, 2017, 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

May 5, 2017

Introduction

This section of the College of the Marshall Islands (the "College" or "CMI") Annual Financial Report presents an analysis of the financial activities of the College for fiscal year ended September 30, 2016. This discussion has been prepared by management along with the financial statements and related footnote disclosures and should be read in conjunction with them. Consequently, management assumes full responsibility for the completeness and reliability of the information presented in this report. This discussion is designed to focus on current activities, resulting changes and current known facts.

Accounting Standards

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

In 2003, the College implemented Governmental Accounting Standards Board Standard 35 (GASB 35). With the new standard, the College's funds are now presented in the 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, 2016, as compared to two Fiscal Years 2015 and 2014.

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 health of the College. These include its strategic direction, financial position, student enrollment, human resources, facilities, institutional capacity, and spending behaviors. In evaluating the College's financial position, one of the most important questions is whether the institution is financially better off at the beginning of the year or at the end of the year. Although the College's FY2016 net position had a modest decline of $68,355 or .04% compared to the previous year, other financial indicators show that the College's overall financial position continuously improved.

Statement of Net Position

The Statement of Net Position represents the overall financial condition of the College at the end of September 30, 2016. Total net position represents the difference between total assets and total liabilities and is one of the indicators of the current financial condition of the College. Readers of the Statement of Net Position are able to determine the assets available to continue the operation of the College. Over time, changes in net position are indicators of the improvement or erosion of the College's financial health when considered along with non-financial facts, such as enrollment changes and the conditions of the facilities.

The assets and liabilities are categorized between current and noncurrent. Current assets and current liabilities mature or become payable within the normal 12-month accounting cycles while noncurrent assets and liabilities mature or become payable after 12-months. For September 30, 2016, the College's current assets consist primarily of cash, receivables, and inventories while noncurrent assets consist primarily of long-term investments and capital assets-including property, plant, and equipment maintained by the College. All of the College's liabilities are short term.

The Statement of Net Position presents the overall financial condition of CMI at the end of September 30, 2016. Total net position stood at $16,878,009, which represents a slight decrease of $68,355 or 0.04% from the year-ago level of $16,946,364.

Table I
Summary Statements of Net Position

	2016	2015	2014	% change 15-16	% change 14-15
Assets:					
Current assets	$ 3,308,070	$ 3,052,823	$ 2,844,945	8.36%	7.31%
Investments	1,164,819	1,021,926	1,054,293	13.98%	(3.07%)
Property, plant and equipment, net	15,336,532	16,314,230	17,489,530	(5.99%)	(6.72%)
Total Assets	$ 19,809,421	$ 20,388,979	$ 21,388,768	(2.77%)	(4.67%)
Liabilities:					
Current liabilities	$ 2,931,412	$ 3,442,615	$ 3,566,931	(14.48%)	(3.49%)
Total Liabilities	2,931,412	3,442,615	3,566,931	(14.48%)	(3.49%)
Net Position:					
Net investment in capital assets	15,336,532	16,314,230	17,489,530	(5.99%)	(6.72%)
Restricted-Expendable	626,941	-	-	100.00%	-
Restricted-Nonexpendable	1,164,819	1,021,926	1,054,293	13.98%	(3.07%)
Unrestricted	(250,283)	(389,792)	(721,986)	(35.79%)	(46.01%)
Total Net Position	16,878,009	16,946,364	17,821,837	(0.04%)	(4.91%)
Total Liabilities and Net Position	$ 19,809,421	$ 20,388,979	$ 21,388,768	(2.77%)	(4.67%)

A. Financial data for FY16 showed that total assets decreased by $579,558 or 2.84% vis-à-vis FY15. This can be attributed to the following:

1. The contraction of capital assets accounted for the bulk due to the significant provision of non-cash depreciation expense that reduced the net book value amounting to $977,698 or 5.99 percentage points. Current assets and investments helped tame the shrinkage of the total assets by $255,247 or 8.36% and $142,893 or 13.98%, respectively. Listed below are the details of the changes in the components of total assets:

   a) Increase in cash and cash equivalents by $116,531 or 24.32% compared to prior year.

   b) The accounts receivable and unbilled charges for FY16 of $1,760,942 was better than the $1,204,368 for FY15 by $556,574 or 46.21%. The robust increase can be attributed to the following:

      - In light of FY16 reduced enrollment and Pell Grant awarded to students, a significant number of students became ineligible to receive Pell Grant for remedial courses as these students exceeded the 30-credit limit for remedial courses.

      - In prior years, approximately 95% to 99% of the students were covered with Pell Grants but in FY16, a growing number of ineligible students enrolled were not covered with Pell Grant due to the 30-credit limit for remedial courses.

- There was a significant decrease in Pell eligibility first-time-full-time students in FY16 compared to FY15 and there was an increase in number of ineligible students enrolled in this cohort.

- It is worthy to note that Pell Grant recipients per semester are as follows for FY16: Fall 15 (89%), Spring 16 (92%), and Summer 16 (69%). In comparison, the percentage of Pell Grant recipients per semester are as follows for FY15: Fall 14 (90%), Spring 15 (85%), and Summer 15 (71%).

c) Prepaid expenses showed a decrease by $151,846 or 48.87% due to liquidation of long-time prepayments from various vendors.

d) Bookstore inventory registered a moderate increase by $131,060 or 20.26%. With the centralization of all purchases at the Bookstore, the inventory is expected to grow in relation to enrollment figures and the need for materials and supplies of all CMI Departments, CMI employees, and the general public.

2. CMI's investments at $1,164,819 for the current year were better than the $1,021,926 recorded a year earlier by $142,893 or 13.98%.

3. With the culmination of CMI's Capital Improvement Projects four (4) years ago, the capital assets continue to show a downward trend and this will likely continue in the succeeding years. For FY16, there was a moderate decrease in property, plant and equipment by $977,698 or 5.99% due to the regular provision of depreciation expense on capital assets, which reduced the net book value of the capital assets. Please refer to note 6 to the financial statements for additional information.

B. The scarcity and timing of the inflow of cash that perpetually hounds CMI still remains a major constraint in meeting its plans and programs but with CMI's conservative approach to its overall finances, it enables CMI to continue serving the students, vendors, employees and other government offices and agencies. The payments of financial obligations to these cohorts have to be prioritized and queued despite the privilege of an advance method of payment for Title IV funds and other federal grants. Nonetheless, CMI's financial performances continue to improve. For FY16, current liabilities dropped by 14.85% to $2,931,412 from $3,442,615 while current assets increased by 8.36% to $3,308,070 from $3,052,823 a year ago.

C. The College has not incurred any long-term debt to date.

D. One of the financial indicators that is used to measure the institution's financial capacities to meet current obligations is the current or liquidity ratio. At the end of September 30, 2016, the College's current ratio or liquidity ratio continues to improve at 1.13:1. This can be interpreted that CMI has 1 dollar and 13 cents in its coffers for every 1 dollar current obligation. This is a tremendous improvement compared to FY12, FY13, FY14, and FY15 which were pegged at 56 cents, 72 cents, 80 cents and 89 cents, respectively. The increasing trend on current or liquidity ratio demonstrates that CMI is on the right track to recovery.

E. The net position is highlighted by the contraction of the negative unrestricted net position by $139,509 or approximately 36% from FY15. The favorable outcome of unrestricted net position was a major development going forward since this has been CMI's bottleneck in FY12 and earlier years. This is the 4^{th} year-in-a-row that CMI narrowed the gap following years of accumulated deficits in working capital.

Statement of Revenues, Expenses and Changes in Net Position

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

Operating revenues are earned for providing goods and/or services to the students, customers and various constituencies of the College. Operating expenses are incurred to acquire or produce the goods and services that are provided in return for operating revenues, thus carrying out the mandated mission of the College. Non-operating revenues are receipts for which no goods and/or services are provided. In the case of the College, there are two (2) mainstreams of non-operating revenues and these are the REPMAR Contributions and Other Pass-through Federal Grants (e.g., Compact Funds). These funds are appropriated and considered non-operating because they are given to the College without directly providing goods and/or services to the RMI government.

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

				% Change	
	2016	2015	2014	15-16	14-15
Operating Revenues	$ 7,919,466	$ 7,951,882	$ 8,405,781	(0.41%)	(5.40%)
Operating Expenses	11,305,557	11,801,210	12,345,797	(4.20%)	(4.41%)
Operating Loss	(3,386,091)	(3,849,328)	(3,940,016)	(12.03%)	(2.30%)
Non-operating revenues (expenses), net	2,854,059	2,754,384	2,835,116	3.62%	(2.85%)
Capital Contributions	463,677	219,471	309,596	111.27%	(29.11%)
Special item-contribution to CMI Foundation Inc.	-	-	995,486	0.00%	(100.00%)
Change in Net Position	(68,355)	(875,473)	200,182	(92.19%)	(537.34%)
Net position-beginning of year	16,946,364	17,821,837	17,621,655	(4.91%)	1.14%
Net position-end of year	$ 16,878,009	$ 16,946,364	$ 17,821,837	(0.40%)	(4.91%)

For FY16, total operating revenues showed a slight decrease by $32,416 or 0.41% as compared to FY15. This decrement is attributed to the following:

1. There was a minimal decrease in student tuition and fees amounting to $139,244 or 3.39%. This was the result of a decrease in the number of enrollment figures compared with FY15.

2. As a direct result of the decrease in enrollment figures and the growing number of ineligible students, the U.S. Federal Grants decreased by $285,273 or 5.00%. In addition, private gifts, grants and donations slightly dropped by $48,827 or 8.72%.

3. On the other hand, auxiliary enterprises remained virtually unchanged with the slight growth of $25,317 or 2.98%. Compared to prior years, centralization of purchasing of office supplies and classroom supplies to the Bookstore has some positive financial impacts on the College. Other revenues settled at $536,673 from a prior year of $434,434 or a modest increment of $102,239 or 23.53%.

Total operating expenses for FY16 decreased in the amount of $495,653 or 4.2% in comparison with FY15. Major drivers of the decrement in numbers were Instruction ($317,567 or 6.72%), academic support ($72,345 or 12.68%), student services ($58,176 or 11.91%), institutional support ($109,278 or 4.46%) and auxiliary enterprises ($77,646 or 7.63%). The only functional classification of expenses that registered an unfavorable increase was the operations and maintenance which was pegged at $139,359 or 5.47%.

For FY16, total operating revenues was eclipsed by total operating expenses and it resulted in an operating loss of $3,386,091 or a favorable decrease of $463,237 or 12.03% from FY15.

CMI's non-operating revenues showed an upward swing by $99,675 or 3.62%. This was brought about by the increase in investment income from a negative $63,776 in FY15 to a positive $52,499 in FY16 which was a major upswing of $116,275 or 182.32%.

It is worthy to note that REPMAR Contributions and Compact Funds channeled through from the RMI government from the Compact of Free Association with the U.S. were classified as Non-Operating Revenues. CMI is a chartered governmental institution whose mission is to provide higher education services to the Marshall Islands and within the Pacific Rim. The College's operations depend heavily on the RMI government through the annual subsidies and has committed to provide an annual $3 million subsidy (less audit fees) to CMI through an MOU signed on October 2015. For FY16, CMI received a total of $2,805,667 for the annual subsidy ($1,818,664) and compact money ($987,003) from the RMI government which is slightly down by $12,997 or 0.5% compared with FY15 figures.

Capital contributions include revenues received in the form of contributed capital assets, non-exchange grants and contributions restricted to capital purposes, fees and charges restricted to capital assets acquisition. For FY16, capital contributions increased by $244,206 or 111.27% compared to FY15.

Change in net position for FY16 resulted in a substantial reduction in the negative amount by $807,118 or 92.19% vis-à-vis FY15.

In summary, the net position for FY16 settled at $16,878,009, down from $16,946,364, a decrease of $68,355 or 0.40%.

Statement of Cash Flows

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

Table III
Summary Statements of Cash Flows

	2016	2015	2014	% Change 15-16	% Change 14-15
Cash Provided by (Used in):					
Operating activities	$ (2,497,007)	$ (3,064,644)	$ (3,333,464)	(18.52%)	(8.06%)
Noncapital financing activities	2,805,697	2,866,811	2,812,007	(2.13%)	1.95%
Capital and related financing activities	(101,765)	160,966	230,615	(163.22%)	(30.20%)
Investing activities	(90,394)	(31,409)	(23,842)	187.80%	31.74%
Net change in cash and cash equivalents	116,531	(68,276)	(314,684)	(270.68%)	(78.30%)
Cash and cash equivalents-beginning of year	479,154	547,430	862,114	(12.47%)	(36.50%)
Cash and cash equivalents-end of year	$ 595,685	$ 479,154	$ 547,430	24.32%	(12.47%)

Net change in cash and cash equivalents showed a strong finish at the end of the year, which registered at $595,685, an increase of $116,531 or 24.32% from FY15. This was brought about by the following, to wit:

1. Cash inflows from operating activities were primarily from student tuition and fees, US Federal grants and other receipts with an aggregated amount of $7,844,060. Cash outflows from operating activities amounting to $10,341,067 were payments to employees, consultants, contractors and suppliers for various goods and/or services rendered. The net cash used in operating activities for FY16 resulted in an unfavorable $2,497,007 and compared to FY15, favorably decreased by $567,637 or 18.52%.

2. Noncapital financing activities likewise registered a minimal decrease totaling $61,114 or 2.13% compared with FY15. This was mainly due to the shortfall of Compact Funding received from RMI during the year in review.

3. Cash in the amount of $463,677 was used in the purchase of capital assets while total cash provided through capital contributions amounted to $361,912. Net cash used for capital and related financing activities totaled $101,765, which showed a substantial unfavorable increase of $262,731 or 163.22% compared to FY15 figures.

4. Net cash used in investing activities showed a minimal amount of $90,394. This was brought about by the difference of cash outflows for the purchase of investments totaling $113,901 along with the interest and dividends received amounting to $23,507. In comparison to FY15 figures, there was in increase in investing activities by $58,985 or 187.80%.

5. Overall, CMI showed a strong cash position at the end of FY16 at $595,685, an increase of $116,531 or 24.32% in comparison to FY15 figures.

Economic Outlook

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

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

The amended assistance package provides for the adoption of financial accountability and management standards similar to those expected of U.S. state and local governments. The Government recognizes that meeting these standards will require a sustained effort both to tailor systems and procedures to the circumstances of the Marshall Islands and to upgrade the capacity of its staff. Implementation of a government decision to move to performance-based budgeting is in its fifth year, with an initial emphasis on the Ministries of Education, Health, and Environment. The College is part of this initiative.

This economic support of the RMI Government is highly important because of the College's dependence on operational subsidies. The RMI Government also committed to fund its $3,000,000 operational subsidy to CMI as represented by a Memorandum of Understanding through the end of FY2017 and renewable on a yearly basis.

Summary:

1) CMI's total net position for FY16 settled at $16,878,009.

2) CMI's investment (Endowment Fund) for FY16 stood at $1,164,819.

3) Current or liquidity ratio is 1 dollar and 13 cents to 1 dollar. This benchmark is a tremendous improvement compared with FY12, FY13, FY14 and FY15 which were recorded at 56, 72, 80, and 89 cents, respectively.

4) The Statement of Net Position is highlighted by the contraction of the negative unrestricted net assets by $139,509 or approximately 36% from FY15. This is the 4th-year-in-a-row that CMI narrowed the gap following years of accumulated deficits in working capital since FY12.

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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).

5) The RMI Government has continued its subsidy to CMI at $3,000,000 per annum (less audit fees) as represented by a Memorandum of Understanding through the end of FY2017 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.

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

7) CMI showed a strong cash position at the end of FY16 at $595,685.

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

Management's Discussion and Analysis for the year ended September 30, 2015 is set forth in the College's report on thr audit of the financial statements, which is dated June 22, 2016. That Discussion and Analysis explains the major factors impacting the 2015 financial statements and can be obtained from the College's President at **info@cmi.edu**.

COLLEGE OF THE MARSHALL ISLANDS

Statements of Net Position
September 30, 2016 and 2015

ASSETS	2016	2015
Current assets:		
Cash and cash equivalents	$ 595,685	$ 479,154
Accounts receivable and unbilled charges, net	1,760,942	1,204,368
Due from RepMar	14,636	14,934
Due from grantor agencies	-	396,774
Prepaid expenses	158,879	310,725
Inventory	777,928	646,868
Total current assets	3,308,070	3,052,823
Noncurrent assets:		
Investments	1,164,819	1,021,926
Capital assets:		
Nondepreciable capital assets	372,306	372,306
Capital assets, net of accumulated depreciation	14,964,226	15,941,924
Total noncurrent assets	16,501,351	17,336,156
Total assets	$ 19,809,421	$ 20,388,979
LIABILITIES AND NET POSITION		
Current liabilities:		
Accounts payable	$ 786,760	$ 1,097,211
Withholding taxes payable	55,268	51,260
Social security taxes payable	198,602	193,627
Student refunds payable	44,316	62,518
Due to RepMar	-	102,032
Due to grantor agencies	154,455	-
Accrued liabilities	364,315	556,412
Unearned revenue	1,327,696	1,379,555
Total current liabilities	2,931,412	3,442,615
Commitments and contingencies		
Net position:		
Net investment in capital assets	15,336,532	16,314,230
Restricted:		
Expendable	626,941	-
Endowment - nonexpendable	1,164,819	1,021,926
Unrestricted	(250,283)	(389,792)
Total net position	16,878,009	16,946,364
Total liabilities and net position	$ 19,809,421	$ 20,388,979

See accompanying notes to financial statements.

COLLEGE OF THE MARSHALL ISLANDS

Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2016 and 2015

	2016	2015
Operating revenues:		
Student tuition and fees	$ 3,971,159	$ 4,110,403
Less: Scholarship discounts and allowances	(3,399,209)	(3,712,581)
	571,950	397,822
U.S. federal grants	5,425,873	5,711,146
Private gifts, grants and donations - restricted	510,884	559,711
Auxiliary enterprises	874,086	848,769
Other	536,673	434,434
Net operating revenues	7,919,466	7,951,882
Operating expenses:		
Instruction	4,410,878	4,728,445
Institutional support	2,339,580	2,448,858
Operations and maintenance	2,686,651	2,547,292
Auxiliary enterprises	939,909	1,017,555
Academic support	498,340	570,685
Student services	430,199	488,375
Total operating expenses	11,305,557	11,801,210
Operating loss	(3,386,091)	(3,849,328)
Nonoperating revenues (expenses):		
RepMar contributions	1,818,664	1,818,604
Compact funding	987,003	1,000,000
Loss on disposal/transfer of fixed assets	(4,107)	(444)
Investment income (loss)	52,499	(63,776)
Total nonoperating revenues (expense), net	2,854,059	2,754,384
Capital contributions	463,677	219,471
Change in net position	(68,355)	(875,473)
Net position at beginning of the year	16,946,364	17,821,837
Net position at end of the year	$ 16,878,009	$ 16,946,364

See accompanying notes to financial statements.

COLLEGE OF THE MARSHALL ISLANDS

Statements of Cash Flows
Years Ended September 30, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Cash received from student tuition and fees	$ 40,010	$ 184,530
Cash received from U.S. federal grants	5,977,103	5,413,163
Other receipts	1,826,947	1,825,486
Cash payments to employees for services	(4,529,874)	(4,608,883)
Cash payments to suppliers for goods and services	(5,811,193)	(5,878,940)
Net cash used in operating activities	(2,497,007)	(3,064,644)
Cash flows from noncapital financing activities:		
RepMar contributions received	1,818,664	1,818,604
Compact funding received from RepMar	987,033	1,048,207
Net cash provided by noncapital financing activities	2,805,697	2,866,811
Cash flows from capital and related financing activities:		
Purchases of property, plant and equipment, net	(463,677)	(219,471)
Capital contributions received	361,912	380,437
Net cash provided by (used for) capital and related financing activities	(101,765)	160,966
Cash flows from investing activities:		
Purchases of investments	(113,901)	(41,570)
Interest and dividends received	23,507	10,161
Net cash used in investing activities	(90,394)	(31,409)
Net change in cash and cash equivalents	116,531	(68,276)
Cash and cash equivalents at beginning of year	479,154	547,430
Cash and cash equivalents at end of year	$ 595,685	$ 479,154

See accompanying notes to financial statements.

COLLEGE OF THE MARSHALL ISLANDS

Statements of Cash Flows, Continued
Years Ended September 30, 2016 and 2015

	2016	2015
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	$ (3,386,091)	$ (3,849,328)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	1,437,268	1,394,328
Bad debts	205,257	159,858
Changes in assets and liabilities:		
Accounts receivable and unbilled charges	(761,831)	(34,574)
Prepaid items	151,846	(266,912)
Due from grantor agencies	551,230	(297,984)
Inventory	(131,060)	56,316
Accounts payable	(310,451)	246,561
Withholding taxes payable	4,008	(246,658)
Social security taxes payable	4,975	15,215
Student refunds payable	(18,202)	(194,639)
Accrued liabilities	(192,097)	114,538
Unearned revenue	(51,859)	(161,365)
Net cash used in operating activities	$ (2,497,007)	$ (3,064,644)

See accompanying notes to financial statements.

(1) Organization

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

(2) Summary of Significant Accounting Policies

The Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*. The financial statement presentation required by GASB Statements 34 and 35 provides a comprehensive, entity-wide perspective of the College's assets, liabilities, net 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

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

(2) Summary of Significant Accounting Policies, Continued

Investments

Investments and related investment earnings are reported at fair value using quoted market prices. Fair value is the price that would be received to sell an asset or paid to transfer a liability (ie, the exit price) in an orderly transaction between market participants at the date as of which the fair value of an asset or liability is determined.

Accounts Receivable

Accounts receivable consists of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff. Accounts receivable also include amounts due from the College of Micronesia, employees and officers, and other sources. Accounts receivable are recorded net of estimated allowances for uncollectible amounts.

Allowance for Doubtful Accounts

Management determines the adequacy of the allowance for doubtful accounts based upon review of the aged accounts receivable. Amounts determined uncollectible are charged to bad debts and are added to the allowance. Bad debts are written-off against the allowance on the specific identification method.

Inventory

Inventory consists of items purchased for resale at the College's bookstore. Inventory is valued at the lower of cost (first-in, first-out) or market value.

Property, Plant and Equipment

Property, plant and equipment with a cost that equals or exceeds $500 are capitalized. Such assets are recorded at cost in instances where cost is determinable or estimated cost where cost is not determinable. Depreciation is provided using the straight-line basis over the estimated useful lives of the respective assets.

Deferred Outflows of Resources

In addition to assets, the statements of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element 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, 2016 and 2015, the College recorded $166,186 and $155,557, respectively, of accrued annual leave, which is included within the statements of net position as accrued liabilities. The College does not participate in an employee pension plan.

Deferred Inflows of Resources

In addition to liabilities, the statements of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element 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 a 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 deferred outflows of resources, liabilities and deferred inflows of resources, 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 and Expenses

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

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

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

Scholarship Discounts and Allowances - Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the Statement of Revenues, Expenses, and Changes in Net Position. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the College, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other federal, state or nongovernmental programs, are recorded as either operating or nonoperating revenues in the College's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the College has recorded a scholarship discount and allowance.

New Accounting Standards

During the year ended September 30, 2016, the College implemented the following pronouncements:

- GASB Statement No. 72, *Fair Value Measurement and Application*, which addresses accounting and financial reporting issues related to fair value measurements and requires entities to expand their fair value disclosures by determining major categories of debt and equity securities within the fair value hierarchy on the basis of the nature and risk of the investment. The implementation of this statement required additional disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques.

- GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which eliminates two of the four categories of authoritative GAAP that exist under the existing hierarchy prescribed by Statement No. 55. The two categories that will remain under the new standard are (1) GASB Statements and (2) GASB technical bulletins and implementation guides in addition to AICPA guidance that the GASB clears. The 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. 79, *Certain External Investment Pools and Pool Participants*, which addresses for certain external investment pools and their participants the accounting and financial reporting implications that result from changes in the regulatory provisions referenced by previous accounting and financial reporting standards. Those provisions were based on the Investment Company Act of 1940, Rule 2a7. Rule 2a7 contains the Securities and Exchange Commission's regulations that apply to money market funds and were significantly amended in 2014. The implementation of this statement did not have a material effect on the accompanying financial statements.

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

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

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

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

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In December 2015, GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, which addresses a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The provisions in Statement No. 78 are effective for fiscal years beginning after December 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14*, which improves financial reporting by clarifying the financial statement presentation requirements for certain component units. The provisions in Statement No. 80 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*, which improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The provisions in Statement No. 81 are effective for fiscal years beginning after December 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In March 2016, GASB issued Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*, which addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The provisions in Statement No. 82 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

(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%

(3) Deposits and Investments, Continued

A. Deposits

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

As of September 30, 2016 and 2015, the carrying amounts of the College's total cash and cash equivalents were $595,685 and $479,154, respectively, and the corresponding bank balances were $684,299 and $536,448, respectively. Of the bank balance amounts, $124,679 and $70,469, respectively, are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. Bank deposits of $559,620 and $465,979, respectively, are maintained in financial institutions not subject to depository insurance. 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

Investments held by the College consist of money market funds, mutual funds, and equity securities. As of September 30, 2016 and 2015, investments are as follows:

	2016	2015
Money market funds	$ 2,430	$ 8,608
Equity securities	305,423	181,950
Mutual funds	856,966	831,368
	$ 1,164,819	$ 1,021,926

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, 2016 and 2015, 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, 2016 and 2015, there were no investments in any one issuer that exceeded 5% of total investments.

(3) Deposits and Investments, Continued

B. Investments, Continued

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.

The College categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. The College has the following recurring fair value measurements as of September 30, 2016 and 2015:

		Fair Value Measurements Using		
	September 30, 2016	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level:				
Equity securities	$ 305,423	$ 305,423	$ -	$ -
Mutual funds	856,966	856,966	-	-
Total investments by fair value level	1,162,389	$ 1,162,389	$ -	$ -
Investments measured at amortized cost:				
Money market funds	2,430			
	$ 1,164,819			

		Fair Value Measurements Using		
	September 30, 2015	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level:				
Equity securities	$ 181,950	$ 181,950	$ -	$ -
Mutual funds	831,368	831,368	-	-
Total investments by fair value level	1,013,318	$ 1,013,318	$ -	$ -
Investments measured at amortized cost:				
Money market funds	8,608			
	$ 1,021,926			

Equity securities and mutual funds classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities.

(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, 2016 and 2015:

	2016	2015
Student tuition and fees	$ 3,180,888	$ 2,513,511
College of Micronesia	68,182	9,697
Employees and officers	104,209	84,524
Other	80,821	64,297
	3,434,100	2,672,029
Less allowance for doubtful accounts	(1,673,158)	(1,467,661)
Net accounts receivable and unbilled charges	$ 1,760,942	$ 1,204,368

(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, 2016 and 2015:

		2016			
	Estimated Useful Lives	Balance at October 1, 2015	Additions	Deletions	Balance at September 30, 2016
Nondepreciable capital assets:					
Land and improvements		$ 372,306	$ -	$ -	$ 372,306
Depreciable capital assets:					
Furniture, vehicles and equipment	3 - 5 years	4,730,871	463,677	(289,449)	4,905,099
Buildings and improvements	20 years	23,644,331	-	-	23,644,331
		28,375,202	463,677	(289,449)	28,549,430
Less accumulated depreciation		(12,433,278)	(1,437,268)	285,342	(13,585,204)
		15,941,924	(973,591)	(4,107)	14,964,226
Net investment in plant		$ 16,314,230	$ (973,591)	$ (4,107)	$ 15,336,532

(6) Property, Plant and Equipment, Continued

		2015			
	Estimated Useful Lives	Balance at October 1, 2014	Additions	Deletions	Balance at September 30, 2015
Nondepreciable capital assets:					
Land and improvements		$ 372,306	$ -	$ -	$ 372,306
Depreciable capital assets:					
Furniture, vehicles and equipment	3 - 5 years	4,705,250	219,471	(193,850)	4,730,871
Buildings and improvements	20 years	23,644,331	-	-	23,644,331
		28,349,581	219,471	(193,850)	28,375,202
Less accumulated depreciation		(11,232,357)	(1,394,328)	193,407	(12,433,278)
		17,117,224	(1,174,857)	(443)	15,941,924
Net investment in plant		$ 17,489,530	$ (1,174,857)	$ (443)	$ 16,314,230

(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, 2016 and 2015, the College received $2,805,667 and $2,818,604, respectively, from RepMar to administer various postsecondary functions and to improve facilities, of which $14,636 and $14,666 was receivable from RepMar at September 30, 2016 and 2015, respectively. The Nitijela of RepMar subsequently provided for an appropriation of $2,987,003 to fund operations of the College for fiscal year 2017 and an additional $500,000 to fund repairs and maintenance of capital projects.

Commencing fiscal year 2006, the College was appropriated $25,000,000 of capital contributions from RepMar of which $288,325 and $303,500 were appropriated during the years ended September 30, 2016 and 2015, respectively. During the years ended September 30, 2016 and 2015, the College received $1,038,325 and $578,500, respectively, from RepMar under these appropriations to fund various capital improvements, of which $0 and $102,032 was due to RepMar at September 30, 2016 and 2015, respectively.

(8) Functional Classifications with Natural Classifications

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

	2016							
	Salaries	Benefits	Services	Supplies	Insurance, Utilities and Rent	Depreciation	Miscellaneous	Total
Instruction	$ 2,203,161	$ 580,240	$ 41,495	$ 235,327	$ 2,090	$ 159,041	$ 1,189,524	$ 4,410,878
Academic support	237,827	51,979	6,382	20,752	13	85,058	96,329	498,340
Student services	298,781	56,448	-	20,986	106	2,762	51,116	430,199
Institutional Support	935,006	644,035	73,309	127,140	161,367	32,788	365,935	2,339,580
Operations and Maintenance	638,028	95,135	12,200	149,896	631,002	1,124,632	35,758	2,686,651
Auxiliary Enterprises	24,975	11,405	-	584	16,446	32,987	853,512	939,909
	$ 4,337,778	$ 1,439,242	$ 133,386	$ 554,685	$ 811,024	$ 1,437,268	$ 2,592,174	$11,305,557

(8) Functional Classifications with Natural Classifications, Continued

2015	Salaries	Benefits	Services	Supplies	Insurance, Utilities and Rent	Depreciation	Miscellaneous	Total
Instruction	$ 2,399,026	$ 636,120	$ 103,899	$ 147,999	$ 63,137	$ 138,497	$ 1,239,767	$ 4,728,445
Academic support	291,537	62,498	71,212	16,826	-	42,391	86,221	570,685
Student services	321,469	77,107	3,190	34,961	200	2,524	48,924	488,375
Institutional Support	1,031,793	657,996	30,000	112,509	176,965	26,655	412,940	2,448,858
Operations and Maintenance	654,586	97,495	-	134,782	446,371	1,150,448	63,610	2,547,292
Auxiliary Enterprises	25,010	3,809	-	1,632	42,525	33,813	910,766	1,017,555
	$ 4,723,421	$ 1,535,025	$ 208,301	$ 448,709	$ 729,198	$ 1,394,328	$ 2,762,228	$11,801,210

(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 on 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 on March 1, 2007 for a term of thirty years, ending on March 31, 2044.

Future minimum lease payments under these leases are as follows:

Year ending September 30,	
2017	$ 95,080
2018	95,080
2019	95,080
2020	95,080
2021	98,280
2022-2026	494,599
2027-2031	427,399
2032-2036	104,418
2037-2041	84,418
2042-2044	47,651
	$ 1,637,085

(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, 2016, a deficit unrestricted net position of $250,283 exists at that date.

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

Federal Grants

The College has participated in a number of federally assisted grant programs. These programs are subject to financial and compliance audits by the grantors or their representatives and regulatory authorities. The purpose of the audits is to ensure compliance with conditions relating to the granting of funds and other reimbursement regulations. The College's management believes that any liability for reimbursement which may arise as the result of these audits would not be material to the financial position of the College.

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, 2016 and 2015 was $133,718 and $132,123, respectively.

Accreditation

Based on the comprehensive evaluation during June 2015, the Accrediting Commission for Community and Junior Colleges (ACCJC) took action to remove the Warning, reaffirmed accreditation, and required that the College submit a Follow-Up Report in March 2016. In May 2016, WASC issued a Warning status to the College as a result of its evaluation of the College's Follow-up Report with the requirement that the College submit a revised Follow-Up Report on October 1, 2016.

(11) Subsequent Event

In February 2017, on the basis of Follow-Up Report submitted to the Commission on October 1, 2016 and visit, the College was removed from Warning Status as of January 2017.

Deloitte.

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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, 2016, 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 May 5, 2017. Our report includes an emphasis-of-matter paragraph regarding a going concern uncertainty, as described in our report on the College's financial statements.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters

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

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

May 5, 2017

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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 THE UNIFORM GUIDANCE

Board of Regents
College of the Marshall Islands:

Report on Compliance for Each Major Federal Program

We have audited the College of the Marshall Islands' (the College's) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the College's major federal programs for the year ended September 30, 2016. 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 federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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, 2016.

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Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2016-001 and 2016-002. Our opinion on each major federal program is not modified with respect to these matters.

The College's response to the noncompliance findings identified in our audit are described in the accompanying Corrective Action Plan. 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 response.

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 the Uniform Guidance, 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 a 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 2016-001 and 2016-002 that we consider to be significant deficiencies.

The College's response to the internal control over compliance findings identified in our audit are described in the accompanying Corrective Action Plan. 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 response.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the College as of and for the year ended September 30, 2016, and have issued our report thereon dated May 5, 2017, which contained an unmodified opinion on those financial statements and which report included an emphasis-of-matter paragraph regarding a going concern uncertainty. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the Uniform Guidance 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

May 5, 2017

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2016

Federal Grantor/ Pass-Through Grantor/ Program Title	Pass-Through Identification Number	Federal CFDA Number	Expenditures/ Adjustments FY2016
U.S. DEPARTMENT OF AGRICULTURE			
Direct Program			
Breadfruit & Pandanus for Food Security Grant		10.Unknown	$ 5,038
Subtotal U.S. Department of Agriculture Direct Program			5,038
Pass-Through From the University of Guam:	77-990-8151		
Distance Education Grants for Institutions of Higher Education in Insular Areas		10.322	1,002
Pass-Through From the University of Puerto Rico:	6604433767		
Resident Instruction Grants for Insular Area Activities		10.308	38,744
Subtotal U.S. Department of Agriculture Pass-Through Programs			39,746
TOTAL U.S. DEPARTMENT OF AGRICULTURE			44,784
U.S DEPARTMENT OF COMMERCE			
Pass-Through From the Micronesian Conservation Trust:	85-481-3185		
Habitat Conservation		11.463	19,582
TOTAL U.S. DEPARTMENT OF COMMERCE			19,582
U.S. DEPARTMENT OF THE INTERIOR			
Direct Program			
Economic, Social and Political Development of the Territories:			
School Information System		15.875	18,413
Subtotal U.S. Department of the Interior Direct Program			18,413
Pass-Through the Research Corporation of the University of Hawaii (RCUOH):	07-252-7344		
Partnership for Advance Marine Science		15.Unknown	49,473
Pass-Through From the Republic of the Marshall Islands (RepMar)	980076103		
Economic, Social and Political Development of the Territories:			
Compact of Free Association Program, As Amended, Sector Grants:			
Supplemental Education Grant		15.875	513,417
ESN-GED Program Ebeye		15.Unknown	125,909
Subtotal U.S. Department of the Interior Pass-Through Programs			688,799
TOTAL U.S. DEPARTMENT OF THE INTERIOR			707,212

See accompanying notes to Schedule of Expenditures of Federal Awards.

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Expenditures of Federal Awards, Continued
Year Ended September 30, 2016

Federal Grantor/ Pass-Through Grantor/ Program Title	Pass-Through Identification Number	Federal CFDA Number	Expenditures/ Adjustments FY2016
NATIONAL SCIENCE FOUNDATION			
Pass-Through From the Research Corporation of the University of Hawaii (RCUOH):	07-252-7344		
Research and Development Cluster:			
Education and Human Resources		47.076	38,248
Coastal Storms Program		47.Unknown	28,062
Total Research and Development Cluster and TOTAL NATIONAL SCIENCE FOUNDATION			66,310
U.S. DEPARTMENT OF EDUCATION			
Direct Program			
Student Financial Assistance Cluster:			
Federal Pell Grant Program		84.063	4,146,363
TOTAL U.S. DEPARTMENT OF EDUCATION			4,146,363
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Pass-Through From the University of Guam:	77-990-8151		
Area Health Education Centers Infrastructure Development Awards		93.824	123,131
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			123,131
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 5,107,382

Reconciliation to financial statements:

Total expenditures of federal awards	5,107,382
Depreciation	1,437,268
Non-federal expenses	4,760,907
Total expenses per financial statements	$ 11,305,557

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 the 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 the College of Micronesia (COM).

The U.S. Department of the Interior has been designated as the College's cognizant agency.

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of the College funded through the Federal Government for the year ended September 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Because the Schedule presents only a selected portion of the operations of the College, it is not intended to and does not present the financial position, changes in net position or cash flows of the College.

(2) Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. All expenses and capital outlays are reported as expenditures. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein types of expenditures are not allowable or are limited as to reimbursement. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. No amounts were passed through to subrecipients. Pass-through entity identifying numbers are presented where available.

(3) Indirect Cost Allocation

The College has not entered into an approved indirect cost negotiation agreement covering the year ended September 30, 2016. The College does not elect to use the de minimis indirect cost rate allowed under the Uniform Guidance.

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs
Year Ended September 30, 2016

Section I - Summary of Auditors' Results

Financial Statements

1.	Type of report the auditors issued on whether the financial statements audited were prepared in accordance with GAAP:	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?	No

Federal Awards

	Internal control over major federal programs:	
5.	Material weakness(es) identified?	No
6.	Significant deficiency(ies) identified?	Yes
7.	Type of auditors' report issued on compliance for major federal programs:	Unmodified
8.	Any audit findings disclosed that are required to be reported in accordance with section 200.516(a) of the Uniform Guidance?	Yes
9.	Identification of major federal programs:	

CFDA #	Name of Federal Program
84.063	Federal Pell Grant Program

10.	Dollar threshold used to distinguish between Type A and Type B Programs:	$ 750,000
11.	Auditee qualified as low-risk auditee?	No

Section II - Financial Statement Findings

No matters were reported.

Section III - Federal Award Findings and Questioned Costs

Finding Number	CFDA #	Findings	Questioned Costs
2016-001	84.063	Special Tests and Provisions	$ -
2016-002	84.063	Special Tests and Provisions	-

Finding No.: 2016-001
Federal Agency: U.S. Department of Education
Program Name: 84.063 Federal Pell Grant Program
Federal Award No.: OPE ID 03022400
Area: Special Tests and Provisions - Return to Title IV
Questioned Costs: $-

Criteria: Per Volume 5 of 2015-2016 SFA Handbook, Title IV funds are awarded to a student under the assumption that the student will attend school for the entire period for which the assistance is awarded. When a student withdraws, the student may no longer be eligible for the full amount of Title IV funds that the student was originally scheduled to receive.

If a recipient of Title IV grant or loan funds withdraws from a school after beginning attendance, the amount of Title IV grant or loan assistance earned by the student must be determined. If the amount disbursed to the student is greater than the amount the student earned, the unearned funds must be returned.

Per 2015-2016 SFA Handbook, some schools can opt to use the 50% point as the withdrawal date for a student who unofficially withdraws in determining earned Title IV aid. Further, a school must return unearned funds for which it is responsible, but no later than 45 days from the determination of a student's withdrawal.

Condition: For one (or 4%) of twenty-five student awards tested, totaling $63,525 out of a total population of $4,146,363 in federal student aid, the following deficiency was noted:

#	Description	Final Grade Report
1	Student FA1500733 (Award Amount: $1,444; Fall 2015) attempted 13 credits and completed 0. Student completely withdrew from all courses on 11/11/15. Return of unearned Title IV funds was performed on 02/16/17.	1 NP, 1 W, 2 F's

Cause: The cause of the above condition is untimely monitoring of student academic progress throughout the semester, which stems from a lack of policies and procedures regarding the updated student enrollment status.

Effect: The effect of the above condition is potential noncompliance with special tests and provision requirements related to the return to Title IV. No interest liability or questioned costs result as funds were returned to the Grantor Agency; however, the finding remains as it was performed 463 days after the student's withdrawal.

Recommendation: We recommend that CMI strengthen internal control policies and procedures to monitor students' academic progress and communicate properly with all other appropriate departments. We further recommend that the College monitor unearned funds for remittance in a timely manner.

Views of Auditee and Planned Corrective Actions: The College of the Marshall Islands agrees with the finding and recommendation and will adhere to the corrective action plan on page 39 in this audit report.

Finding No.: 2016-002
Federal Agency: Department of Education
Program Name: 84.063 Federal Pell Grant Program
Federal Award No.: OPE ID 03022400
Area: Special Tests and Provisions - Disbursements To or On Behalf of Students
Questioned Costs: $-

Criteria: Per Chapter 1 of Volume 4: 2015-2016 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."

Per 2015-2016 SFA Handbook, if a school attempts to disburse the credit balance by check and the check is not cashed, the school must return the funds no later than 240 days after the date the school issued the check.

Condition: Tests of student refund disbursements and related payables noted the following:

- For one (or 3%) of thirty-four student refunds tested totaling $1,444, the College did not release a refund owed within the 14-day time frame. Details follow:

DocNum	Pell List #	Award Amount	Refund Check #	Refund Amount	Last Day to Charge Account	Refund Date	Days Elapsed
447-001	Pell Award - Summer 2016	$1,444	9978	$ 99	07/15/2016	08/19/2016	26

- There are $44,316 of student refunds payable as of September 30, 2016. Approximately $22,592 was aged over 240 days and such should have been returned to the U.S. Department of Education no later than September 30, 2016. Funds were untimely returned to the U.S. Department of Education on November 25, 2016 and cleared the College's account on December 7, 2016 as agreed to check #10778 in the amount of $38,379, which included the aged refunds payable noted above.

Cause: The cause of the above condition is a failure to ascertain that compliance with federal regulations was met.

Effect: The effect of the above condition is noncompliance with the criteria. No questioned cost is raised as checks were issued to students and unclaimed funds were returned to the grantor.

Identification as a Repeat Finding: Finding number 2015-002.

Recommendation: We recommend that the College continue to strengthen control policies and procedures to comply with applicable federal regulations on issuing Pell students and returning unclaimed refunds to the Agency on a timely basis. The College should consider appointing an appropriate Business Office personnel to monitor the timely issuance of Pell refunds, as well as the return of unclaimed refunds to the agency within the required timeframe.

Views of Auditee and Planned Corrective Actions: The College of the Marshall Islands agrees with the finding and recommendations provided by the external auditors and will adhere to the corrective action plan on page 39 in this audit report.

COLLEGE OF THE MARSHALL ISLANDS

Corrective Action Plan
Year Ended September 30, 2016

2016-001 - Special Tests and Provisions - Return to Title IV

Name of Contact Person: Kotton, Stevenson (Chief Financial Officer)

Corrective Action Plan: The Business Office is currently working with the responsible units at Student Services to review the existing policies and procedures to ensure proper internal controls are in place and systematically implemented. As part of the corrective action plan, Business Office, Financial Aid Office, and Registrar Office will meet on a quarterly basis to perform reconciliation of student records. Furthermore, the College has returned the unearned Title IV funds back to the US Department of Education.

Proposed Completion Date: The College will implement the above corrective action(s) immediately.

2016-002 - Special Tests and Provisions - Disbursements To or On Behalf of Students

Name of contact person: Kotton, Stevenson (Chief Financial Officer)

Corrective Action Plan: The College has already made the necessary changes in administering the Pell refunds to ensure timely issuance of Pell refunds. Furthermore, as part of the College's way forward in improving management student Pell under Title IV grant, unclaimed student refunds will be reimbursed back to the US Department of Education within sixty days after refund checks are processed and become available for the student.

Proposed Completion Date: The College has implemented the above corrective action.

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Prior Audit Findings
Year Ended September 30, 2016

Finding Number	CFDA	Questioned Costs Reported in FY15	Questioned Costs Resolved in FY16	Remaining Questioned Cost as of FY16	Status and Corrective Action Plan
2013-002	15.875	$ -	$ -	$ -	Resolved per UG section 200.511(b)(3)
2013-003	84.047	4,210	4,210	-	Resolved per U.S. Ed. determination letter received on 2/10/15
2014-002	15.875	-	-	-	Not resolved; CMI is currently in communication with the grantor agency
2014-003	84.063	-	-	-	Not resolved; CMI is currently in communication with the grantor agency
2014-004	84.063	-	-	-	Not resolved; CMI is currently in communication with the grantor agency
2015-001	N/A	-	-	-	The College continuously addresses these inactive accounts, which decreased from 22 accounts as of September 30, 2015 to 12 accounts as of September 30, 2016. Majority of the remaining inactive accounts were under the oversight of the former VP of Academic Affairs and assessment will be completed by the College in fiscal year 2017.
2015-002	84.063	-	-	-	Resolved per U.S. Ed. determination letter received on 12/29/16
		$ 4,210	$ 4,210	$ -	