COLLEGE OF THE MARSHALL ISLANDS

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2017 AND 2016

COLLEGE OF THE MARSHALL ISLANDS

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Years Ended September 30, 2017 and 2016

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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, 2017 and 2016, 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, 2017 and 2016, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 11 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the 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 17, 2018, 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 17, 2018

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, 2017. 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 Governmental 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 2017, 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, 2017, as compared to Fiscal Years 2016 and 2015. This discussion has been prepared by the College management and should be read in conjunction with the financial statements and related notes that follow.

Overview of the Financial Statements

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

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

- The *Statement of Net Position* presents information on all of the College's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position is an indicator 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 FY2017, the College overall financial position was a decrease in the net position amount to $16,450,801 as of September 30, 2017 compared to prior year $16,878,009.

Statement of Net Position

The Statement of Net Position presents the overall financial condition of CMI at the end of September 30, 2017. Total Net Position stood at $16,450,801, which represents a modest decrease of $427,208 or 2.53% from that of previous year.

	2017	2016	2015
Assets			
Current Assets	$ 3,528,219	$ 3,308,070	$ 3,052,823
Investments	1,294,591	1,164,819	1,021,926
Property, Plant & Equip't, net	14,152,576	15,336,532	16,314,230
Total Assets	**$18,975,386**	**$19,809,421**	**$20,388,979**
Liabilities			
Current Liabilities	$ 2,524,585	$ 2,931,412	$ 3,442,615
Net Position			
Net investment in capital assets	14,152,576	15,336,532	16,314,230
Restricted-Nonexpendable	1,294,591	1,164,819	1,021,926
Restricted-Expendable	788,325	626,941	-
Unrestricted	215,309	(250,283)	(389,792)
Total Net Position	16,450,801	16,878,009	16,946,364
Total Liabilities & Net Position	**$18,975,386**	**$19,809,421**	**$20,388,979**

A. Financial data for FY17 showed that Total Assets shrank by $834,035 or 4.21% vis-à-vis FY16. This can be attributed to the following:

   1. The contraction of the Capital Assets accounted for the bulk due to the significant provision of non-cash expense that reduced the Net Book Value amounting to $1,183,956 or 7.91%. Current Assets and Investments helped tame the shrinkage of the Total Assets by $220,149 or 6.65% and $129,772 or 11.14%, respectively. Listed below are the details of the changes in the components of Total Assets:

      a) Increase in Cash and Cash Equivalents by $915,853 or 153.75% compared to prior year.

      b) Accounts Receivable and Unbilled Charges for FY17 amount to $1,247,782 which decreased by $513,160 or 29.14%. The robust decrease can be attributed to the College's initiatives to provide financial workshops for students and improved coordination with stakeholders including the granting agencies.

      c) Prepaid Expenses amount to $185,242 in FY2017 compared to $158,879 in 2016 due to untimeliness of liquidating existing open prepayments from various vendors.

d) Bookstore Inventory registered a moderate decrease of $218,387 or 28.07%. With the centralization of all purchases at the Bookstore and plans in place to expand the operation, inventory is expected to grow to meet the growing enrollment figures and the need for materials and supplies of all CMI Departments and CMI Employees.

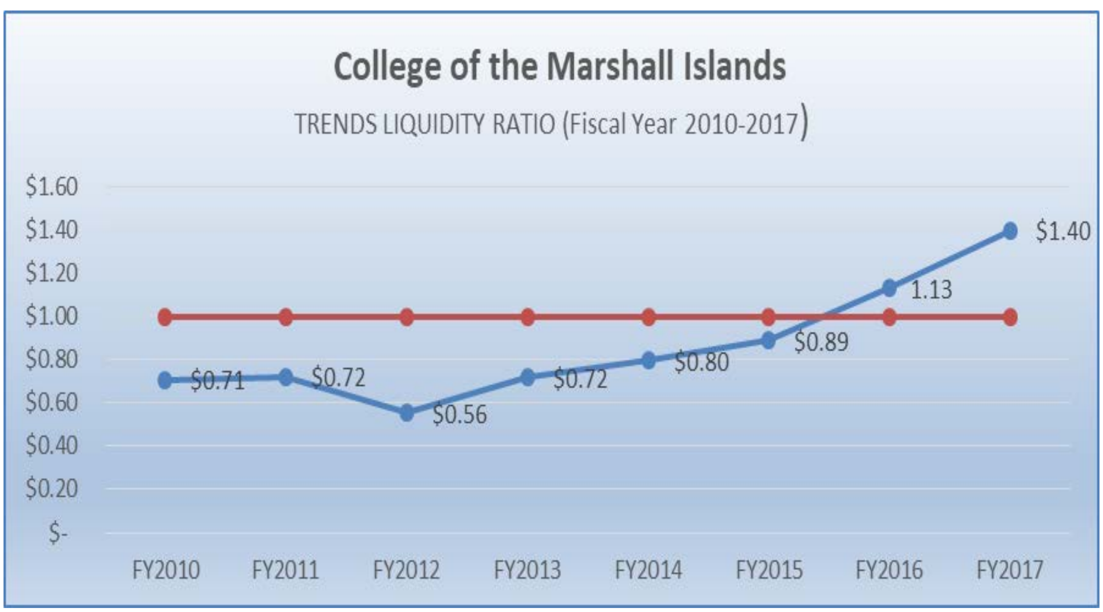
2. CMI's Investment outcomes in FY2017 reported at $1,294,591 compared to prior year investment outcomes of $1,164,819, which is an increase of $129,772 or 11.14%.

3. With the culmination of CMI's Capital Improvement Projects four (4) years ago, Capital Assets continue to show a downward trend and this will likely continue in succeeding years due to minimal capital investment in new facilities. For FY17, there was a moderate decrease in Property, Plant and Equipment by $1,183,956 or 7.91% due to the regular provision of depreciation expense on capital assets, which reduced the Net Book Value of the Capital Assets. Please refer to note 6 to the financial statements for additional information associated with the College's 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. CMI is still not a low-risk auditee as defined in OMB Circular A-133. For FY17, current obligations indicated a minimal decrease of $406,827 or 13.88%.

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

D. One of the financial indicators that is used to measure the institution's financial capacities to meet its current obligation is the current or liquidity ratio. At the end of September 30, 2017, the College's current ratio or liquidity ratio continues to improve at 1.40:1.



This benchmark can be interpreted that CMI has $1.40 in its coffers for every 1 dollar the College obligated. This is a significant improvement compared to FY12, FY13, FY14, FY15 and FY16, which were pegged at 56 cents, 72 cents, 80 cents and 89 cents, and $1.13, respectively. The increasing trend in the current or liquidity ratio demonstrates significant financial improvement but the College is very much still in financial mode of recovery.

E. The favorable outcome of the Unrestricted Net Position, which is the difference between Current Assets and Current Liabilities was a major development going forward since this has been CMI's bottleneck since FY2011 as a result of financial commitments made in FY2008 and FY2009. This is the second year since 2009 when CMI has accumulated deficits in working capital.

Statement of Revenues, Expenses and Changes in Net Position

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

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.

	2017	2016	2015
Operating Revenues	$ 6,660,865	$ 6,403,514	$ 7,951,882
Operating Expenses	12,049,341	11,305,557	11,801,210
Operating Loss	(5,388,476)	(4,902,043)	(3,849,328)
Non-operating revenues (expenses), net	4,682,922	4,370,011	2,754,384
Capital Contributions	278,346	463,677	219,471
Change in Net Position	(427,208)	(68,355)	(875,473)
Net position-beginning of year	16,878,009	16,946,364	17,821,837
Net position-end of year	**$16,450,801**	**$16,878,009**	**$16,946,364**

For FY17, total Operating Revenues showed a moderate increase by $257,351 or 4.02% as compared to FY16. This increase is attributed to the following:

1. There was a minimal increase in Student Tuition & Fees amounting to $36,437 or 0.9%. This was the result of an increase in the number of enrollment figures compared with FY16.

2. As a direct result of a slight increase in the number of enrollment figures and the increasing of Pell awards per eligible student.

3. On the other hand, Auxiliary Enterprises had a marginal decrease of $6,833 or 0.78%. Other Revenues settled at $210,761 from a prior year of $263,989 or a modest decrease of $53,228 or 20.16%. In addition, Private, Gifts, Grants and Donations also decreased by $275,774 or 53.98%.

Total Operating Expenses for FY17 portrayed a major increase in the amount of $743,784 or 6.58% in comparison with FY16. Major drivers of the increase in numbers were Instruction [$190,265 or 4.31%], Operations and Maintenance [$471,424 or 17.55%], Student Services [$105,454 or 24.51%], Institutional Support [$133,168 or 5.69%]. The only functional classifications of expenses that registered a decrement were Auxiliary Enterprises [$51,064 or 5.43%], Academic Support [$105,463 or 21.16%].

For FY17, Total Operating Revenues was totally eclipsed by total Operating Expenses and it resulted in a total Operating Loss of $5,388,476 or an increase of $486,433 or 9.92% from FY16.

CMI's Non-Operating Revenues (Expenses) showed an upward swing by $312,911 or 7.16%. This was brought by the increase in Investment Income from $52,499 in FY16 to $122,070 in FY17 which was a major upswing of $69,571 or 132.52% for CMI's investment portfolio.

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 subsidy (less audit fees) to CMI through an MOU signed on October 2016. For FY17, CMI received a total of $4,564,730 for the annual subsidy of $2,000,000 to fund CMI's operation, $168,403 for the Customary Law and Language Commission and compact money of $1,900,327 from the RMI government, $248,000 from ROC and $248,000 from RepMar Public School System.

Capital Contributions include revenues received in the form of contributed capital assets, non-exchange grants and contributions restricted to capital purposes, fees and charges restricted to capital assets acquisition. For FY17, capital contributions decreased by $185,331 or 39.97% compared to FY16.

Change in Net Position for FY17 resulted in a further reduction in the negative amount by $358,853 vis-à-vis FY16.

In summary, Net Position for FY17 settled at $16,450,801, down from $16,878,009, a decrease of $427,208 or 2.53%.

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.

	2017	2016	2015
Cash provided by (used in):			
Operating activities	($3,655,811)	($4,012,959)	($3,064,644)
Noncapital financing activities	4,579,366	4,321,649	2,866,811
Capital and related financing activities	-	(101,765)	160,966
Investing activities	(7,702)	(90,394)	(31,409)
Net change in cash	915,853	116,531	(68,276)
Cash-beginning of year	595,685	479,154	547,430
Cash & cash equivalents-end of year	**$ 1,511,538**	**$ 595,685**	**$ 479,154**

Net change in cash and cash equivalents showed a strong finish at the closing bell which registered at $1,511,538 an increase of $915,853 or 154% from FY16. 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 $7,066,318. Cash outflows from operating activities amounting to $10,722,129 were payment to employees, consultants, contractors and suppliers for various goods and/or services rendered. The net cash used in operating activities for FY17 resulted in an unfavorable $3,655,811 and compared to FY16, it is reduced by $357,148 or 8.90%.

2. Noncapital financing activities likewise registered an increase totaling $257,717 or 5.96% compared with FY16. 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 $278,346 was used in the purchase of capital assets while total cash provided through capital contributions amounted to $278,346 which results in net zero.

4. Net cash used in investing activities showed a minimal amount of $7,702. This was brought by the difference of cash outflows for the purchase of investments totaling $7,702 along with zero interest and dividends. In comparison to FY16 figures, there was decrease in investing activities by $82,692 or 91%.

5. Overall, CMI showed a strong cash position at the end of FY17 at $1,511,538, an increase of $915,853 or 154% in comparison to FY16 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.

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 FY2017 and renewable on a yearly basis.

Summary:

1) CMI's Total Net Position for FY17 settled at $16,450,801.

2) CMI's Investment (Endowment Fund) for FY17 stood at $1,294,591.

3) Current or liquidity ratio is 1.40 cents to 1 dollar. This benchmark is a constant improvement compared with FY12, FY13, FY14 and FY15 which were recorded at 56, 72, 80, 89 cents respectively and $1.13 in FY16.

4) Current working capital which is the difference of current assets and current liability stood at $1,003,634. This indicator is a constant improvement compared with FY2012, FY2013, FY2014, FY2015 and FY2016 which were recorded at ($1,769,210), ($1,239,586), ($721,986), ($389, 792) and $367,658, respectively.

5) The Statement of Net Position is highlighted by the contraction of the negative Unrestricted Net Position by $465,592 or approximately 186% from FY16. This is the 5th-year-in-a-row that CMI narrowed the gap following years of accumulated deficits in unrestricted spending which has now resulted with a surplus of $215,309.

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 FY2017 and renewable on a yearly basis. The RMI government pays this subsidy with funds available through the Compact of Free Association with the U.S. and from its General Fund.

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 FY17 at $1,511,538 an increase of $915,853 compared to FY2016.

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

Management's Discussion and Analysis for the year ended September 30, 2016 is set forth in the College's report on the audit of the financial statements, which is dated May 5, 2017. That Discussion and Analysis explains the major factors impacting the 2016 financial statements and can be obtained from the College's President at **info@cmi.edu**.

COLLEGE OF THE MARSHALL ISLANDS

Statements of Net Position
September 30, 2017 and 2016

ASSETS	2017	2016
Current assets:		
Cash and cash equivalents	$ 1,511,538	$ 595,685
Accounts receivable and unbilled charges, net	1,247,782	1,760,942
Due from RepMar	-	14,636
Due from grantor agencies	24,116	-
Prepaid expenses	185,242	158,879
Inventory	559,541	777,928
Total current assets	3,528,219	3,308,070
Noncurrent assets:		
Investments	1,294,591	1,164,819
Capital assets:		
Nondepreciable capital assets	372,306	372,306
Capital assets, net of accumulated depreciation	13,780,270	14,964,226
Total noncurrent assets	15,447,167	16,501,351
Total assets	$ 18,975,386	$ 19,809,421
LIABILITIES AND NET POSITION		
Current liabilities:		
Accounts payable	$ 483,605	$ 786,760
Withholding taxes payable	19,610	55,268
Social security taxes payable	258,548	198,602
Student refunds payable	24,506	44,316
Due to grantor agencies	-	154,455
Accrued liabilities	319,946	364,315
Unearned revenue	1,418,370	1,327,696
Total current liabilities	2,524,585	2,931,412
Commitments and contingencies		
Net position:		
Net investment in capital assets	14,152,576	15,336,532
Restricted:		
Expendable	788,325	626,941
Endowment - nonexpendable	1,294,591	1,164,819
Unrestricted	215,309	(250,283)
Total net position	16,450,801	16,878,009
Total liabilities and net position	$ 18,975,386	$ 19,809,421

See accompanying notes to financial statements.

COLLEGE OF THE MARSHALL ISLANDS

Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2017 and 2016

	2017	2016
Operating revenues:		
Student tuition and fees	$ 4,007,596	$ 3,971,159
Less: Scholarship discounts and allowances	(3,688,041)	(3,399,209)
	319,555	571,950
U.S. federal grants	5,028,186	4,182,605
Private gifts, grants and donations - restricted	235,110	510,884
Auxiliary enterprises	867,253	874,086
Other	210,761	263,989
Net operating revenues	6,660,865	6,403,514
Operating expenses:		
Instruction	4,601,143	4,410,878
Institutional support	2,472,748	2,339,580
Operations and maintenance	3,158,075	2,686,651
Auxiliary enterprises	888,845	939,909
Academic support	392,877	498,340
Student services	535,653	430,199
Total operating expenses	12,049,341	11,305,557
Operating loss	(5,388,476)	(4,902,043)
Nonoperating revenues (expenses):		
RepMar contributions	4,564,730	4,321,619
Loss on disposal/transfer of fixed assets	(3,878)	(4,107)
Investment income	122,070	52,499
Total nonoperating revenues (expenses), net	4,682,922	4,370,011
Capital contributions	278,346	463,677
Change in net position	(427,208)	(68,355)
Net position at beginning of the year	16,878,009	16,946,364
Net position at end of the year	$ 16,450,801	$ 16,878,009

See accompanying notes to financial statements.

COLLEGE OF THE MARSHALL ISLANDS

Statements of Cash Flows
Years Ended September 30, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Cash received from student tuition and fees	$ 784,866	$ 40,010
Cash received from U.S. federal grants	4,849,615	4,733,833
Other receipts	1,431,837	1,554,265
Cash payments to employees for services	(4,296,841)	(4,529,874)
Cash payments to suppliers for goods and services	(6,425,288)	(5,811,193)
Net cash used in operating activities	(3,655,811)	(4,012,959)
Cash flows from noncapital financing activities:		
RepMar contributions received	4,579,366	4,321,649
Cash flows from capital and related financing activities:		
Purchases of property, plant and equipment, net	(278,346)	(463,677)
Capital contributions received	278,346	361,912
Net cash used for capital and related financing activities	-	(101,765)
Cash flows from investing activities:		
Purchases of investments	(7,702)	(113,901)
Interest and dividends received	-	23,507
Net cash used in investing activities	(7,702)	(90,394)
Net change in cash and cash equivalents	915,853	116,531
Cash and cash equivalents at beginning of year	595,685	479,154
Cash and cash equivalents at end of year	$ 1,511,538	$ 595,685

See accompanying notes to financial statements.

COLLEGE OF THE MARSHALL ISLANDS

Statements of Cash Flows, Continued
Years Ended September 30, 2017 and 2016

	2017	2016
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	$ (5,388,476)	$ (4,902,043)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	1,458,424	1,437,268
Bad debts	464,784	205,257
Changes in assets and liabilities:		
Accounts receivable and unbilled charges	48,376	(761,831)
Prepaid items	(26,363)	151,846
Due from grantor agencies	(178,571)	551,230
Inventory	218,387	(131,060)
Accounts payable	(303,155)	(310,451)
Withholding taxes payable	(35,658)	4,008
Social security taxes payable	59,946	4,975
Student refunds payable	(19,810)	(18,202)
Accrued liabilities	(44,369)	(192,097)
Unearned revenue	90,674	(51,859)
Net cash used in operating activities	$ (3,655,811)	$ (4,012,959)

See accompanying notes to financial statements.

COLLEGE OF THE MARSHALL ISLANDS

Statements of Cash Flows, Continued
Years Ended September 30, 2017 and 2016

	2017	2016
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	$ (5,388,476)	$ (4,902,043)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	1,458,424	1,437,268
Bad debts	464,784	205,257
Changes in assets and liabilities:		
Accounts receivable and unbilled charges	48,376	(761,831)
Prepaid items	(26,363)	151,846
Due from grantor agencies	(178,571)	551,230
Inventory	218,387	(131,060)
Accounts payable	(303,155)	(310,451)
Withholding taxes payable	(35,658)	4,008
Social security taxes payable	59,946	4,975
Student refunds payable	(19,810)	(18,202)
Accrued liabilities	(44,369)	(192,097)
Unearned revenue	90,674	(51,859)
Net cash used in operating activities	$ (3,655,811)	$ (4,012,959)

See accompanying notes to financial statements.

(1) Organization

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

(2) Summary of Significant Accounting Policies

The Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*. The financial statement presentation required by GASB 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

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

Investments

Investments and related investment earnings are reported at fair value 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.

(2) Summary of Significant Accounting Policies, Continued

Accounts Receivable

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

Allowance for Doubtful Accounts

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

Inventory

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

Property, Plant and Equipment

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

Deferred Outflows of Resources

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

Unearned Revenue

Unearned revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but related to the subsequent accounting period.

Compensated Absences

The College recognizes the cost of accrued annual leave at the time such leave is earned. As of September 30, 2017 and 2016, the College recorded $166,186 and $155,557, respectively, of accrued annual leave, which is included within the statements of net position as accrued liabilities. The College does not participate in an employee pension plan.

Deferred Inflows of Resources

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

(2) Summary of Significant Accounting Policies, Continued

Net Position

The College's net position is classified as follows:

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

Restricted Net Position - Expendable restricted net position includes resources in which the College is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties. *Nonexpendable* restricted net position consists of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to the principal.

Unrestricted Net Position - Unrestricted net position represents resources derived from student tuition and fees, RepMar appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the College and may be used at the discretion of the governing board to meet current expenses for any purpose. These resources also include auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty and staff.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the College's policy is to first apply the expense towards unrestricted resources, and then toward restricted resources.

Estimates

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

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, 2017, the College implemented the following pronouncements, which did not have a material effect on the College's financial statements:

- GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements 67 and 68 with the reporting requirements in Statement 68.

- GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended*, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and addresses financial reporting requirements for governments whose employees are provided with postemployment benefits other than pensions (other postemployment benefits or OPEB).

- GASB Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements.

- GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, which addresses a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions.*

- GASB Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14*, which improves financial reporting by clarifying the financial statement presentation requirements for certain component units.

- GASB Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*, which addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

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

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

In 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.

In March 2017, GASB issued 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). The provisions in Statement No. 85 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*, which improves consistency in accounting and financial reporting for in-substance defeasance of debt. The provisions in Statement No. 86 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In 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.

(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.

As of September 30, 2017 and 2016, the carrying amounts of the College's total cash and cash equivalents were $1,511,538 and $595,685, respectively, and the corresponding bank balances were $1,766,587 and $684,299, respectively. Of the bank balance amounts, $628,035 and $124,679, respectively, are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2017 and 2016, bank deposits in the amount of $250,000 and $124,679, respectively, were FDIC insured. Bank deposits of $1,138,552 and $559,620, respectively, are maintained in financial institutions not subject to depository insurance. The College does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

B. Investments

Investments held by the College consist of money market funds, mutual funds, and equity securities. As of September 30, 2017 and 2016, investments are as follows:

	2017	2016
Money market funds	$ 4,647	$ 2,430
Exchange traded products	325,185	305,423
Mutual funds	964,759	856,966
	$ 1,294,591	$ 1,164,819

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.

(3) Deposits and Investments, Continued

B. Investments, Continued

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, 2017 and 2016, 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, 2017 and 2016, there were no investments in any one issuer that exceeded 5% of total investments.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of debt instruments. The College does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

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, 2017 and 2016:

		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			

(3) Deposits and Investments, Continued

B. Investments, Continued

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

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) Risk Management

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

(5) Accounts Receivable and Unbilled Charges

Summarized below is the College's accounts receivable and unbilled charges as of September 30, 2017 and 2016:

	2017	2016
Student tuition and fees	$ 3,251,225	$ 3,180,888
College of Micronesia	-	68,182
Employees and officers	72,701	104,209
Other	61,798	80,821
	3,385,724	3,434,100
Less allowance for doubtful accounts	(2,137,942)	(1,673,158)
Net accounts receivable and unbilled charges	$ 1,247,782	$ 1,760,942

(6) Property, Plant and Equipment

Summarized below is the College's investment in property, plant and equipment and changes for the years ended September 30, 2017 and 2016:

	Estimated Useful Lives	2017 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 plant		$ 15,336,532	$ (1,180,078)	$ (3,878)	$ 14,152,576

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

(7) RepMar Contributions

The College is dependent upon RepMar to provide annual appropriations in an amount sufficient to provide stable financial backing to meet educational and vocational needs of the community. During the years ended September 30, 2017 and 2016, the College received $4,564,730 and $4,321,619, respectively, from RepMar to administer various postsecondary functions and to improve facilities, of which $0 and $14,636 was receivable from RepMar at September 30, 2017 and 2016, respectively. The Nitijela of RepMar subsequently provided for an appropriation of $2,987,003 to fund operations of the College for fiscal year 2018, $100,000 for endownment fund and $500,000 to fund repairs and maintenance of capital projects.

(7) RepMar Contributions, Continued

Summarized below is the College's RepMar contributions for years ended September 30, 2017 and 2016:

	2017	2016
General fund	$ 2,168,403	$ 2,003,078
Compact fund	1,900,327	2,184,168
ROC fund	248,000	-
Public School System	248,000	-
Other	-	134,373
Total RepMar contributions	$ 4,564,730	$ 4,321,619

Commencing fiscal year 2006, the College was appropriated $25,000,000 of capital contributions from RepMar of which $500,000 and $288,325 were appropriated during the years ended September 30, 2017 and 2016, respectively. During the years ended September 30, 2017 and 2016, the College received $500,000 and $1,038,325, respectively, from RepMar under these appropriations to fund various capital improvements.

(8) Functional Classifications with Natural Classifications

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

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

2016

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

(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 March 24, 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,	
2018	$ 94,484
2019	94,484
2020	94,484
2021	97,684
2022	97,684
2023-2027	494,818
2028-2032	344,418
2033-2037	104,418
2038-2042	79,418
2043-2044	31,767
	$ 1,533,659

(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, 2017 and 2016, the College incurred losses from operations of $5,388,476 and $4,902,043, 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.

(10) Contingencies, Continued

Federal Grants

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

Sick Leave

It is the policy of the College to record expenditures for sick leave when leave is actually taken. Sick leave is compensated time for absence during working hours arising from employee illness or injury. The estimated accumulated sick leave at September 30, 2017 and 2016 was $138,279 and $133,718, 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 the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the College of the Marshall Islands (the College), which comprise the statement of net position as of September 30, 2017, 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 17, 2018. Our report includes an emphasis-of-matter paragraph regarding a going concern uncertainty, as described in our report on the College's financial statements.

Internal Control Over Financial Reporting

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

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

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

Deloitte.

Compliance and Other Matters

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

Purpose of this Report

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

Deloitte + Touche LLP

July 17, 2018

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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 program for the year ended September 30, 2017. The College's major federal program is 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 program 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 the major federal program. However, our audit does not provide a legal determination of the College's compliance.

Opinion on the 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 its major federal program for the year ended September 30, 2017.

Deloitte.

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 item 2017-001. Our opinion on the major federal program is not modified with respect to this matter.

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 the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the 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 item 2017-001, 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.

Deloitte.

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, 2017, and have issued our report thereon dated July 17, 2018, which contained an unmodified opinion on those financial statements and which report included an emphasis-of-matter paragraph regarding a going concern uncertainty. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the financial statements as a whole.

Deloitte & Touche LLP

July 17, 2018

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2017

Federal Grantor/ Pass-Through Grantor/ Program Title	Pass-Through Entity Identifying Number	Federal CFDA Number	Expenditures/ Adjustments FY2017
U.S. DEPARTMENT OF AGRICULTURE			
Direct Program			
Forest Stewardship Program		10.678	$ 38,359
Subtotal U.S. Department of Agriculture Direct Program			38,359
Pass-Through From the Republic of the Marshall Islands (RepMar):	980076103		
Distance Education Grants for Institutions of Higher Education in Insular Areas		10.322	48,545
Pass-Through From the University of Guam:	77-990-8151		
Resident Instruction Grants for Insular Area Activities		10.308	(5,000)
Subtotal U.S. Department of Agriculture Pass-Through Programs			43,545
TOTAL U.S. DEPARTMENT OF AGRICULTURE			81,904
U.S DEPARTMENT OF COMMERCE			
Pass-Through From the Micronesian Conservation Trust:	85-481-3185		
Habitat Conservation		11.463	20,001
TOTAL U.S. DEPARTMENT OF COMMERCE			20,001
U.S. DEPARTMENT OF THE INTERIOR			
Direct Program			
Economic, Social and Political Development of the Territories:			
CRI-RMI-10 Coral Reef Protection		15.875	63,251
CRI-RMI-11 Coral Reef Initiative Program		15.875	40,800
Subtotal U.S. Department of the Interior Direct Program			104,051
Pass-Through From the Republic of the Marshall Islands (RepMar)	980076103		
Economic, Social and Political Development of the Territories:			
Compact of Free Association Program, As Amended, Sector Grants:			
Capital Projects Fund - Facilities		15.875	859,751
Supplemental Education Grant		15.875	263,093
Ebeye Special Needs - Adult Education		15.875	151,800
Subtotal U.S. Department of the Interior Pass-Through Programs			1,274,644
TOTAL U.S. DEPARTMENT OF THE INTERIOR			1,378,695

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, 2017

Federal Grantor/ Pass-Through Grantor/ Program Title	Pass-Through Entity Identifying Number	Federal CFDA Number	Expenditures/ Adjustments FY2017
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	22,553
Partnership for Advance Marine Science		47.Unknown	12,395
Coastal Storms Program		47.Unknown	21,966
Total Research and Development Cluster			56,914
TOTAL NATIONAL SCIENCE FOUNDATION			56,914
U.S. DEPARTMENT OF EDUCATION			
Direct Program			
Student Financial Assistance Cluster:			
Federal Pell Grant Program		84.063	4,819,117
Total Student Financial Assistance Cluster			4,819,117
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	122,635
TOTAL U.S. DEPARTMENT OF EDUCATION			4,941,752
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	103,311
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			103,311
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 6,582,577

Reconciliation to financial statements:

Total expenditures of federal awards	6,582,577
Depreciation	1,458,424
Non-federal expenses	4,008,340
Total operating expenses per financial statements	$ 12,049,341

See accompanying notes to Schedule of Expenditures of Federal Awards.

COLLEGE OF THE MARSHALL ISLANDS

Notes to Schedule of Expenditures of Federal Awards
Year Ended September 30, 2017

(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 pursuant to the College of the Marshall Islands Act of 1992 (Public Law 1992-13). The Act established the College as an independent institution governed by a Board of Regents appointed by RepMar's Cabinet. Previous to the Act, the College was a component of the College of Micronesia (COM).

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

(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, 2017. 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 (the* 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. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. 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, 2017. The College does not elect to use the de minimis indirect cost rate allowed under the Uniform Guidance.

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs
Year Ended September 30, 2017

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?	No
3.	Significant deficiency(ies) identified?	None reported
4.	Noncompliance material to financial statements noted?	No

Federal Awards

	Internal control over major federal programs:	
5.	Material weakness(es) identified?	No
6.	Significant deficiency(ies) identified?	Yes
7.	Type of auditors' report issued on compliance for major federal programs:	Unmodified
8.	Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	Yes
9.	Identification of major federal programs:	

CFDA #	Name of Federal Program
84.063	Federal Pell Grant Program

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

Section II - Financial Statement Findings

No matters were reported.

Section III - Federal Award Findings and Questioned Costs

Finding Number	CFDA #	Findings	Questioned Costs
2017-001	84.063	Special Tests and Provisions – Return of Title IV Funds	$ -

Finding No.:	2017-001
Federal Agency:	U.S. Department of Education
CFDA Program:	84.063 Federal Pell Grant Program
Federal Award No.:	OPE ID 03022400
Area:	Special Tests and Provisions - Return of Title IV Funds
Questioned Costs:	$-

Criteria: In accordance with applicable special tests and provisions requirements, when a recipient of Title IV grant assistance withdraws from an institution during a payment period or 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, the institution ensures that deposit or transfers were made into the Federal funds account, electronic transfers were initiated, or checks were issued timely.

Condition: Of ten transactions tested, we noted the following deficiencies:

- For 2 (or 20%) of ten transactions, return of Title IV funds determinations/calculations were not provided for the following:

	Student Number
1.	2016FA170
2.	2017SP400

- For 10 (or 100%), no disbursements and accounting records were provided to support that Title IV funds were timely disbursed or returned, as applicable, within 45 days (or 30 days) for the following:

	Student Number
1.	2014FA207
2.	2016FA220
3.	2016FA170
4.	2017SP400
5.	04238044
6.	2016FA161
7.	2016FA255
8.	2015FA118
9.	2016FA119
10.	2016FA044

Cause: The College is still in the process of retrieving requested documentation.

Effect: The College may be in noncompliance with applicable special tests and provisions requirements. No questioned cost is presented as we are unable to determine the quantitative impact on the program.

Recommendation: The responsible personnel should provide the requested documentation for examination.

Identification as a Repeat Finding: Finding 2016-001

Views of Auditee and Planned Corrective Actions:

See the auditee-prepared corrective action plan.

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CORRECTIVE ACTION PLAN
2 CFR § 200.511(c)
Year Ended September 30, 2017

Finding No. 2017-001: Special Tests and Provisions - Return to Title IV Funds

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

Corrective Action Plan:

The College of the Marshall Islands agrees with the finding and recommendations provided by the external auditors.

The College of the Marshall Islands established new policies and procedures to identify and process withdrawals on a daily to weekly basis. In addition, an internal control taskforce established to ensure all student withdrawal requests are processed and filed in accordance with the newly established policies and procedures. The task force will report to Enrollment Management Committee during its scheduled regular monthly meetings. The task force's written report and minutes of the meeting will be file with the Dean of Student Services for record keeping.

As part of the corrective action plan to resolve deficiencies identified in this finding, the College conducted a review of the students' records listed in the finding and processed returns of fund (Pell Grant awards) to Department of Education.

Proposed Completion Date: September 30, 2018

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Summary Schedule of Prior Audit Findings
Year Ended September 30, 2017

Questioned Costs:

There are no questioned costs reported as of September 30, 2017.

Summary Schedule of Prior Audit Findings

Finding Number	CFDA	Status and Corrective Action Plan
2014-002	15.875	Resolved as per UG section 200.511(b)(3)
2014-003	84.063	Resolved as per UG section 200.511(b)(3)
2014-004	84.063	Resolved as per UG section 200.511(b)(3)
2015-001	N/A	The College of the Marshall Islands developed a plan to resolve Finding 2015-001 between FY2017 and FY2018. The plan includes proposed adjustments to resolve this prior year grant reconciliation to clear the due to and due from as stated in the finding. The College continuously addresses these inactive accounts as of September 30, 2017. Majority of the remaining inactive accounts were under the oversight of the former VP of Academic Affairs.
2016-001	84.063	Not corrected. New policies and procedures have been developed to provide clear guidelines to manage student records which include and awards. Refer to the planned corrective actions in the Corrective Action Plan for Finding 2017-001.
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.