COLLEGE OF THE MARSHALL ISLANDS

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2018 AND 2017

COLLEGE OF THE MARSHALL ISLANDS

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Years Ended September 30, 2018 and 2017

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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, 2018 and 2017, 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, 2018 and 2017, 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-Matter

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 regard to these matters are also described in Note 10 to the financial statements. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Due From/Due To Grantor Agencies

As discussed in Note 10 to the financial statements, the College is currently negotiating with grantor agencies to determine the ultimate collectability of certain receivables from grantor agencies and the ultimate resolution of certain payables to grantor agencies. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 10 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 31, 2019, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the College's 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

July 31, 2019

COLLEGE OF THE MARSHALL ISLANDS

Management's Discussion and Analysis
Years Ended September 30, 2018 and 2017

Introduction

This section of the College of the Marshall Islands Annual Financial Report presents an analysis of the financial activities of the College for fiscal year ended September 30, 2018. 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 financial analysis and discussion is designed to focus on current activities, resulting changes and current known facts.

Accounting Standards

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

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

For 2018, 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, 2018, as compared to two Fiscal Years 2017, and 2016.

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 organizational environment, strategic direction, financial status, student enrollment, human resources, facilities, and institutional capacity. In evaluating financial status of the College of the Marshall Islands, one of the most important questions is whether the College is financially better off at the beginning of the year or at the end of the year. In FY2018, the College overall financial position was a decrease in net position amount to $14,632,966 as of September 30, 2018 compared to prior year $16,456,801.

Statement of Net Position

The Statement of Net Position presents the overall financial condition of CMI at the end of September 30, 2018. Total net position stood at $14,632,966, which represents a decrease of $1,817,835 or 11.05 percent from that of previous year.

	2018	2017	2016
Assets			
Current assets	$ 3,837,289	$ 4,253,797	$ 3,308,070
Investments	1,569,512	1,294,591	1,164,819
Capital assets	12,976,105	14,152,576	15,336,532
Total Assets	**$ 18,382,906**	**$19,700,964**	**$19,809,421**
Liabilities			
Current Liabilities	$ 3,749,940	$ 3,250,163	$ 2,931,412
Net Position			
Net investment in capital assets	12,976,105	14,152,576	15,336,532
Restricted-Nonexpendable	1,569,512	1,294,591	1,164,819
Restricted-Expendable	-	-	626,941
Unrestricted	87,349	1,003,634	(250,283)
Total Net Position	**14,632,966**	**16,450,801**	**16,878,009**
Total Liabilities & Net Position	**$ 18,382,906**	**$19,700,964**	**$19,809,421**

Management's Discussion and Analysis for the year ended September 30, 2017 is set forth in the College's report on the audit of the financial statements, which is dated July 17, 2018. That Discussion and Analysis explains the major factors impacting the 2017 financial statements and can be obtained from the College's President at **info@cmi.edu**.

A. Financial data for FY18 showed that Total Assets shrank by $1,318,058 or 6.69 percent vis-à-vis FY17. This can be attributed to the following:

   1. The contraction of the Capital Assets and Current Asset accounted for bulk of the significant provision that reduced the Net Book Value amounting to $1,176,471 or 8.31 percent and $416,508 or 9.79 percentage, respectively. The College's Investments helped offset the shrinkage of the Total Assets by $274,921 or 21.24 percent points. Listed below are the details of the changes in the components of Total Assets:

      a) Increase in Cash and Cash Equivalents by $313,427 or 20.74 percent compared to prior year.

      b) The Accounts Receivable and Unbilled Charges for FY18 amount to $920,683 which decreased by $327,099 or 26.21 percent. The robust decrease can be attributed to the College's initiatives to provide financial workshops for students and creative strategies to improve working relationship and coordination with stakeholders including the granting agencies.

      c) Prepaid Expenses amount to $145,890 in FY2018 compared to $185,242 in 2017. Although the trend continues to decrease compared to prior year, the College will need to improve the practice in liquidating existing open prepayments from various vendors.

      d) Bookstore Inventory registered a moderate decrease of $28,895 or 5.16 percent. With the centralization of all purchases at the Bookstore and the new strategies to expand the operation, the inventory is expected to modestly close the gap compared to prior year. These strategies are needed to meet the growing enrollment figures and improve efficiency in addressing the need for materials and supplies for all CMI Departments, CMI Employees, and the general public.

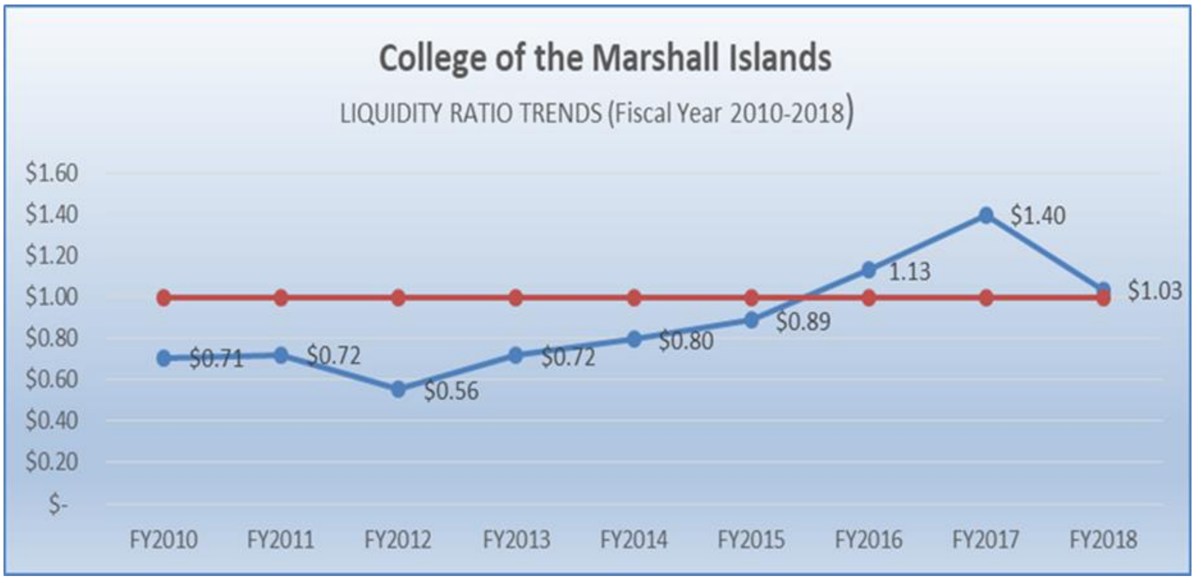
   2. CMI's Investment outcomes in FY2018 reported at $1,569,512 compared to prior year investment outcomes of $1,294,591, which is an increase of $274,921 or 21.24 percent.

   3. With the completion of CMI's Capital Improvement Projects six (6) years ago, Capital Assets continue to show a downward trend and this will likely continue in the succeeding years due to minimal capital investment on new facilities. For FY18, there was a moderate decrease in Property, Plant and Equipment by $1,176,471 or 8.54 percent due to the regular provision of depreciation expense on capital assets and disposing of assets which reduced the Net Book Value of the Capital Assets.

B. The scarcity and timing of the inflow of cash that perpetually hounds CMI still remains an ongoing constraint in meeting its plans and programs but with CMI's conservative approach to its overall finances, CMI is able to continue serving the students, vendors, employees and other government offices and agencies. The College must be financially prudent with its spending behavior to maintain and improve the College's long-term financial stability. For FY18, current obligations indicated an increase of $499,777 or 15.38 percent which is due to increase in obligations to Grantors and Unearned revenue of $162,090 or 22.34 percent and $146,461 or 10.33 percent respectively while others accounted for 17.29 percent.

C. The College has not incurred any Long Term Debt to date.

D. One of the financial indicators that use to measure the institution's financial capacities to meet its current obligation is the current or liquidity ratio. At the end of September 30, 2018, the College's current ratio or liquidity ratio dropped by $0.29 to improve at 1.02:1 compared to prior year. This benchmark can be interpreted that CMI has $1.02 in its coffers for every 1 dollar the College obligated. This significant drop in CMI's purchasing power is a result of multiple financial factors. Although the College's cash and cash equivalent increased by 21 percent; the Receivables e dropped by 26 percent compared to prior year. The College's Liabilities had an overall increase of $500K or 15 percent compared to prior year. Although the liquidity ratio trend show a downward slope on the College's purchasing power, the College's financial initiatives and other indicators show a promising future.



E. The favorable outcome of Unrestricted Net Position which is the difference of Current Assets and Current Liabilities was a major development going forward since this has been CMI's financial concerns since FY2011 as a result of financial challenges created nine years ago. This is the third year since 2009 when CMI had accumulated surpluses in working capital.

Statement of Revenues, Expenses and Changes in Net Position

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

Operating Revenues are received by the College for providing goods and/or services to the students, customers and various constituencies of the College. Operating Expenses are paid 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.

	2018	**2017**	**2016**
Operating Revenues	$ 6,758,268	$ 6,939,211	$ 7,919,466
Operating Expenses	12,900,788	12,049,341	11,305,557
Operating Loss	(6,117,129)	(5,110,130)	(4,902,643)
Non-operating revenues (expenses)	4,324,686	4,682,922	2,854,059
Capital Contributions	-	-	463,677
Change in Net Position	(1,817,835)	(427,208)	(68,355)
Net Position-beginning of year	16,450,801	16,878,009	16,946,364
Net Position-end of year	**$ 14,632,966**	**$ 16,450,801**	**$ 16,878,009**

For FY18, total Operating Revenues showed a moderate decrease by $180,943 or 2.61% as compared to FY17. This decrease is attributed to the following: to wit:

1. There was an increase in Scholarship Discounts and Allowances amounting to $397,676 or 10.78%. This was the result of an increase in the number of enrollment figures compared with FY17. Although Student tuition and fees increased by $432,133, it was nearly offset by the Scholarship Discounts and Allowances.

2. Donations to the College by way of Private, Gifts, Grants and Donations also decreased by $175,549 or 74.67%.

3. On the other hand, Auxiliary Enterprises had a marginal increase of $24,504 or 2.83%.

Total Operating Expenses for FY18 portrayed a major increase in the amount of $851,448 or 7.07% in comparison with FY17. Major drivers to the increase in numbers were Instruction [$719,069 or 15.08%], Institutional Support [$275,707 or 11,.15%] and Academic Support Services [$143,483 or 36.52]. The only functional classification of expenses that registered decrement were Auxiliary Enterprises [$62,334 or 7.01%], Student Services [$43,605 or 8.14%] and Operation and Maintenance [$155,497 or 4.92].

For FY18, Total Operating Revenues was offset by the total Operating Expenses and it resulted to a total Operating Loss of $6,142,521 or an increase of $1,032,391 or 20.20% from FY17.

CMI's Non-Operating Revenues (Expenses) showed a downward swing by $358,236 or 7.65%. This was brought by the decreased in Investment Income by $64,361 or 52.72% compared to prior year and RepMar Contribution decreased by $292,961 or 6.42% compared to prior year.

It is worthy to note that REPMAR Contributions and Compact Funds channeled through the RMI from the Compact of Free Association with the U.S. are classified as Non-Operating Revenues. CMI is a chartered governmental institution whose mission is to provide higher education services to the Marshall Islands and within the Pacific Rim. The College operation depends heavily on RMI government through the annual subsidies and has committed to provide an annual $3 million dollar subsidy (less audit fees) to CMI through an MOU signed on October 2015. For FY17, CMI received a total of $4,271,769 to support the College's annual operations.

Change in Net Position for FY18 resulted to a further reduction in the negative amount by $1.4million vis-à-vis FY17.

In summary, Net Position for FY18 settled at $14,632,966, down from $16,450,801, a decrease of $1.8million or 11.05%.

Statement of Cash Flows

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

	2018	2017	2016
Cash Provided by (used in):			
Operating Activities	$ (3,526,524)	$ (3,377,465)	$ (4,012,959)
Noncapital financing activities	4,271,769	4,579,366	4,321,649
Capital and related financing activities	(214,606)	(278,346)	(101,765)
Investing activities	(217,212)	(7,702)	(90,394)
Net Change in cash	313,427	915,853	116,531
Cash-beginning of year	1,511,538	595,685	479,154
Cash & cash equivalents-end of year	**$ 1,824,965**	**$ 1,511,538**	**$ 595,685**

Cash and cash equivalents which registered at $1,824,965 showed an increase of $313,427 or 20.74% from FY176. This was brought by the following, to wit:

1. Cash inflows from operating activities were primarily from student tuition and fees, US Federal grants and other receipts with aggregate amount of $7,721,954. Cash outflows from operating activities amounting to $11,248,478 were payment to employees, consultants, contractors and suppliers for various goods and/or services rendered. The net cash used in operating activities for FY18 resulted to an unfavorable $3,526,524 and compared to FY17, it increased by $149,059 or 4.41%.

2. Noncapital financing activities likewise registered a decrease totaling $307,597 or 6.72% compared with FY17. This was mainly due to the government's unwavering commitments to the College in maintaining the level of subsidy commitment.

3. Cash in the amount of $214,606 was used in the purchase of capital assets.

4. Net cash used in investing activities showed a minimal amount of $217,212. This was brought by the difference of cash outflows for the purchase of investments totaling $217,212 along with zero interest and dividends. In comparison to FY17 figures, there was in increase in investing activities by $209,510.

5. Overall, CMI showed a strong cash position at the end of FY18 at $1,824,965, an increase of $313,427 or 20.74% in comparison to FY17 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. Although the MOU between the College 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 FY2018 and renewable on a yearly basis.

Summary:

1) CMI's Total Net Position for FY18 settled at $14,632,966 compared to prior year totaling $16,450,801.

2) CMI's Investment (Endowment Fund) for FY2018 stood at $1,569,512 compared to prior year totaling $1,294,591.

3) Current or liquidity ratio is 1.02 cents to 1 dollar, decreased by 0.29 cents compared to prior year.

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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).

4) Current working capital which is the difference of current assets and current liability stood at a surplus of $87,349. This is the third year that CMI has maintained a positive working capital.

5) The Statement of Net Position is highlighted by the College's attempt to maintain a positive Unrestricted Net Assets of $87,349 for a consecutive of two years now. Prior to last year, the College had a zero Unrestricted Net Asset for five year-in-a-row following years of accumulated deficits in unrestricted spending.

6) 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 FY2018 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.

7) 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.

8) CMI showed a strong cash position at the end of FY18 at $1,824,965, an increase compared to FY2017 at $1,511,538.

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

COLLEGE OF THE MARSHALL ISLANDS

Statements of Net Position
September 30, 2018 and 2017

	2018	2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ 5,056	$ 376,768
Time certificates of deposit	1,819,909	1,134,770
Accounts receivable and unbilled charges, net	920,683	1,247,782
Due from grantor agencies	415,105	749,694
Prepaid expenses	145,890	185,242
Inventory	530,646	559,541
Total current assets	3,837,289	4,253,797
Noncurrent assets:		
Investments	1,569,512	1,294,591
Capital assets:		
Nondepreciable capital assets	372,306	372,306
Capital assets, net of accumulated depreciation	12,603,799	13,780,270
Total noncurrent assets	14,545,617	15,447,167
Total assets	$ 18,382,906	$ 19,700,964
LIABILITIES AND NET POSITION		
Current liabilities:		
Accounts payable	$ 517,319	$ 483,605
Withholding taxes payable	77,029	19,610
Social security taxes payable	276,176	258,548
Student refunds payable	17,953	24,506
Due to grantor agencies	887,668	725,578
Accrued liabilities	408,964	319,946
Unearned revenue	1,564,831	1,418,370
Total current liabilities	3,749,940	3,250,163
Commitments and contingencies		
Net position:		
Net investment in capital assets	12,976,105	14,152,576
Restricted:		
Endowment - nonexpendable	1,569,512	1,294,591
Unrestricted	87,349	1,003,634
Total net position	14,632,966	16,450,801
Total liabilities and net position	$ 18,382,906	$ 19,700,964

See accompanying notes to financial statements.

COLLEGE OF THE MARSHALL ISLANDS

Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2018 and 2017

	2018	2017
Operating revenues:		
Student tuition and fees	$ 4,439,729	$ 4,007,596
Less: Scholarship discounts and allowances	(4,085,717)	(3,688,041)
	354,012	319,555
U.S. federal grants	5,287,451	5,306,532
Private gifts, grants and donations - restricted	59,561	235,110
Auxiliary enterprises	891,757	867,253
Other	165,487	210,761
Net operating revenues	6,758,268	6,939,211
Operating expenses:		
Instruction	5,294,837	4,601,143
Institutional support	2,748,455	2,472,748
Operations and maintenance	3,002,578	3,158,075
Auxiliary enterprises	826,511	888,845
Academic support	536,360	392,877
Student services	492,048	535,653
Total operating expenses	12,900,789	12,049,341
Operating loss	(6,142,521)	(5,110,130)
Nonoperating revenues (expenses):		
RepMar contributions	4,271,769	4,564,730
Loss on disposal/transfer of capital assets	(4,792)	(3,878)
Investment income	57,709	122,070
Total nonoperating revenues (expenses), net	4,324,686	4,682,922
Change in net position	(1,817,835)	(427,208)
Net position at beginning of the year	16,450,801	16,878,009
Net position at end of the year	$ 14,632,966	$ 16,450,801

See accompanying notes to financial statements.

COLLEGE OF THE MARSHALL ISLANDS

Statements of Cash Flows
Years Ended September 30, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Cash received from student tuition and fees	$ 868,061	$ 784,866
Cash received from U.S. federal grants	5,435,020	5,127,961
Other receipts	1,418,873	1,431,837
Cash payments to employees for services	(4,370,773)	(4,296,841)
Cash payments to suppliers for goods and services	(6,877,705)	(6,425,288)
Net cash used in operating activities	(3,526,524)	(3,377,465)
Cash flows from noncapital financing activities:		
RepMar contributions received	4,271,769	4,579,366
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(214,606)	(278,346)
Cash flows from investing activities:		
Net change in time certificates of deposit	(685,139)	(575,151)
Purchase of investments	(217,212)	(7,702)
Net cash used for investing activities	(902,351)	(582,853)
Net change in cash and cash equivalents	(371,712)	340,702
Cash and cash equivalents at beginning of year	376,768	36,066
Cash and cash equivalents at end of year	$ 5,056	$ 376,768
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	$ (6,142,521)	$ (5,110,130)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	1,386,285	1,458,424
Bad debts	1,268,291	464,784
Changes in assets and liabilities:		
Accounts receivable and unbilled charges	(941,192)	48,376
Prepaid items	39,352	(26,363)
Due from grantor agencies	334,589	(749,694)
Inventory	28,895	218,387
Accounts payable	33,714	(303,155)
Withholding taxes payable	57,419	(35,658)
Social security taxes payable	17,628	59,946
Student refunds payable	(6,553)	(19,810)
Due to grantor agencies	162,090	571,123
Accrued liabilities	89,018	(44,369)
Unearned revenue	146,461	90,674
Net cash used in operating activities	$ (3,526,524)	$ (3,377,465)

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 governed by a Board of Regents appointed by the Republic of the Marshall Islands (RepMar) Cabinet pursuant to the College of the Marshall Islands Act of 1992 (Public Law 1992-13). 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 Statement Nos. 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,* Statement No. 38, *Certain Financial Statement Note Disclosures,* and Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statement Nos. 14 and 34.*

Basis of Accounting

For financial statement purposes, the College is considered a special-purpose government entity engaged only in business-type activities. Accordingly, the College's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All significant intra-agency transactions have been eliminated.

Cash and Cash Equivalents and Time Certificates of Deposit

Cash and cash equivalents include cash on hand, cash held in demand and savings accounts, and short-term investments in U.S. Treasury obligations with maturity dates within three months of acquisition by the College. Time certificates of deposit with original maturity dates greater than ninety days are separately classified on the statement of net position.

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.

(2) Summary of Significant Accounting Policies, Continued

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.

Capital Assets

Capital assets 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.

Compensated Absences

The College recognizes the cost of accrued annual leave at the time such leave is earned. As of September 30, 2018 and 2017, the College recorded $141,512 and $143,374, 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.

(2) Summary of Significant Accounting Policies, Continued

Net Position, Continued

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.

Reclassifications

Certain balances in the 2017 presentation have been reclassified to conform to the 2018 presentation. These reclassifications had no impact on operating loss, net position or cash flows.

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.

(2) Summary of Significant Accounting Policies, Continued

Classification of Revenues and Expenses, Continued

Scholarship Discounts and Allowances - Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the Statement of Revenues, Expenses, and Changes in Net 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, 2018 the College implemented the following pronouncements, which did not have a material effect on the College's financial statements:

- GASB 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.

- GASB 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.

- GASB Statement No. 85, *Omnibus 2017*, which address practice issues that have been identified during implementation and application of certain GASB Statements including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits).

- GASB Statement No. 86, *Certain Debt Extinguishment Issues*, which improves consistency in accounting and financial reporting for in-substance defeasance of debt.

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs) associated with the retirement of a tangible capital asset. The provisions in Statement No. 83 are effective for fiscal years beginning after June 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of all state and local governments. The provisions in Statement No. 84 are effective for fiscal years beginning after December 15, 2018. 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 June 2017, GASB issued Statement No. 87, *Leases*, which establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The provisions in Statement No. 87 are effective for fiscal years beginning after December 15, 2019. Management has yet to determine whether the implementation of this statement will have a material effect on the financial statements.

In April 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, which improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. The provisions in Statement No. 88 are effective for fiscal years beginning after June 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The provisions in Statement No. 89 are effective for fiscal years beginning after December 15, 2019. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In August 2018, GASB issued Statement No. 90, *Majority Equity Interests – an Amendment of GASB Statements No. 14 and No. 61,* which improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and the relevance of financial statement information for certain component units. The provisions in Statement No. 90 are effective for fiscal years beginning after December 15, 2018. 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%

A. Deposits

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

(3) Deposits and Investments, Continued

A. Deposits, Continued

As of September 30, 2018 and 2017, the carrying amounts of the College's total cash and cash equivalents and time certificates of deposit were $1,824,965 and $1,511,538, respectively, and the corresponding bank balances were $1,979,760 and $1,766,587, respectively. Of the bank balance amounts, $150,665 and $628,035, respectively, are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2018 and 2017, bank deposits in the amount of $150,665 and $250,000, respectively, were FDIC insured. Bank deposits of $1,829,095 and $1,138,552, respectively, are maintained in financial institutions not subject to depository insurance. The College does not require collateralization of its 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, 2018 and 2017, investments are as follows:

	2018	2017
Money market funds	$ 3,656	$ 4,647
Exchange traded products	581,506	325,185
Mutual funds	984,350	964,759
	$ 1,569,512	$ 1,294,591

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, 2018 and 2017, 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, 2018 and 2017, 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, 2018 and 2017:

		Fair Value Measurements Using		
	September 30, 2018	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:				
Exchange traded products	$ 581,506	$ 581,506	$ -	$ -
Mutual funds	984,350	984,350	-	-
Total investments by fair value level	1,565,856	$ 1,565,856	$ -	$ -
Investments measured at amortized cost:				
Money market funds	3,656			
	$ 1,569,512			

		Fair Value Measurements Using		
	September 30, 2017	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:				
Exchange traded products	$ 325,185	$ 325,185	$ -	$ -
Mutual funds	964,759	964,759	-	-
Total investments by fair value level	1,289,944	$ 1,289,944	$ -	$ -
Investments measured at amortized cost:				
Money market funds	4,647			
	$ 1,294,591			

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

(4) Accounts Receivable and Unbilled Charges

Summarized below is the College's accounts receivable and unbilled charges as of September 30, 2018 and 2017:

	2018	2017
Student tuition and fees	$ 4,145,375	$ 3,251,225
Employees and officers	110,732	72,701
Other	70,809	61,798
	4,326,916	3,385,724
Less allowance for doubtful accounts	(3,406,233)	(2,137,942)
Net accounts receivable and unbilled charges	$ 920,683	$ 1,247,782

(5) Capital Assets

Summarized below is the College's investment in capital assets and changes for the years ended September 30, 2018 and 2017:

		2018			
	Estimated Useful Lives	Balance at October 1, 2017	Additions	Deletions	Balance at September 30, 2018
Nondepreciable capital assets:					
Land and improvements		$ 372,306	$ -	$ -	$ 372,306
Depreciable capital assets:					
Furniture, vehicles and equipment	3 - 5 years	4,727,295	214,606	(1,091,567)	3,850,334
Buildings and improvements	20 years	23,686,120	-	(12,000)	23,674,120
		28,413,415	214,606	(1,103,567)	27,524,454
Less accumulated depreciation		(14,633,145)	(1,386,285)	1,098,775	(14,920,655)
		13,780,270	(1,171,679)	(4,792)	12,603,799
Net investment in capital assets		$ 14,152,576	$ (1,171,679)	$ (4,792)	$ 12,976,105

		2017			
	Estimated Useful Lives	Balance at October 1, 2016	Additions	Deletions	Balance at September 30, 2017
Nondepreciable capital assets:					
Land and improvements		$ 372,306	$ -	$ -	$ 372,306
Depreciable capital assets:					
Furniture, vehicles and equipment	3 - 5 years	4,905,099	236,557	(414,361)	4,727,295
Buildings and improvements	20 years	23,644,331	41,789	-	23,686,120
		28,549,430	278,346	(414,361)	28,413,415
Less accumulated depreciation		(13,585,204)	(1,458,424)	410,483	(14,633,145)
		14,964,226	(1,180,078)	(3,878)	13,780,270
Net investment in capital assets		$ 15,336,532	$ (1,180,078)	$ (3,878)	$ 14,152,576

(6) 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, 2018 and 2017, the College received $4,271,769 and $4,564,730, respectively, from RepMar to administer various postsecondary functions and to improve facilities as follows:

	2018	2017
General Fund	$ 2,515,603	$ 2,168,403
Compact Funds:		
Education Sector Grant	987,003	987,002
Public Infrastructure Development Sector Grant	500,000	500,000
Ebeye Special Needs Sector Grant	125,000	125,000
Supplemental Education Grant	144,163	288,325
Republic of China Funds	-	248,000
Public School System	-	248,000
	$ 4,271,769	$ 4,564,730

For the year ended September 30, 2019, the Nitijela of RepMar appropriated $4,236,218 to fund operations of the College, $500,000 to fund preventive maintenance of capital assets, and $100,000 for the College's endowment fund.

(7) Functional Classifications with Natural Classifications

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

2018

	Salaries	Benefits	Services	Supplies	Insurance, Utilities and Rent	Depreciation	Miscellaneous	Total
Instruction	$ 2,317,041	$ 716,064	$ 97,011	$ 130,552	$ 60,122	$ 100,825	$ 1,873,222	$ 5,294,837
Academic support	260,758	89,232	8,875	25,356	-	87,605	64,534	536,360
Student services	299,088	60,714	-	17,566	2,092	2,929	109,659	492,048
Institutional Support	903,309	851,303	193,875	105,972	189,540	40,948	463,508	2,748,455
Operations and Maintenance	652,763	109,163	2,618	333,279	565,255	1,135,326	204,174	3,002,578
Auxiliary Enterprises	26,832	5,435	-	2,076	250	18,652	773,266	826,511
	$ 4,459,791	$1,831,911	$ 302,379	$ 614,801	$ 817,259	$ 1,386,285	$ 3,488,363	$ 12,900,789

2017

	Salaries	Benefits	Services	Supplies	Insurance, Utilities and Rent	Depreciation	Miscellaneous	Total
Instruction	$ 2,161,366	$ 680,735	$ 129,925	$ 162,602	$ 39,212	$ 151,764	$ 1,275,539	$ 4,601,143
Academic support	179,459	36,816	-	12,675	24	89,960	73,943	392,877
Student services	300,052	71,748	-	67,379	4,669	3,040	88,765	535,653
Institutional Support	938,455	663,292	114,750	106,503	175,527	32,735	441,486	2,472,748
Operations and Maintenance	648,672	105,853	(3,750)	219,619	536,458	1,148,457	502,766	3,158,075
Auxiliary Enterprises	24,468	3,537	-	1,498	2,740	32,468	824,134	888,845
	$ 4,252,472	$1,561,981	$ 240,925	$ 570,276	$ 758,630	$ 1,458,424	$ 3,206,633	$12,049,341

(8) 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.

(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 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, 2037.

On March 24, 2014, the College executed a lease agreement for a parcel of land at Lotodrik and Barkan Wetos in Uliga. The lease commenced April 1, 2014 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,	
2019	$ 94,484
2020	94,484
2021	97,684
2022	97,684
2023	97,684
2024 - 2028	498,018
2029 - 2033	264,418
2034 - 2038	99,418
2039 - 2043	79,418
2044	15,884
	$ 1,439,174

(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. During the years ended September 30, 2018 and 2017, the College incurred losses from operations of $6,142,521 and $5,110,130, respectively.

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.

Due From/Due To Grantor Agencies

The College has participated in a number of grant programs. As of September 30, 2018 and 2017, the College has recorded certain receivables due from grantor agencies of $415,105 and $749,694, respectively, which remain uncollected, and certain payables due to grantor agencies of $887,668 and $725,578, respectively, which remain unpaid. The College is currently negotiating with these grantors for a final determination insofar as collection on outstanding receivables and payment on outstanding obligations. With respect to the uncollected receivables from grantor agencies, the College's management believes that collection efforts will be favorable and thus no allowance for uncollectible accounts is considered necessary. With respect to the unpaid obligations payable to grantor agencies, the College's management believes the ultimate disposition of these liabilities can be determined only by final action of the respective grantor agencies. Therefore, no provision for any liability that may result upon resolution of this matter has been made in the accompanying financial statements.

Sick Leave

It is the policy of the College to record expenditures for sick leave when leave is actually taken. Sick leave is compensated time for absence during working hours arising from employee illness or injury. The estimated accumulated sick leave at September 30, 2018 and 2017 was $120,622 and $138,279, 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. On February 3, 2017, ACCJC took action to remove the Warning. The College's next comprehensive review will be held in 2021.

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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 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, 2018, 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 July 31, 2019. Our report includes emphasis-of-matter paragraphs regarding a going concern uncertainty and grantor agency receivables and payables.

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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as item 2018-001 that we consider to be material weaknesses.

Compliance and Other Matters

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

The College's Response to Findings

The College's response to the findings identified in our audit is described in the accompanying Corrective Action Plan. The College's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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

July 31, 2019

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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 the College's major federal programs for the year ended September 30, 2018. 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 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, 2018.

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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 2018-002 through 2018-006. 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 is 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 a 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 have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control over compliance, described in the accompanying Schedule of Findings and Questioned Costs as items 2018-002 through 2018-006, that we consider to be significant deficiencies.

The College's response to the internal control over compliance findings identified in our audit is 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.

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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, 2018, and have issued our report thereon dated July 31, 2019, which contained an unmodified opinion on those financial statements and which report included emphasis-of-matter paragraphs regarding a going concern uncertainty and grantor agency receivables and payables. 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

July 31, 2019

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2018

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Pass-Through Entity Identifying Number	Federal CFDA Number	Expenditures/ Adjustments FY2018
U.S. DEPARTMENT OF AGRICULTURE			
Direct Program			
Forest Stewardship Program		10.678	$ 4,716
TOTAL U.S. DEPARTMENT OF AGRICULTURE			$ 4,716
U.S. DEPARTMENT OF THE INTERIOR			
Direct Program			
Economic, Social and Political Development of the Territories:			
TAP-RMI-CMI-2014-4-TECHNICAL ASSISTANCE PROGRAM		15.875	$ 10,682
CRI-RMI-10 Coral Reef Protection		15.875	24,850
CRI-RMI-11 Coral Reef Initiative Program		15.875	108,859
Subtotal U.S. Department of the Interior Direct Program			144,391
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:			
Education Sector Grant		15.875	987,003
Capital Projects Fund - Facilities		15.875	503,694
Supplemental Education Grant		15.875	144,163
Ebeye Special Needs - Adult Education		15.875	125,624
Subtotal U.S. Department of the Interior Pass-Through Programs			1,760,484
TOTAL U.S. DEPARTMENT OF THE INTERIOR			$ 1,904,875

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, 2018

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Pass-Through Entity Identifying Number	Federal CFDA Number	Expenditures/ Adjustments FY2018
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	$ 7,321
Partnership for Advance Marine Science		47.Unknown	15,394
Subtotal Research and Development Cluster			22,715
TOTAL U.S. NATIONAL SCIENCE FOUNDATION			$ 22,715
U.S. DEPARTMENT OF EDUCATION			
Direct Program			
TRIO Cluster:			
TRIO-Upward Bound		84.047	$ 265,346
Subtotal TRIO Cluster			265,346
Student Financial Assistance Cluster:			
Federal Pell Grant Program		84.063	4,708,765
Subtotal Student Financial Assistance Cluster			4,708,765
Subtotal U.S. Department of Education Direct Programs			4,974,111
Pass-Through From the Research Corporation of the University of Hawaii (RCUOH)	07-252-7344		
Special Education - Personnel Development to Improve Services and Results for Children with Disabilities		84.325	251,189
TOTAL U.S. DEPARTMENT OF EDUCATION			$ 5,225,300
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	$ 47,531
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			$ 47,531
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 7,205,137

Reconciliation to financial statements:

Total expenditures of federal awards	$ 7,205,137
Depreciation	1,386,285
Non-federal expenses	4,309,367
Total operating expenses per financial statements	$ 12,900,789

See accompanying notes to Schedule of Expenditures of Federal Awards.

(1) Scope of Audit

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 governed by a Board of Regents appointed by RepMar's Cabinet pursuant to the College of the Marshall Islands Act of 1992 (Public Law 1992-13). 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 for the Single Audit.

(2) Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of the College under programs of the Federal Government for the year ended September 30, 2018. 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.

(3) Summary of Significant Accounting Policies

Basis of Accounting

All expenditures and capital outlays that represent the federal share are reported as expenditures. Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain 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 financial statements. No amounts were passed through to subrecipients. Pass-through entity identifying numbers are presented where available.

(4) Indirect Cost Allocation

The College has not entered into an approved indirect cost negotiation agreement covering the year ended September 30, 2018. The College did not elect to use the de minimis indirect cost rate allowed under the Uniform Guidance and did not charge federal programs for indirect costs during fiscal year 2018.

(5) CFDA # 15.875

CFDA # 15.875 represents funding from the Office of Insular Affairs (OIA), U.S. Department of the Interior. Funding from this source is subject to varying rules and regulations since OIA administers the Compact of Free Association (the Compact), which is a treaty, and is not a federal program. The Compact is comprised of various funded programs, each with separate compliance requirements. To maximize audit coverage of OIA funding, the OIG has recommended that programs administered under CFDA # 15.875 be grouped by like compliance requirements and such groupings be separately evaluated for purposes of major program determinations.

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs
Year Ended September 30, 2018

Section I - Summary of Auditors' Results

Financial Statements

1.	Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:	Unmodified
	Internal control over financial reporting:	
2.	Material weakness(es) identified?	Yes
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 2 CFR 200.516(a)?	Yes
9.	Identification of major federal programs:	

CFDA #	Name of Federal Program
15.875	Economic, Social and Political Development of the Territories: Compact of Free Association, As Amended
84.063	Student Financial Assistance Cluster: 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

Reference Number	Finding
2018-001	Timely Financial and Compliance Reporting

Section III - Federal Award Findings and Questioned Costs

Reference Number	CFDA #	Finding	Questioned Costs
2018-002	84.063	Cash Management	$ -
2018-003	84.063	Special Tests and Provisions – Return of Title IV Funds	$ -
2018-004	84.063	Special Tests and Provisions – Disbursements To or On Behalf of Students	$ -
2018-005	84.063	Eligibility	$ -
2018-006	15.875	Reporting	$ -

Finding No. 2018-001
Area: Timely Financial and Compliance Reporting

Criteria:

Timely financial reporting should be facilitated by an internal control structure conducive to the preparation and independent review of reconciliations of all significant general ledger accounts.

Condition:

The College did not finalize closing fiscal year September 30, 2018 financial information (trial balance, subsidiary and general ledgers) until May 17, 2019. Further, the College does not have an established set of policies, procedures and controls in place to timely prepare and review reconciliations and reports. During the year ended September 30, 2018, various accounting records did not appear to have been processed and timely updated as evidenced by the following:

1. The Schedule of Expenditures of Federal Awards (SEFA) was not timely updated and completed.

2. Tests of due to/from grantor agencies noted thirty-four (34) non-moving/inactive accounts, which were not timely assessed, monitored and closed out to the appropriate account. This included eleven debit balances aggregating $275,931 and twenty-three credit balances aggregating $419,880.

3. Tests of accounts receivable noted the following:
   1. $60,339 of $88,185 of employee receivables are aged in the prior years (2011-2017).
   2. $10,613 of $80,354 of other receivables are aged in the prior years (2014-2016).

4. Examination of the accounts payable aging schedule indicated ten vendor invoices totaling $30,422 that are aged more than one year, which resulted in a proposed adjustment of $26,973.

5. Tests of other payables noted the following:
   a. Outstanding other payables totaling $105,593 were not cleared or reconciled in a timely manner.
   b. Long outstanding debit balances within other payables amounting to $5,670 remain uncleared or unreconciled.
   c. Meal charges totaling $72,139 were not appropriately accrued.

6. Approximately $144,097 of $153,813 of prepaid expenses relate to prior years (2000-2017).

7. Student records and files were not timely reconciled to the accounting records as of June 30, 2019.

Cause:

The lack of timely year-end closing and the absence of timely review and reconciliation of significant general ledger accounts are the causes of the condition.

Effect:

The trial balance and general ledger account reconciliations were not timely provided for audit purposes and compliance audit requirements were not satisfied on or before June 30, 2019. As a result, noncompliance with Single Audit Reporting requirements resulted.

Finding No. 2018-001, Continued
Area: Timely Financial and Compliance Reporting

Recommendation:

College management should implement internal control procedures to facilitate more timely and accurate general ledger reconciliation processes.

Views of Auditee and Planned Corrective Actions:

See the auditee-prepared Corrective Action Plan.

Finding No.:	2018-002
Federal Agency:	U.S. Department of Education
CFDA Program	84.063 Federal Pell Grant Program
Area:	Cash Management
Questioned Costs:	$0

Criteria:

In accordance with applicable cash management requirements, the College must comply with the following:

- In the absence of a separate bank account for the fund, the institution must identify the balance for federal program that is included in the school's bank account as readily as if those funds were in a separate account.

- To help fulfill its responsibility to safeguard federal funds and ensure they are expended as intended, the institution must perform reconciliation in each FSA program monthly. That is, to provide adequate internal controls, the institution must have a system for comparing separately, for each FSA program, the total draws recorded in G5 in a 30-day period to the amount disbursed to students or returned to the Department and explaining all discrepancies.

Condition:

1. The College does not have a separate bank account for federal funds, and no separate monitoring of bank balances of undisbursed funds was maintained. Further, no monthly reconciliation of drawdowns, of disbursements to students, and of returned funds is prepared.

2. Program requests for drawdown were not based on either actual disbursements or expenditures recorded in the general ledger. Since advance drawdowns were made throughout the fiscal year, an accumulated amount due to grantor of $214,779 was recorded as of September 30, 2018 and the related listing of specific students awarded for undisbursed drawdowns was not provided. The $214,779 balance was recorded as due to grantor, therefore, no related questioned cost was reported.

Cause:

The lack of internal control policies and procedures to meet compliance with federal cash management requirements is the cause of the condition.

Effect:

The College is in noncompliance with applicable cash management requirements and possible misstatement of student financial aid is possible. No questioned costs are raised as we are unable to determine the quantitative impact on the program.

Recommendation:

College management should maintain separate monitoring of bank balances of undisbursed funds and perform timely reconciliation of drawdowns and related disbursements. Further, all fund disbursements should be supported.

Views of Auditee and Corrective Action Plan:

See the auditee-prepared Corrective Action Plan.

Finding No.:	2018-003
Federal Agency:	U.S. Department of Education
CFDA Program	84.063 Federal Pell Grant Program
Area:	Special Tests and Provisions – Return of Title IV Funds
Questioned Costs:	$0

<u>Criteria</u>:

In accordance with applicable special tests and provisions requirement, when a recipient of Title IV grant withdraws from an institution during a payment period or a period of enrollment in which the recipient began attendance, the institution must determine the amount of Title IV aid earned by the student as of the student's withdrawal date. In addition, within 45 days (or within 30 days for students that never began attendance) of becoming aware that the student had withdrawn, deposit or transfers were made into the Federal funds account, electronic transfers were initiated, or checks were issued.

<u>Condition</u>:

1. For 4 (or 36%) of 11 transactions, the return of Title IV funds determinations and/or supporting documentation, such as withdrawal forms to support Title IV aid earned by the student were not provided for the following:

	Student #
1.	4205712
2.	04-243285
3.	2016FA193
4.	2016FA199

2. For 2 (or 18%) of 11 transactions, no adjustments were recorded to student subledger accounts for the returned Title IV funds filed on R2T4 forms for the following:

	Student #
1.	04-243285
2.	2017FA214

Unadjusted amounts aggregated $740. The College subsequently corrected such errors during the audit process.

3. For 1 (or 9%) of 11 transactions, the returned Title IV funds filed on R2T4 form for Student # 2016FA033 did not agree with the actual amount earned and recorded. No amendment or revision of the filing was made as of May 2019.

4. For 3 (or 27%) of 11 transactions, funds were deposited or transferred into the SFA account or electronic funds beyond the 45-days requirement after the date the institution determined that the student withdrew for the following:

	Student #
1.	641380823
2.	04-243285
3.	2017FA214

Finding No.:	2018-003, Continued
Federal Agency:	U.S. Department of Education
CFDA Program	84.063 Federal Pell Grant Program
Area:	Special Tests and Provisions – Return of Title IV Funds
Questioned Costs:	$0

Cause:

The lack of adequate internal control procedures to satisfy compliance with federal special tests and provisions for the return of Title IV funds is the cause of the condition.

Effect:

The College is in noncompliance with applicable special tests and provisions requirements. No questioned costs are presented as we are unable to determine the quantitative impact on the program. The finding is reportable since the projected questioned costs more likely exceeds the $25,000 threshold.

Recommendation:

College management should implement internal control over monitoring, timely filing, maintaining source documents and accurate calculation of return of Title IV funds.

Identification as a Repeat Finding: Finding 2017-001

Views of Auditee and Corrective Action Plan:

See the auditee-prepared Corrective Action Plan.

Finding No.:	2018-004
Federal Agency:	U.S. Department of Education
CFDA Program	84.063 Federal Pell Grant Program
Area:	Special Tests and Provisions – Disbursements To or On Behalf of Students
Questioned Costs:	$0

Criteria:

Per Chapter 1 of Volume 4: 2017-2018 Financial Student Aid (FSA) 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 2017-2018 FSA Handbook, if the 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:

Test of student refund disbursements and related payables noted the following:

1. For 17 (or 47%) of 36 transactions tested, the College did not pay the refund amount aggregating $4,197 within the 14-day time frame.

2. For 1 (or 3%) of 36 transactions tested, the College did not issue a refund check as of June 30, 2019 to Student # 2016SP407 (Document # 083-058) for $29.

3. For 4 (or 11%) of 36 transactions tested, the College disbursed PELL grants in excess of the approved award aggregating $2,451. The College subsequently corrected such errors during the audit process.

4. 5 student refund checks aggregating $125 as of September 2018 were aged over 240 days and such should have been returned to the U.S. Department of Education no later than September 30, 2018.

Cause:

The College failed to ascertain that compliance with federal regulations is met.

Effect:

The College is potentially noncompliant with the criteria. This finding is reportable since the projected questioned costs exceeded the $25,000 threshold. However, no questioned costs exist as the auditors verified that correcting adjustments were made and recorded during the audit process.

Recommendation:

College management should strengthen control policies and procedures to comply with applicable federal regulations on issuing excess credits and returning unclaimed refunds to the agency on a timely basis. Regular assessment of student accounts and timely issuance of checks should be implemented. Further, we recommend management enhance adequate review of students' approved PELL awards and related disbursements to ensure accuracy and to avoid over application of grant awards.

Views of Auditee and Corrective Action Plan:

See the auditee-prepared Corrective Action Plan.

Finding No.:	2018-005
Federal Agency:	U.S. Department of Education
CFDA Program	84.063 Federal Pell Grant Program
Area:	Eligibility
Questioned Costs:	$0

Criteria:

The Federal Student Aid Handbook states the following:

To be considered for financial aid, the College requires the students to submit certain documents, including the following:

a. Financial aid application
b. Free Application for Federal Student Aid (FAFSA)
c. Valid photo ID (State ID/Driver's License/Passport)

Condition:

For 11 (or 18%) of 60 student awards totaling $135,180 tested, student files, valid photo ID and/or financial aid application form were not provided. Furthermore, the FAFSA and/or verification worksheet were not signed. No questioned costs are reported since the applicants were eligible and were verified against the student identification number assigned upon registration.

Cause:

The College failed to ascertain that all required documents are submitted/maintained. Further, internal control policies and procedures to meet compliance with federal eligibility requirements are not implemented.

Effect:

Possible noncompliance with the criteria exist.

Recommendation:

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

Views of Auditee and Corrective Action Plan:

See the auditee-prepared Corrective Action Plan.

Auditor response on views of auditee and corrective action plan:

Chapter 1 of FSA handbook SY2017-2018 states that to be considered for federal student aid, a student must complete a FAFSA. That form collects financial and other information used to calculate the expected family contribution and to determine a student's eligibility. The FAFSA provided by the College did not contain the student's signature.

Finding No.: 2018-006
Pass-Through Entity: Republic of the Marshall Islands
Federal Agency: U.S. Department of the Interior
CFDA Program 15.875 Economic, Social and Political Development of the Territories: Compact of Free Association, As Amended
Area: Reporting
Questioned Costs: $0

Criteria: Under the terms of the sub-awards administered by RepMar under the Compact of Free Association grant awards, the College is required to submit: 1) a quarterly Compact Financial Status Report (FSR) no later than 30 days after the quarters ending December 31, March 31, June 30 and September 30, 2018; and 2) The final FSR report shall be provided within 45 days after the end of the fiscal year.

Further, the College shall maintain an acceptable financial management system during the term of the subaward agreement including an accurate, current and complete disclosure of financial activity of Compact Funds.

Condition:

1. The College did not prepare and submit the required quarterly FSR reports in accordance with the terms of the sub-award agreements for March 31, June 30 and September 30, 2018 for U.S. Compact Funding subaward for the Supplemental Educational Grant. The expenditures recorded for the year ended September 30, 2018 amounted to $144,163.

2. The College did not prepare and submit the required final FSR report in accordance with the terms of the sub-award agreements for the fiscal year specified in the criteria for the following:

    a. U.S. Compact Funding subaward for the Supplemental Educational Grant.

    b. U.S. Compact Funding subaward for the Education Sector Grant, the Public Infrastructure Sector Grant and the Ebeye Special Needs Sector Grant.

3. Expenditures reported for the U.S. Compact Funding subaward for the Education Sector Grant, the Public Infrastructure Sector Grant and the Ebeye Special Needs Sector Grant per the quarterly FSR did not agree to the quarterly expenditures recorded in the general ledger for the following:

Quarter	**Expenditures Reported per FSR**	**Expenditures Recorded**	**Variance**
December 31, 2017	$ 866,366	$ 491,569	$ 374,797
March 31, 2018	292,587	566,506	(273,919)
June 30, 2018	366,993	227,536	139,457
September 30, 2018	90,376	330,711	(240,335)
Total	$1,616,322	$1,616,322	$ -

The variances noted were due to inclusion of prior year expenditures reported in the first quarter FSR.

Finding No.: 2018-006, Continued
Pass-Through Entity: Republic of the Marshall Islands
Federal Agency: U.S. Department of the Interior
CFDA Program 15.875 Economic, Social and Political Development of the Territories: Compact of Free Association, As Amended
Area: Reporting
Questioned Costs: $0

Cause:

The lack of adequate internal controls requiring reports as stipulated in the sub-award agreements being timely and accurately prepared and submitted is the cause of the condition.

Effect:

The result of this condition is that the College was not able to drawdown grant funds of $144,162 of federal funding and therefore, used its general funds to absorb related costs.

The College appears to be in noncompliance with applicable reporting requirements. No questioned costs is presented as the expenditures were reconciled with disbursements from the RMI Government.

Recommendation:

College management should strengthen controls to determine that required reports are timely and accurately prepared and submitted within the specified timeframes, to evidence compliance with applicable reporting requirements.

Views of Auditee and Corrective Action Plan:

See the auditee-prepared Corrective Action Plan.

College of the Marshall Islands
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<u>Finding No. 2018-001: Timely Financial and Compliance Reporting</u>

<u>Responsible contact person:</u> Stevenson Kotton, Vice President for Business and Administration Services

<u>Anticipated completion date:</u> December 31, 2019

The College agrees with the finding. During the fiscal year, key personnel staff at CMI Business Office were made therefore inter the College's ability to properly perform its financial fiduciary responsibilities.

Corrective Action Plan:
The College has hired two CPA consultants to help update the College's books and also train the existing staff at the Business Office. The consultants are currently working with the Business Office staff to review and update the College's books to address conditions 1 to 7 as stated in *Finding No. 2019-001*. In addition, the College is currently revisiting its financial management practices to update its policies and procedures.

<u>Finding No. 2018-002: Cash Management</u>

<u>Responsible contact person:</u> Stevenson Kotton, Vice President for Business and Administration Services

<u>Anticipated completion date:</u> December 31, 2019

The College agrees with the finding and partially agrees with the recommendations. In the past, the College's *Financial Aid Office* used a manual system to monitor student records. As part of its *corrective action plans* after the FY2017 audit, the College started transitioning from the manual system into an automated system where in student processes and records are electronically integrated in the SIS System. The College also established new policies and procedures to address the deficiencies reported in 2017 audit. Unfortunately, objectives of the *corrective action plans* started in February 2019.

Corrective Action Plan:
The College will continue to implement its *corrective action plans* to ensure proper internal controls including monitoring system are in place to ensure compliance.

As part of its ongoing implementation of its *corrective action plan*, the College now uses the new SIS System to monitor student records which include Pell grants. The College recently signed a contract with the SIS System developers to add a new SIS Module that will allow add/drop and withdrawal to be processed using an automated system. The new module will allow the Financial Aid Office to reconcile student records on a monthly basis by getting real time data using an automated system instead of a manual system.

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The new SIS Module will allow the Financial Aid Office to ensure proper internal controls are established to perform timely reconciliation of Title IV funds.

Finding No. 2018-03: Special Tests Provisions

Responsible contact person: Stevenson Kotton, Vice President for Business and Administration Services

Anticipated completion date: December 31, 2019

The College agrees with the finding and the recommendations. While the College was reviewing and making adjustments to student records according to its *corrective action plans* in response to the *FY2017 Audit Determination Letter*, the audit fieldwork for FY18 started.

Corrective Action Plan:

As part of its review and corrective action plans, the College has already made the necessary corrections to *Finding No. 2018-003.* The new features in the SIS System made it easy for Financial Aid Office and Business Office to review these and process them accordingly.

The new SIS Module for monitoring student *add/drop* and *withdrawal* will provide additional internal controls to better monitor and manage return of Title IV funds and reconciliation of Title IV funds.

Finding No. 2018-04: Special Tests and Provisions

Responsible contact person: Stevenson Kotton, Vice President for Business and Administration Services

Anticipated completion date: December 31, 2019

CMI agrees with the finding; however, the non-compliance was not due to neglecting the policies and procedures but rather an overlook on the College's part in processing the refunds. With the new features in the SIS System and adding of the new SIS Module, proper internal controls are now in place to systematically monitor student records.

Corrective Action Plan:
As part of its review and corrective action plans, the College has already made the necessary corrections to *Finding No. 2018-004.*

The College already made the necessary adjustments to the Monthly reconcile student accounts by relying on the SIS System to eliminate human errors.

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Finding No. 2018-005: Eligibility

Responsible contact person: Stevenson Kotton, Vice President for Business and Administration Services

Anticipated completion date: December 31, 2019

The College partially agrees with the finding. During the transfer of the Financial Aid Office from Student Services Building to the Administration Building as part of the College's *corrective action plans*, some of the student files were misplaced. The College is not required to submit 1a and 1b as stated under criteria 1 of finding No. 2018-005 if the student apply online via https://studentaid.ed.gov/sa/fafsa website. If the student does not have access to online application, then the student can fill out the paper application and submit to Financial Aid Office. Federal Student Aid federal guidelines for completing applications also state that not all students are required to submit *Household Verification Worksheet*, only if selected by USDOE or if required by the Financial Aid Office.

Corrective Action Plan:
As part of its review and corrective action plans, the College has already made the necessary corrections to *Finding No. 2018-005.*

Finding No. 2018-006: Reporting

Responsible contact person: Stevenson Kotton, Vice President for Business and Administration Services

Anticipated completion date: December 31, 2019

The College of the Marshall Islands partially agrees with the finding. The College also recognize that there is a need to improve coordination with the Ministry of Finance for clarity of what is needed in complying according to the MOA between the College and the Ministry of Finance.

1. The College submitted all the FSR Reports to the Ministry of Finance as required by the MOA between CMI and MOF except the 2nd, 3rd, and 4th quarter reports for the Supplemental Education Grant (SEG). This error was an oversight on the College's part. The College has developed a monitoring system to ensure this does not happen again.
2. The College was not provided with the template to do the *Final Fund Status Report* by the Ministry of Finance therefore CMI submitted the final FY18 4th Quarter report, FY18 Audit report and CMI 2018 Annual Report to compliment this reporting requirement.

The College expressed and noted the reporting issue with the external auditors and will work with the Ministry of Finance for ways to improve communication and clarity for compliance and reporting requirements.

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Summary Schedule of Prior Audit Findings
Year Ended September 30, 2018

Finding Number	CFDA	Status and Corrective Action Plan
2015-001	N/A	The College continuously addresses these inactive accounts as of September 30, 2018. Majority of the remaining inactive accounts were under the oversight of the former VP of Academic Affairs.
2016-001	84.063	Not corrected. Refer to the planned corrective actions in the Corrective Action Plan for Finding 2018-001.
2016-002	84.063	Not resolved as per the grantor's final determination letter dated December 7, 2017. CMI to continue to review and revise as necessary, its internal policies and procedures to ensure that student credit balances are issued, and returned according to the Federal regulations.
2017-001	84.063	Not resolved as per the grantor's final determination letter dated January 17, 2019. Further, grantor requested CMI to continue to review and revise as necessary, its internal policies and procedures to ensure that student credit balances are issued, and returned according to the Federal regulations.