

COLLEGE OF THE MARSHALL ISLANDS

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

YEARS ENDED SEPTEMBER 30, 2014 AND 2013

COLLEGE OF THE MARSHALL ISLANDS

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INDEPENDENT AUDITORS' REPORT

Board of Regents
College of the Marshall Islands:

Report on the Financial Statements

We have audited the accompanying financial statements of the College of the Marshall Islands (the College), a component unit of the Republic of the Marshall Islands, which comprise the statements of net position as of September 30, 2014 and 2013, 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, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter Regarding Going Concern

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

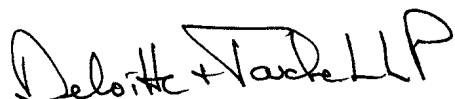
Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 29, 2015, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.



May 29, 2015

COLLEGE OF THE MARSHALL ISLANDS

Management's Discussion and Analysis
Years Ended September 30, 2014 and 2013

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, 2014. This discussion has been prepared by management along with the financial statements and related footnote disclosures and should be read in conjunction with them. Consequently, management assumes full responsibility for the completeness and reliability of the information presented in this report. This discussion is designed to focus on current activities, resulting changes and current known facts. Responsibility for the completeness and fairness of this information rests with the College.

Accounting Standards

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

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

For 2014, 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, 2014, as compared to two Fiscal Years 2013 and 2012. This discussion has been prepared by the College management and should be read in conjunction with the financial statements and related notes that follow.

Overview of the Financial Statements

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

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

- The *Statement of Net Position* presents information on all of the College's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position are indicators of the improvement or erosion of the College's financial health when considered along with non-financial facts such as enrollment levels and the condition of the facilities.

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Management's Discussion and Analysis, Continued Years Ended September 30, 2014 and 2013

- The *Statement of Revenues, Expenses and Changes in Net Position* presents the revenues earned and the expenses incurred during the year. All changes in net position are reported under accrual basis of accounting, or as soon as underlying events giving rise to the changes occur, regardless of the timing when the cash is received or disbursed. Thus, revenues and expenses are reported in the statement for some items that will result in cash flows in future fiscal periods. The utilization of long-lived assets is reflected in the financial statements as depreciation, which amortizes the cost of the capital asset over the expected useful life. Revenues and expenses are reported as either operating or non-operating with operating revenues primarily coming from tuition.
- The *Statement of Cash Flows* presents information on cash flows from operating activities, non-capital financial activities, capital, financing activities and investing activities. It provides the net increase or decrease in cash between the beginning and the end of the fiscal year. This statement assists in evaluating financial viability and the College's ability to meet financial obligations as they become due.
- The Notes to the Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the entity-wide financial statements.

Financial Highlights

There are many factors used to evaluate the financial health of the College. These include its strategic direction, financial status, student enrollment, human resources, facilities, and institutional capacity. In evaluating financial status, one of the most important questions is whether the institution is financially better off at the beginning of the year or at the end of the year. In FY14, the College overall financial position continuously improved compared to the beginning of the year.

Statement of Net Position

The Statement of Net Position presents the overall financial condition of CMI at the end of September 30, 2014. Total net position represents the difference between total assets and total liabilities and is one of the indicators of the current financial condition of the College. Readers of the Statement of Net Position are able to determine the assets available to continue the operation of the College. Over time, changes in net position are indicators of the improvement or erosion of the College's financial health when considered along with non-financial facts, such as enrollment changes and the condition of facilities.

The assets and liabilities are categorized between current and noncurrent. Current assets and current liabilities mature or become payable within the normal 12-month accounting cycles while noncurrent assets and liabilities mature or become payable after 12 months. For September 30, 2014, the College's current assets consist primarily of cash and short-term investments while noncurrent assets consist primarily of capital assets, including property, plant, and equipment maintained by the College. All of the College's liabilities are considered short-term in nature.

Fiscal Year 2014 compare to Fiscal Year 2013. The net position increased \$200,182 from \$17,621,655 in FY2013 to \$17,821,837 in FY2014. This can be attributed to the transfer of money from CMI's Foundation to CMI's Endowment Fund amounting to \$995,486.

COLLEGE OF THE MARSHALL ISLANDS

Management's Discussion and Analysis, Continued Years Ended September 30, 2014 and 2013

Table I
Summary of Statements of Net Position

	<u>2014</u>	<u>2013</u>	<u>2012</u>	% change	
				<u>13-14</u>	<u>12-13</u>
Assets					
Current Assets	\$ 2,844,945	\$ 3,161,483	\$ 2,212,901	(10.01%)	42.87%
Investments	1,054,293	60,947	41,089	1629.85%	48.33%
Property, Plant and Equipment, net	<u>17,489,530</u>	<u>18,800,294</u>	<u>20,079,847</u>	<u>(6.97%)</u>	<u>(6.37%)</u>
Total Assets	<u>\$21,388,768</u>	<u>\$22,022,724</u>	<u>\$22,333,837</u>	<u>(2.88%)</u>	<u>(1.39%)</u>
Liabilities					
Current Liabilities	<u>\$ 3,566,931</u>	<u>\$ 4,401,069</u>	<u>\$ 3,982,111</u>	<u>(18.95%)</u>	<u>10.52%</u>
Total Liabilities	<u>3,566,931</u>	<u>4,401,069</u>	<u>3,982,111</u>	<u>(18.95%)</u>	<u>10.52%</u>
Net Position					
Investment in capital assets	17,489,530	18,800,294	20,079,847	(6.97%)	(6.37%)
Restricted-Nonexpendable	1,054,293	60,947	41,089	1629.85%	48.33%
Unrestricted	<u>(721,986)</u>	<u>(1,239,586)</u>	<u>(1,769,210)</u>	<u>(41.76%)</u>	<u>(29.94%)</u>
Total Net Position	<u>17,821,837</u>	<u>17,621,655</u>	<u>18,351,726</u>	<u>1.14%</u>	<u>(3.98%)</u>
Total Liabilities & Net Position	<u>\$21,388,768</u>	<u>\$22,022,724</u>	<u>\$22,333,837</u>	<u>(2.88%)</u>	<u>(1.39%)</u>

Total assets showed a decrease of \$633,956 from \$22,022,724 to \$21,388,768 or 2.88% from that of prior year. This was brought about by the following:

1. Net decrease in cash and cash equivalents totaling \$314,684 from a net increase of \$511,099 in FY 2013.
2. Decrease of \$317,445 or 19.27% in accounts receivable and unbilled charges due to a significant collection of past due balances from MOE In-Service teachers and condoning of student's past due balances in FY14.
3. Decrease in the due from Repmar by \$167,742 or 57.88% due to the payment of the old AE/CE balances from the SEG money by the government.
4. Decrease in total assets due to the continuous erosion in capital assets of \$1,310,764 or 6.97% due to the regular provision of non-cash depreciation expense that reduced the net book value of the capital assets and the culmination of CMI's Capital Improvement Projects two years ago. This downward trend on capital assets will likely continue in the next few years. For additional information on capital assets, please refer to note 6 to the financial statements.
5. The aggregate amounts of the aforementioned accounts negated the increase in due from grantor agencies by \$98,791, prepaid items amounting to \$13,761 or 45.79% and inventories by \$370,781 or 111.55% vis-à-vis prior year.

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Management's Discussion and Analysis, Continued
Years Ended September 30, 2014 and 2013

6. Substantial increase in the investment account of \$993,346 or 1,629.85% as a result of the transfer of money from CMI Foundation to CMI Endowment Fund. CMI's level of commitment to maintain the level of contribution to the Endowment Fund remains the same.
7. The scarcity and timing of the inflow of cash that perpetually hounds the College still remains a major constraint in meeting CMI's plans and programs but with CMI's conservative approach to its overall finances enables the College to continue serving its students, vendors, employees and other government agencies. The payments of financial obligations to these cohorts have to be prioritized and queued despite the privilege of an advance method of payment for Title IV funds and other federal grants. Nonetheless, CMI is not a low-risk auditee as defined in OMB Circular A-133. The College has not incurred any long term debt to date.
8. One of the financial indicators that is used to measure the institution's financial capacities to meet current obligations is the current or liquidity ratio. At the end of September 30, 2014, the College's current or liquidity ratio was reported at 0.80:1. This benchmark can be interpreted that CMI has only 80 cents in its coffers for every 1 dollar current obligation. This is an improvement compared to FY12 & FY13 which were pegged at 56 cents and 72 cents, respectively. The increasing trend on current or liquidity ratio demonstrates that CMI is rapidly recovering its financial stability.
9. The Statement of Net Position is highlighted by the contraction of the negative Unrestricted Net Position by \$517,600 or approximately 42% from FY13. The favorable outcome of Unrestricted Net Position, which is the difference of Current Assets and Current Liabilities, was a major development going forward since this has been CMI's bottleneck in FY12 and earlier years. This is the 2nd-year-in-a-row that CMI narrowed the gap following years of accumulated deficits in working capital.

Statement of Revenues, Expenses and Changes in Net Position

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

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

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>% change</u>	
				<u>13-14</u>	<u>12-13</u>
Operating revenues	\$ 8,732,766	\$ 7,004,776	\$ 7,020,791	24.67%	(0.23%)
Operating expenses	<u>12,672,782</u>	<u>11,224,632</u>	<u>12,480,975</u>	<u>12.90%</u>	<u>(10.07%)</u>
Operating loss	(3,940,016)	(4,219,856)	(5,460,184)	(6.63%)	(22.72%)
Non-operating revenues (expenses)	2,835,116	2,900,114	3,093,989	(2.24%)	(6.27%)
Capital Contributions	309,596	589,671	2,334,784	(47.50%)	(74.74%)
Special item-contribution from CMI Foundation Inc.	<u>995,486</u>	-	-	<u>0.00%</u>	<u>0.00%</u>
Increase (decrease) in net position	200,182	(730,071)	(31,411)	(127.42%)	2,224.25%
Net position-beginning of year	<u>17,621,655</u>	<u>18,351,726</u>	<u>18,383,137</u>	<u>(3.98%)</u>	<u>(0.17%)</u>
Net position-end of year	<u>\$17,821,837</u>	<u>\$17,621,655</u>	<u>\$18,351,726</u>	<u>1.14%</u>	<u>(3.98%)</u>

COLLEGE OF THE MARSHALL ISLANDS

Management's Discussion and Analysis, Continued Years Ended September 30, 2014 and 2013

Generally speaking, operating revenues are received for providing goods and services to students and other various constituencies and customers 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 mission of the College. Non-operating revenues are receipts for which goods and/or services are not provided. For example, RMI and other Government pass-through grants that are appropriated are considered non-operating because they are provided to the College by the Nitijela without it directly receiving commensurate goods and/or services.

Fiscal Year 2014 compared to Fiscal Year 2013. The College's overall net position increased by \$200,182 or by 1.14 percent. Operating revenues showed an increase by \$1,727,990 or 24.67% as compared to FY13. This is attributed to the following:

1. There was a minimal increase in student tuition and fees amounting to \$90,713 or 2.14%. The increase in selected tuition and fees for FY14 has no major impact since it was mitigated by a lower number of enrollment figures for the same fiscal year.
2. U.S. Federal Grants indicated a significant increase of \$1,404,942 or 26.85% owing to an increase in Pell Grant Award for each student from \$2,775 to \$2,865 and was further increased by the Pell Grants awarded to various students by the Financial Aid Office at the early part of FY14 which pertains to FY13.
3. Private gifts, grants and donations showed a modest increase of \$49,317 or 21.18% due to a steady growth in number of grants received. CMI is increasingly being invited by partner institutions to prepare collaborative grants to enhance health care; science and mathematics preparation in the region.
4. Auxiliary enterprises indicated an increase totaling \$317,489 or 48.10%. In FY14, most of the materials and supplies needed by all departments were taken at the Bookstore. Level of inventory items for sale at the Bookstore has dramatically increased to attract students, employees and the public.

Total operating expenses increased by \$1,448,150 or 12.90% in comparison with FY13. Major contributors to the increment were instruction (\$1,517,083 or 36.92%), institutional support (\$265,629 or 13.12%), and auxiliary enterprises (\$238,146 or 36.97%).

For FY14, total operating revenues was totally overshadowed by the total operating expenses and it resulted in a total operating loss of \$3,940,016 which is down by \$279,840 or 6.63% from previous year.

CMI's net non-operating revenues is similar to prior year and showed a net amount of \$2,835,116, which is down by \$64,998 or 2.24% from FY13.

RMI subsidies from government and Compact Funds channeled through the RMI from the Compact of Free Association with the U.S. were classified as non-operating revenues. CMI is a chartered governmental institution whose mission is to provide higher education services to the Marshall Islands and within the Pacific Rim. The College's operations depend heavily on the RMI government through the annual subsidies and has committed to provide an annual \$3 million dollar subsidy to CMI through a 5-year MOU signed on March 2012. For FY14, CMI received a total of \$2,874,880 for the annual subsidy and Compact money from the RMI government, which is slightly down by \$25,787 compared with FY13 figures.

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Management's Discussion and Analysis, Continued Years Ended September 30, 2014 and 2013

Capital contributions include revenues received in the form of contributed capital assets, non-exchange grants and contributions restricted to capital purposes, and fees and charges restricted to capital asset acquisitions. For FY14, capital contributions decreased by \$280,075 or 47.50% compared to last year's figure.

Change in net position for FY14 resulted in a moderate increase and showed a substantial turnaround from a negative \$730,071 in FY13 to a positive \$200,182 in FY14 or a remarkable change of \$930,253 or 127.42% in relation to prior year. This can be attributed to the transfer of money from CMI Foundation to CMI Endowment Fund in the latter part of FY14, which is considered as a special item due to the nature of the transaction which is unusual and infrequent in occurrence.

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 assess the College's ability to generate future cash flows, the ability to meet obligations as they come due, and its needs for external financing. It showed how changes in balance sheet and income accounts affect cash and cash equivalents, and breaks the analysis down to operating, investing and financing activities.

Table III
Summary of Statements of Cash Flows

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>13-14</u>	<u>12-13</u>
				% change	
Cash provided by (used in):					
Operating activities	\$ (3,333,464)	\$ (2,058,799)	\$ (3,058,800)	61.91%	(32.69%)
Noncapital financing activities	2,812,007	2,975,044	2,895,077	(5.48%)	2.76%
Capital and related financing activities	230,615	(390,055)	(34,375)	(159.12%)	1,034.71%
Investing activities	<u>(23,842)</u>	<u>(15,091)</u>	<u>94</u>	<u>57.99%</u>	<u>(16,154.26%)</u>
Net change in cash	(314,684)	511,099	(198,004)	(161.57%)	(358.14%)
Cash and cash equivalents-beginning of year	<u>862,114</u>	<u>351,015</u>	<u>549,019</u>	<u>145.61%</u>	<u>(36.07%)</u>
Cash and cash equivalents-end of year	<u>\$ 547,430</u>	<u>\$ 862,114</u>	<u>\$ 351,015</u>	<u>(36.50%)</u>	<u>145.61%</u>

For FY14, net change in cash and cash equivalents showed a substantial decrease amounting to \$314,684; and it plummeted to \$825,783 or 161.57% compared to FY13. This was brought by the following, to wit:

1. Cash and cash equivalents were used primarily for payments to students, employees and vendors for goods & services with an aggregate amount of \$11,320,432. This amount paled in comparison to the cash received from student's tuition and fees, U.S. Federal Grants and other money received for a total of \$7,986,968. The net cash used in operating activities resulted in a negative \$3,333,464 and compared to FY13, it showed a decrease of \$1,274,665 or 61.91%.
2. A decrease in the noncapital financing activities totaling to \$163,037 or 5.48% due to the shortfall of RMI subsidy (\$109,120) and Compact Funding (\$53,917) received for FY14.

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Management's Discussion and Analysis, Continued Years Ended September 30, 2014 and 2013

3. Cash in the amount of \$309,596 were used in the purchase of property, plant and equipment while total cash provided through capital contributions amounted to \$540,211. Net cash provided by capital and related financing activities totaled \$230,615 which is a big turnaround compared to FY13 figures.
4. Net cash used in investing activities showed a minimal amount of \$23,842. This was brought by the difference of cash outflows for the purchase of investments totaling \$1,023,670 and the amount of transfer from CMI Foundation to CMI Endowment Fund along with the interest and dividends received amounting to \$999,828.

Economic Outlook

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

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

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

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 and the RMI Government also committed to fund its \$3,000,000 operational subsidy to CMI as represented by a Memorandum of Understanding through the end of FY2017 and renewable on a yearly basis.

¹ Barbara Beno, Micheal Rota, Floyd Takeuchi, et al., *Enhancing and Sustaining Higher Education Quality in the Pacific: Challenges Facing Institutions Seeking to Acquire and Maintain WASC-Accreditation* (San Francisco: Accrediting Commission of Community and Junior Colleges, 2006).

COLLEGE OF THE MARSHALL ISLANDS

Management's Discussion and Analysis, Continued Years Ended September 30, 2014 and 2013

Summary:

- 1) CMI's total net position for FY2014 is \$17,821,837.
- 2) Transfer of money from CMI Foundation to CMI Endowment Fund in the latter part of FY14 amounting to \$995,486.
- 3) Current or liquidity ratio of 80 cents to 1 dollar. This is an improvement compared to FY12 & FY13, which were pegged at 56 & 72 cents, respectively.
- 4) The Statement of Net Position is highlighted by the contraction of the negative Unrestricted Net Position by \$517,600 or approximately 42% from FY13. This is the 2nd-year-in-a-row that CMI narrowed the gap following years of accumulated deficits in working capital.
- 5) A modest increase in the total operating revenues of \$1,727,990 or 24.67% compared to FY13.
- 6) The RMI Government has continued its subsidy amount to CMI at \$3,000,000 per annum 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. Notably, the actual has leveled at an average of \$2.8 million as appropriated in Fiscal Year 2011, 2012, 2013, and 2014.
- 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.

Management's Discussion and Analysis for the year ended September 30, 2013 is set forth in the College's report on the audit of financial statements, which is dated June 2, 2014. That Discussion and Analysis explains the major factors impacting the 2013 financial statements and can be obtained from the College's President at info@cmi.edu.

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

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Statements of Net Position
September 30, 2014 and 2013

<u>ASSETS</u>	<u>2014</u>	<u>2013</u>
Current assets:		
Cash and cash equivalents	\$ 547,430	\$ 862,114
Accounts receivable and unbilled charges, net	1,329,652	1,647,097
Due from RepMar	122,074	289,816
Due from grantor agencies	98,791	-
Prepaid items	43,814	30,053
Inventory	<u>703,184</u>	<u>332,403</u>
Total current assets	<u>2,844,945</u>	<u>3,161,483</u>
Noncurrent assets:		
Investments	1,054,293	60,947
Capital assets:		
Nondepreciable capital assets	372,306	372,306
Capital assets, net of accumulated depreciation	<u>17,117,224</u>	<u>18,427,988</u>
Total noncurrent assets	<u>18,543,823</u>	<u>18,861,241</u>
Total assets	<u>\$ 21,388,768</u>	<u>\$ 22,022,724</u>
<u>LIABILITIES AND NET POSITION</u>		
Current liabilities:		
Accounts payable	\$ 850,651	\$ 895,381
Withholding taxes payable	297,918	405,848
Social security taxes payable	178,412	165,479
Student refunds payable	257,157	123,641
Payable to grantor agencies	-	636,829
Accrued liabilities	441,873	498,817
Unearned revenue	<u>1,540,920</u>	<u>1,675,074</u>
Total current liabilities	<u>3,566,931</u>	<u>4,401,069</u>
Commitments and contingencies		
Net position:		
Net investment in capital assets	17,489,530	18,800,294
Restricted:		
Endowment -nonexpendable	1,054,293	60,947
Unrestricted	<u>(721,986)</u>	<u>(1,239,586)</u>
Total net position	<u>17,821,837</u>	<u>17,621,655</u>
Total liabilities and net position	<u>\$ 21,388,768</u>	<u>\$ 22,022,724</u>

See accompanying notes to financial statements.

COLLEGE OF THE MARSHALL ISLANDS

Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2014 and 2013

	2014	2013
Operating revenues:		
Student tuition and fees	\$ 4,328,552	\$ 4,237,839
Less: Scholarship discounts and allowances	<u>(3,741,275)</u>	<u>(3,601,816)</u>
	587,277	636,023
U.S. federal grants	6,636,766	5,231,824
Private gifts, grants and donations - restricted	282,217	232,900
Auxiliary enterprises	977,550	660,061
Other	<u>248,956</u>	<u>243,968</u>
Total operating revenues	<u>8,732,766</u>	<u>7,004,776</u>
Operating expenses:		
Instruction	5,626,192	4,109,109
Academic support	414,796	646,007
Student services	644,594	700,809
Institutional support	2,290,638	2,025,009
Operations and maintenance	2,814,261	3,099,543
Auxiliary enterprises	<u>882,301</u>	<u>644,155</u>
Total operating expenses	<u>12,672,782</u>	<u>11,224,632</u>
Operating loss	<u>(3,940,016)</u>	<u>(4,219,856)</u>
Nonoperating revenues (expenses):		
RepMar contributions	1,874,880	1,984,000
Compact funding	1,000,000	916,667
Loss on disposal/transfer of fixed assets	(13,782)	(5,320)
Investment (loss) income	<u>(25,982)</u>	<u>4,767</u>
Total nonoperating revenues (expenses), net	<u>2,835,116</u>	<u>2,900,114</u>
Capital contributions	<u>309,596</u>	<u>589,671</u>
Special item - Transfers from former Foundations	<u>995,486</u>	<u>-</u>
Change in net position	200,182	(730,071)
Net position at beginning of the year	<u>17,621,655</u>	<u>18,351,726</u>
Net position at end of the year	<u>\$ 17,821,837</u>	<u>\$ 17,621,655</u>

See accompanying notes to financial statements.

COLLEGE OF THE MARSHALL ISLANDS

Statements of Cash Flows
Years Ended September 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Cash received from student tuition and fees	\$ 522,142	\$ 148,435
Cash received from U.S. federal grants	5,901,146	5,964,837
Other receipts	1,563,680	1,121,052
Cash payments to employees for services	(4,595,795)	(4,206,373)
Cash payments to suppliers for goods and services	<u>(6,724,637)</u>	<u>(5,086,750)</u>
Net cash used in operating activities	<u>(3,333,464)</u>	<u>(2,058,799)</u>
Cash flows from noncapital financing activities:		
RepMar contributions received	1,874,880	1,984,000
Compact funding received from RepMar	<u>937,127</u>	<u>991,044</u>
Net cash provided by noncapital financing activities	<u>2,812,007</u>	<u>2,975,044</u>
Cash flows from capital and related financing activities:		
Purchases of property, plant and equipment, net	(309,596)	(589,671)
Capital contributions received	<u>540,211</u>	<u>199,616</u>
Net cash provided by (used in) capital and related financing activities	<u>230,615</u>	<u>(390,055)</u>
Cash flows from investing activities:		
Purchases of investments	(1,023,670)	(16,452)
Fund transfers from the former Foundations	995,486	-
Interest and dividends received	<u>4,342</u>	<u>1,361</u>
Net cash used in investing activities	<u>(23,842)</u>	<u>(15,091)</u>
Net change in cash and cash equivalents	(314,684)	511,099
Cash and cash equivalents at beginning of year	<u>862,114</u>	<u>351,015</u>
Cash and cash equivalents at end of year	<u>\$ 547,430</u>	<u>\$ 862,114</u>

See accompanying notes to financial statements.

COLLEGE OF THE MARSHALL ISLANDS

Statements of Cash Flows, Continued
Years Ended September 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (3,940,016)	\$ (4,219,856)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	1,606,578	1,863,904
Bad debts	326,985	139,429
Changes in assets and liabilities:		
Accounts receivable and unbilled charges	(9,540)	(538,831)
Prepaid items	(13,761)	(12,934)
Due from grantor agencies	(98,791)	96,184
Inventory	(370,781)	(71,422)
Accounts payable	(44,730)	129,155
Withholding taxes payable	(107,930)	22,622
Social security taxes payable	12,933	(184,020)
Student refunds payable	133,516	2,378
Payable to grantor agencies	(636,829)	636,829
Accrued liabilities	(56,944)	44,775
Unearned revenue	<u>(134,154)</u>	<u>32,988</u>
Net cash used in operating activities	<u>\$ (3,333,464)</u>	<u>\$ (2,058,799)</u>

See accompanying notes to financial statements.

COLLEGE OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2014 and 2013

(1) Organization

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

The College of the Marshall Islands Foundation, Inc. and Friends of the College of the Marshall Islands, Inc. (collectively, the Foundations) were founded on January 14, 2008 as non-profit, public benefit corporations, which operate under separate Board of Directors' from that of the College. The Foundations, as legally separate, tax-exempt entities, were previously presented as discretely presented component units in accordance with GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. On May 15, 2013, the 501(c)(3) tax-exempt status of the Foundations were revoked by the United States Internal Revenue Service. Accordingly, management considers that the accompanying financial statements are no longer required to include the accounts of the Foundations. On July 16, 2014, the College was able to recover \$995,486 in funds from the former Foundations, which is recorded as a special item – transfers from former Foundations account in the accompanying statement of revenues, expenses and changes in net position.

(2) Summary of Significant Accounting Policies

The Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*. The financial statement presentation required by GASB Statements 34 and 35 provides a comprehensive, entity-wide perspective of the College's assets, liabilities, net position, revenues, expenses, changes in net position, and cash flows, and replaces the fund-group perspective previously required. Other GASB Statements are required to be implemented in conjunction with GASB Statements 34 and 35. Therefore, the College has also implemented, where applicable, Statement No. 36, *Recipient Reporting for Certain Shared Nonexchange Revenues*, Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus* and Statement No. 38, *Certain Financial Statement Note Disclosures*.

Basis of Accounting

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

COLLEGE OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2014 and 2013

(2) Summary of Significant Accounting Policies, Continued

Cash and Cash Equivalents and Time Certificate of Deposit

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

Investments

Investments and related investment earnings are reported at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Accounts Receivable

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

Allowance for Doubtful Accounts

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

Inventory

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

Property, Plant and Equipment

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

Deferred Outflows of Resources

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

Unearned Revenue

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

COLLEGE OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2014 and 2013

(2) Summary of Significant Accounting Policies, Continued

Compensated Absences

The College recognizes the cost of accrued annual leave at the time such leave is earned. As of September 30, 2014 and 2013, the College recorded of \$142,130 and \$127,667, respectively, accrued annual leave, which is included within the statements of net position as accrued liabilities. The College does not participate in an employee pension plan.

Deferred Inflows of Resources

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

Net Position

The College's net position is classified as follows:

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

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

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

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

Estimates

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

COLLEGE OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2014 and 2013

(2) Summary of Significant Accounting Policies, Continued

Classification of Revenues

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

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

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

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

New Accounting Standards

During the year ended September 30, 2014, the College implemented the following pronouncements:

- GASB Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. The implementation of this statement did not have a material effect on the accompanying financial statements.

COLLEGE OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2014 and 2013

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the College.

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*, which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The provisions in Statement 69 are effective for fiscal years beginning after December 15, 2013. Management has not yet determined the effect of implementation of this statement on the financial statements of the College.

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, which addresses an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions in Statement 71 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of this statement on the financial statements of the College.

(3) Deposits and Investments

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

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

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

COLLEGE OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2014 and 2013

(3) Deposits and Investments, Continued

A. Deposits

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

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, 2014 and 2013, the carrying amounts of the College's total cash and cash equivalents were \$547,430 and \$862,114, respectively, and the corresponding bank balances were \$640,171 and \$980,144, respectively. Of the bank balance amounts, \$268,997 and \$724,463, respectively, are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. The remaining amounts of \$371,174 and \$255,681, respectively, represent short-term investments held and administered by the College's trustee. Based on negotiated trust and custody agreements, all of these investments were held by the College's trustee in the College's name. As of September 30, 2014 and 2013, bank deposits in the amount of \$250,000 were FDIC insured. The College does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

B. Investments

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

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the College will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. As of September 30, 2014 and 2013, 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, 2014 and 2013, there were no investments in any one issuer that exceeded 5% of total investments.

COLLEGE OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2014 and 2013

(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.

As of September 30, 2014 and 2013, investments at fair value are as follows:

	<u>2014</u>	<u>2013</u>
Money market funds	\$ 11,429	\$ 95
Equity securities	191,178	23,547
Mutual funds	<u>851,686</u>	<u>37,305</u>
	\$ <u>1,054,293</u>	\$ <u>60,947</u>

(4) Risk Management

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

(5) Accounts Receivable and Unbilled Charges

Summarized below is the College's accounts receivable and unbilled charges as of September 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Student tuition and fees	\$ 2,496,365	\$ 2,880,482
College of Micronesia	52,405	129,043
Employees and officers	30,787	19,214
Other	<u>57,898</u>	<u>47,790</u>
	2,637,455	3,076,529
Less allowance for doubtful accounts	<u>(1,307,803)</u>	<u>(1,429,432)</u>
Net accounts receivable and unbilled charges	\$ <u>1,329,652</u>	\$ <u>1,647,097</u>

COLLEGE OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2014 and 2013

(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, 2014 and 2013:

		2014			
	Estimated Useful Lives	Balance at October 1, 2013	Additions	Deletions	Balance at September 30, 2014
Nondepreciable capital assets:					
Land and improvements		\$ 372,306	\$ -	\$ -	\$ 372,306
Depreciable capital assets:					
Furniture, vehicles and equipment	3 - 5 years	4,749,006	263,825	(307,581)	4,705,250
Buildings and improvements	20 years	<u>23,778,134</u>	<u>45,771</u>	<u>(179,574)</u>	<u>23,644,331</u>
		28,527,140	309,596	(487,155)	28,349,581
Less accumulated depreciation		<u>(10,099,152)</u>	<u>(1,606,578)</u>	<u>473,373</u>	<u>(11,232,357)</u>
		<u>18,427,988</u>	<u>(1,296,982)</u>	<u>(13,782)</u>	<u>17,117,224</u>
Net investment in plant		\$ <u>18,800,294</u>	\$ <u>(1,296,982)</u>	\$ <u>(13,782)</u>	\$ <u>17,489,530</u>
		2013			
	Estimated Useful Lives	Balance at October 1, 2012	Additions	Deletions	Balance at September 30, 2013
Nondepreciable capital assets:					
Land and improvements		\$ 347,306	\$ 25,000	\$ -	\$ 372,306
Depreciable capital assets:					
Furniture, vehicles and equipment	3 - 5 years	4,389,649	504,150	(144,793)	4,749,006
Buildings and improvements	20 years	<u>23,717,613</u>	<u>60,521</u>	-	<u>23,778,134</u>
		28,107,262	564,671	(144,793)	28,527,140
Less accumulated depreciation		<u>(8,374,721)</u>	<u>(1,863,904)</u>	<u>139,473</u>	<u>(10,099,152)</u>
		<u>19,732,541</u>	<u>(1,299,233)</u>	<u>(5,320)</u>	<u>18,427,988</u>
Net investment in plant		\$ <u>20,079,847</u>	\$ <u>(1,274,233)</u>	\$ <u>(5,320)</u>	\$ <u>18,800,294</u>

(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, 2014 and 2013, the College received \$2,874,880 and \$2,900,667, respectively, from RepMar to administer various postsecondary functions and to improve facilities, of which \$62,873 and \$0 was receivable from RepMar at September 30, 2014 and 2013, respectively. The Nitijela of RepMar subsequently provided for an appropriation of \$2,958,300 to fund the operations of the College for fiscal year 2015 and an additional \$250,000 to fund repairs and maintenance of capital projects.

COLLEGE OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2014 and 2013

(7) RepMar Contributions, Continued

Commencing fiscal year 2006, the College was appropriated \$25,000,000 of capital contributions from RepMar of which \$303,500 and \$280,000 was appropriated during the years ended September 30, 2014 and 2013, respectively. During the years ended September 30, 2014 and 2013, the College received \$309,596 and \$589,671, respectively, from RepMar under these appropriations to fund various capital improvements, of which \$59,201 and \$289,816 was receivable from and due to RepMar at September 30, 2014 and 2013, respectively.

(8) Functional Classifications with Natural Classifications

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

	2014								
	Salaries	Benefits	Services	Supplies	Insurance, Utilities and Rent	Depreciation	Bad Debts	Miscellaneous	Total
Instruction	\$ 2,489,092	\$ 682,692	\$ 36,650	\$ 144,524	\$ 38,984	\$ 124,365	\$ -	\$ 2,109,885	\$ 5,626,192
Academic support	289,564	51,848	32,143	4,006	(7,500)	33,255	-	11,480	414,796
Student services	324,589	61,219	155,600	27,837	91	1,989	-	73,269	644,594
Institutional Support	782,825	546,423	102,200	69,493	138,109	18,013	326,985	306,590	2,290,638
Operations and Maintenance	627,634	90,156	35,500	71,815	560,200	1,428,956	-	-	2,814,261
Auxiliary Enterprises	<u>25,146</u>	<u>3,056</u>	<u>-</u>	<u>3,275</u>	<u>74,958</u>	<u>-</u>	<u>-</u>	<u>775,866</u>	<u>882,301</u>
	<u>\$ 4,538,850</u>	<u>\$ 1,435,394</u>	<u>\$ 362,093</u>	<u>\$ 320,950</u>	<u>\$ 804,842</u>	<u>\$ 1,606,578</u>	<u>\$ 326,985</u>	<u>\$ 3,277,090</u>	<u>\$12,672,782</u>

	2013								
	Salaries	Benefits	Services	Supplies	Insurance, Utilities and Rent	Depreciation	Bad Debts	Miscellaneous	Total
Instruction	\$ 2,405,549	\$ 537,488	\$ 89,466	\$70,882	\$ 1,233	\$ 141,890	\$ -	\$ 862,601	\$ 4,109,109
Academic support	250,579	97,038	-	19,661	54,917	15,338	-	208,474	646,007
Student services	315,276	93,345	196,840	22,595	1,696	1,760	-	69,297	700,809
Institutional Support	644,774	476,939	287,716	53,092	168,184	22,593	139,429	232,282	2,025,009
Operations and Maintenance	610,305	75,827	13,500	63,644	653,944	1,682,323	-	-	3,099,543
Auxiliary Enterprises	<u>24,665</u>	<u>2,767</u>	<u>-</u>	<u>705</u>	<u>30,966</u>	<u>-</u>	<u>-</u>	<u>585,052</u>	<u>644,155</u>
	<u>\$ 4,251,148</u>	<u>\$ 1,283,404</u>	<u>\$ 587,522</u>	<u>\$ 230,579</u>	<u>\$ 910,940</u>	<u>\$ 1,863,904</u>	<u>\$ 139,429</u>	<u>\$ 1,957,706</u>	<u>\$11,224,632</u>

(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.

COLLEGE OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2014 and 2013

(9) Commitments, Continued

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

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

Future minimum lease payments under these leases are as follows:

<u>Year ending</u> <u>September 30,</u>	
2015	\$ 78,896
2016	79,196
2017	79,196
2018	79,196
2019	79,196
2020-2024	410,481
2025-2029	425,581
2030-2034	86,192
2035-2037	<u>11,042</u>
	<u>\$ 1,328,976</u>

(10) Contingencies

Going Concern

The accompanying financial statements have been prepared in conformity with GAAP, which contemplates the continuation of the College as a going concern. However, the College has sustained operating losses in recent years. Furthermore, at September 30, 2014, current liabilities exceed current assets by \$721,986 and a deficit unrestricted net position of \$721,986 exists at that date.

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

COLLEGE OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2014 and 2013

(10) Contingencies, Continued

Federal Grants

The College participates in a number of federally assisted grant programs and other various U.S. Department of Education grants. These programs are subject to financial and compliance audits to ascertain if Federal laws and guidelines have been followed. Questioned costs relating to fiscal year 2013 have been set forth in the College's Single Audit Report for the year ended September 30, 2014. The ultimate disposition of these questioned costs can be determined only by final action of the respective grantor agencies. Therefore, no provision for any liability that may result upon resolution of this matter has been made in the accompanying financial statements.

Sick Leave

It is the policy of the College to record expenditures for sick leave when leave is actually taken. Sick leave is compensated time for absence during working hours arising from employee illness or injury. The estimated accumulated sick leave at September 30, 2014 and 2013 was \$139,695 and \$126,706, respectively.

Accreditation

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

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, 2014, and the related statements of revenues, expenses and changes in net position, and of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 29, 2015. Our report included an emphasis-of-matter paragraph regarding a going concern uncertainty.

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.

Compliance and Other Matters

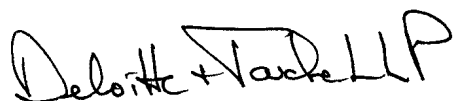
As part of obtaining reasonable assurance about whether the College's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2014-001.

The College's Responses to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the 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.

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

May 29, 2015

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

Board of Regents
College of the Marshall Islands:

Report on Compliance for Each Major Federal Program

We have audited the College of the Marshall Island's (the College's) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the College's major federal programs for the year ended September 30, 2014. The College's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditors' Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the College complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2014.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2014-002 through 2014-004. Our opinion on each major federal program is not modified with respect to these matters.

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

Report on Internal Control Over Compliance

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

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

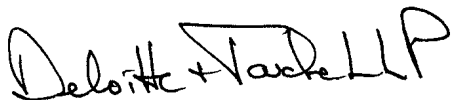
Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as items 2014-002 through 2014-004, that we consider to be significant deficiencies.

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

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

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

We have audited the financial statements of the College of the Marshall Islands as of and for the year ended September 30, 2014, and have issued our report thereon dated May 29, 2015, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the financial statements as a whole.

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

May 29, 2015

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2014

Federal Grantor/ Pass-Through Grantor's Program Title	Federal CFDA Number	Expenditures/ Adjustments FY14
<u>U.S. DEPARTMENT OF AGRICULTURE</u>		
<u>Direct Program</u>		
Community Facilities Loans and Grants	10.780	\$ (23,091)
Subtotal Direct Program		<u>(23,091)</u>
<u>Pass-Through University of Guam:</u>		
Resident Instruction Grants for Insular Area Activities	10.308	117,608
Distance Education Grants for Institutions of Higher Education in Insular Areas	10.322	<u>10,120</u>
Subtotal Pass-Through University of Guam		<u>127,728</u>
TOTAL U.S. DEPARTMENT OF AGRICULTURE		<u>104,637</u>
<u>U.S DEPARTMENT OF COMMERCE</u>		
<u>Direct Program</u>		
Habitat Conservation	11.463	<u>32,647</u>
TOTAL U.S. DEPARTMENT OF COMMERCE		<u>32,647</u>
<u>U.S. DEPARTMENT OF THE INTERIOR</u>		
<u>Direct Program</u>		
Economic, Social and Political Development of the Territories: School Information System	15.875	<u>161,313</u>
Subtotal Direct Program		161,313
<u>Pass-Through Republic of the Marshall Islands (RepMar)</u>		
Economic, Social and Political Development of the Territories: Compact of Free Association Program, As Amended, Sector Grants: Supplemental Education Grant	15.875	326,491
ESN-GED Program Ebeye	15.Unknown	<u>124,349</u>
Subtotal Pass-Through RepMar		<u>450,840</u>
TOTAL U.S. DEPARTMENT OF THE INTERIOR		<u>612,153</u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Expenditures of Federal Awards, Continued
Year Ended September 30, 2014

Federal Grantor/ Pass-Through Grantor's Program Title	Federal CFDA Number	Expenditures/ Adjustments FY14
<u>NATIONAL SCIENCE FOUNDATION</u>		
<u>Pass-Through University of Hawaii</u>		
Research and Development Cluster:		
Education and Human Resources	47.076	6,263
Education and Human Resources	47.076	2,770
Coastal Storms Program - RCUH	47.Unknown	<u>10,876</u>
TOTAL NATIONAL SCIENCE FOUNDATION		<u>19,909</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>		
<u>Direct Program</u>		
Student Financial Assistance Cluster:		
Federal Pell Grant Program	84.063	<u>5,404,177</u>
Subtotal Direct Program		5,404,177
<u>Pass-Through RepMar:</u>		
Katakin Pre-Service Teacher Program	84.Unknown	<u>83,736</u>
TOTAL U.S. DEPARTMENT OF EDUCATION		<u>5,487,913</u>
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>		
<u>Pass-Through University of Guam:</u>		
Area Health Education Centers Infrastructure Development Awards	93.824	<u>185,860</u>
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		<u>185,860</u>
TOTAL FEDERAL AWARDS		<u>\$ 6,443,119</u>
Reconciliation to financial statements:		
Total federal awards expenditure		6,443,119
Depreciation		1,606,578
Non-federal awards		<u>4,623,085</u>
Total expenses per financial statements		<u><u>\$ 12,672,782</u></u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

COLLEGE OF THE MARSHALL ISLANDS

Notes to Schedule of Expenditures of Federal Awards
Year Ended September 30, 2014

(1) Scope of Schedule

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

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

- Programs Subject to OMB Circular A-133

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

(2) Summary of Significant Accounting Policies

- Basis of Accounting

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

(3) Indirect Cost Allocation

The College has not entered into an approved indirect cost negotiation agreement covering the year ended September 30, 2014.

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs
Year Ended September 30, 2014

Section I - Summary of Auditors' Results

Financial Statements

- | | | |
|----|---|---------------|
| 1. | Type of auditors' report issued: | Unmodified |
| | Internal control over financial reporting: | |
| 2. | Material weakness(es) identified? | No |
| 3. | Significant deficiency(ies) identified? | None reported |
| 4. | Noncompliance material to financial statements noted? | Yes |

Federal Awards

- | | | | | | | | | |
|---------------|---|---------------|--------------------------------|--------|--|--------|----------------------------|--|
| | Internal control over major federal programs: | | | | | | | |
| 5. | Material weakness(es) identified? | No | | | | | | |
| 6. | Significant deficiency(ies) identified? | Yes | | | | | | |
| 7. | Type of auditors' report issued on compliance for major federal programs | Unmodified | | | | | | |
| 8. | Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? | Yes | | | | | | |
| 9. | Identification of major federal programs: | | | | | | | |
| | <table border="0" style="margin-left: 40px;"> <tr> <td style="text-align: left;"><u>CFDA #</u></td> <td style="text-align: left;"><u>Name of Federal Program</u></td> </tr> <tr> <td>15.875</td> <td>Economic, Social and Political Development of the Territories:
Compact of Free Association, As Amended, Sector Grants</td> </tr> <tr> <td>84.063</td> <td>Federal Pell Grant Program</td> </tr> </table> | <u>CFDA #</u> | <u>Name of Federal Program</u> | 15.875 | Economic, Social and Political Development of the Territories:
Compact of Free Association, As Amended, Sector Grants | 84.063 | Federal Pell Grant Program | |
| <u>CFDA #</u> | <u>Name of Federal Program</u> | | | | | | | |
| 15.875 | Economic, Social and Political Development of the Territories:
Compact of Free Association, As Amended, Sector Grants | | | | | | | |
| 84.063 | Federal Pell Grant Program | | | | | | | |
| 10. | Dollar threshold used to distinguish between Type A and Type B Programs: | \$ 300,000 | | | | | | |
| 11. | Auditee qualified as low-risk auditee? | No | | | | | | |

Section II - Financial Statement Findings

<u>Finding Number</u>	<u>Findings</u>
2014-001	Local Noncompliance - Taxes on Wages and Salaries

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Section III - Federal Award Findings and Questioned Costs

<u>Finding Number</u>	<u>CFDA #</u>	<u>Findings</u>	<u>Questioned Costs</u>
2014-002	15.875	Equipment and Real Property Management	\$ -
2014-003	84.063	Special Tests and Provisions	\$ -
2014-004	84.063	Special Tests and Provisions	\$ -

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2014

Finding No. 2014-001

Local Noncompliance - Taxes on Wages and Salaries

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

- (1) The employer shall, once every four (4) weeks or thirteen (13) times per year, pay the taxes withheld under Section 104 of this Chapter. The employer shall, along with the taxes, within two (2) weeks following the preceding four (4) week period make a full, true and correct return showing all wages and salaries paid by the employer to the employees during the preceding four (4) week period and showing the tax due and withheld thereon as provided in Section 104 of this Chapter. The return shall contain such other information as shall be required or prescribed by the Secretary of Finance.
- (2) Every employer required to deduct and withhold any tax on the salaries and wages of any employee shall furnish to each such employee, at least once every four (4) weeks, a written statement showing the wages and salaries paid by the employer to such employee during the preceding four (4) week period and the amount of tax deducted and withheld or paid with respect to such wages and salaries.
- (3) Every employer who violates any of the provisions of this Section shall be guilty of an offense. Further, pursuant to P.L. 2006-64 (Repeal of Government Entities Tax Exemptions Act of 2005), the College's import tax payments for purchase of textbooks and other educational materials, and for purchase of building materials for construction projects are reimbursable upon submission of certification satisfactory to the Secretary of Finance. The College reimburses through application of resulting tax credits for the applicable import tax payments against employee withholding income taxes.

Condition: The College has withholding taxes payable of \$297,918 as of September 30, 2014 related to unremitted taxes in previous fiscal years. There is no calculation and approval documentation of a tax credit that can be offset pursuant to P.L. 2006-64 provided in fiscal year 2014.

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

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

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

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No. 2014-001, Continued

Local Noncompliance - Taxes on Wages and Salaries, Continued

Prior Year Status: The College's lack of funds to remit withholding taxes and the failure to calculate, document and apply for applicable tax credits was reported as finding 2011-01, 2012-1 and 2013-001 in the Single Audits of the College.

Auditee Response and Corrective Action Plan: The College disagrees with the finding as stated as a result of external factors that prevented the College from executing its corrective action plans as stated in the prior year audit report. The College has been in compliance with applicable public law on tax on wages and salaries as noted in the College's latest financial reports; the only issue is its prior year withholding taxes dated back to Fiscal Year 2010. The College has set an action plan as stated in its FY2012 & FY2013 audit reports; however, CMI needs the Ministry of Finance's cooperation on its requests to offset liabilities using the College's receivables from unclaimed paid import tax duties.

The College will continue to work closely with the MOF to ensure that the action plan is executed accordingly.

Auditor Response:

The finding reported unremitted taxes in prior years. The College has been able to pay current taxes due; however, the College will need to continue coordinating with the MOF to address the remaining unpaid taxes as indicated in the auditee response.

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-002
 Federal Agency: U.S. Department of the Interior
 CFDA Program: 15.875 Economic, Social and Political Development of the Territories
 Grant Number: Compact of Free Association, As Amended, Sector Grants
 Requirement: Equipment and Real Property Management
 Questioned Cost: \$0

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

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

Condition: The College conducted an inventory of fixed assets and have provided inventory count sheets dated from July 2014 through October 2014; however, a reconciliation of the results of the count to the fixed asset records is not evident. Further, our scrutiny of the fixed assets listing provided on March 10, 2015 noted the following:

Number of Assets	Asset Value	Deficiency Noted
15	75,727	Some items do not have a location
156	310,794	Several items do not have a tag or equivalent identification number
Total	<u>386,521</u>	

Cause: Although procedures over compliance with applicable equipment and real property management are newly in place, a complete reconciliation and update of the register with required information has yet to be performed.

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

Recommendation: The College should reconcile results of its physical inventory of fixed assets to remove nonexistent assets and to include locations and identification numbers for all assets.

Prior Year Status: The lack of controls over compliance with equipment and real property management requirements was reported as finding 2011-03. 2012-3 and 2013-002 in the Single Audits of the College.

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-002, Continued
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social and Political Development of the Territories
Grant Number: Compact of Free Association, As Amended, Sector Grants
Requirement: Equipment and Real Property Management
Questioned Cost: \$0

Auditee Response and Corrective Action Plan: The College has revised its policies and procedures to ensure proper control measures are instituted in handling and managing its assets. With the new policies and procedures in place, the College has sufficient control measures in safeguarding the College's assets.

The College already provided additional information to the external auditors to justify that the College has the proper policies and procedures in handling and managing its assets. Additionally, the College continues to implement the corrective action plans as stated in the FY2013 Audit report.

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2014

Finding No.: 2014-003
Federal Agency: U.S. Department of Education
CFDA Program: 84.063 Federal Pell Grant Program
Grant Number: 03022400
Requirement: Special Tests and Provisions: Return to Title IV
Questioned Cost: \$0

Criteria: Per Volume 5 of 2013-2014 SFA Handbook, Title IV funds are awarded to a student under the assumption that the student will attend school for the entire period for which the assistance is awarded. When a student withdraws, the student may no longer be eligible for the full amount of Title IV funds that the student was originally scheduled to receive.

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

Per 2013-2014 SFA Handbook, some schools can opt to use the 50% point as the withdrawal date for a student who unofficially withdraws in determining earned Title IV aid. Further, a school must return unearned funds for which it is responsible, but no later than 45-days from the determination of student's withdrawal.

Condition: Of 34 Pell students tested totaling \$86,251, one student, in Fall 2013, withdrew 100% from all courses enrolled. Calculation of amount payable to U.S. Department of Education (U.S. ED) was performed on 12/16/2013; however, funds were returned on 3/10/2015 which is 277 days after the determination of student's withdrawal.

Cause: The cause of the above condition is an oversight in the monitoring of each student's academic progress throughout the semester.

Effect: The effect of the above condition is noncompliance with special tests and provisions requirements related to the return to Title IV. No questioned cost result since the funds were eventually returned.

Recommendation: We recommend that the College strengthen internal control policies and procedures to monitor each student's academic progress and determine that unearned funds are timely returned.

Auditee Response and Corrective Action: The College agrees with the finding and the recommendations. With the new Student Information System being completed, the College has moved away from a manual review type system into an automated system where the student information will be properly reviewed using the new system to avoid errors in processing student applications and records.

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-004
 Federal Agency: U.S. Department of Education
 CFDA Program: 84.063 Federal Pell Grant Program
 Grant Number: 03022400
 Requirement: Special Tests and Provisions: Disbursements To or On Behalf of Students
 Questioned Cost: \$0

Criteria: Per Chapter 1 of Volume 4: 2013-2014 Federal Student Aid Handbook: “It is the sole responsibility of the school to pay, or make available, any FSA credit balance within the 14-day regulatory time frames.” Further, pursuant to SY13-14 FSA Handbook, a school may hold the check for up to 21 days after the date it notifies the student. If the student does not pick up the check within this 21-day period, the institution must immediately mail the check to the student or parent, initiate an EFT to the student’s or parent’s bank account, or return the funds to the appropriate FSA program.

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

1. For six (or 18%) of thirty-four student refunds tested, totaling \$2,235, the College did not release refunds owed within the 14-day time frame. Details follow:

Check #	Refund Owed	Check Date	Last Day to Charge Bookstore	Days Elapsed between Drawdown and Refund Dates
60275	\$ 66	12/23/2013	11/1/2013	37
60237	8	12/23/2013	11/1/2013	37
60107	134	12/23/2013	11/1/2013	37
60061	17	12/23/2013	11/1/2013	37
1889	22	12/15/2014	11/21/2014	17
1875	60	12/15/2014	9/3/2014	74

2. Student Refund Payable beyond 21 days old amounting to \$254,944 should be returned to the Federal Programs. CMI has not performed an assessment of student refund payables older than 21 days for any necessary adjustments.

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

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

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

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2014

Finding No.: 2014-004, Continued
Federal Agency: U.S. Department of Education
CFDA Program: 84.063 Federal Pell Grant Program
Grant Number: 03022400
Requirement: Special Tests and Provisions: Disbursements To or On Behalf of Students
Questioned Cost: \$0

Prior Year Status: The lack of controls over compliance with special tests and provisions regarding disbursements to or on behalf of student requirements was reported as finding 2012-8 and 2013-004 in the Single Audits of the College.

Auditee Response and Corrective Action Plan: As indicated in finding No. 2012-08 & 2013-004, the College advances the students' anticipated refunds during the registration week after deducting all tuition and fees into the students' ID card which is used on CMI campus like the regular bank debit card. The students have full control of how and when their funds are spent using the student ID card. A month prior to the last day of instruction, all students' accounts are closed and if students have balance on their ID cards, it is refunded back to the students within the 14-day period. This was initiated to ensure students use their Pell grants for educational purposes.

Accordingly, the number of days elapsed between the drawdown and the refund dates is based on when student accounts are closed. Although the College closed the student accounts on November 01, 2013, the Business Office was not able to refund the students credit balance within the 14-day regulatory time frames due to technical systematic issues in testing the new SIS system. This is the same testing/finding from Fiscal Year 2013 Audit report finding #2013-04. This issue was discussed with the external auditors during their audit fieldwork.

The needs for compliance were not neglected but due to the testing phase of the system it is difficult to avoid the glitches while trying to perfect the system. The new student information system now bring testing will resolve all these issues if and when it's completed.

COLLEGE OF THE MARSHALL ISLANDS

Unresolved Prior Year Findings and Questioned Costs
Year Ended September 30, 2014

Questioned Costs

The prior year Single Audit report on compliance with laws and regulations noted the following questioned costs and comments that were unresolved at September 30, 2014:

Questioned costs as previously reported:

At September 30, 2010	\$ 122,900
At September 30, 2011	816,481
At September 30, 2012	197,541
At September 30, 2013	<u>4,210</u>

Questioned costs as previously reported 1,141,132

Deduct: Questioned costs resolved as of September 30, 2014 (1,136,922)

Unresolved questioned costs at September 30, 2014 \$ 4,210

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

Finding Number	CFDA Number	Questioned Costs Reported	Questioned Costs Resolved	Questioned Costs	Status as of September 30, 2014
2010-1	84.063	\$ 0	\$ 0	\$ 0	Not corrected or resolved. Currently in communication with the grantor agency.
2010-2	15.875	1,452	(1,452)	0	Resolved per CMI correspondence with U.S. DOI.
2010-3	15.875	121,448	(121,448)	0	Resolved per CMI correspondence with U.S. DOI.
2010-5	84.047/ 84.063	0	0	0	Not corrected or resolved. Currently in communication with the grantor agency.
2011-3	15.875	0	0	0	Not corrected or resolved. Currently in communication with the grantor agency.
2011-4	15.875	720,111	(720,111)	0	Resolved per CMI correspondence with U.S. DOI.
2011-5	15.875	0	0	0	Not corrected or resolved. Currently in communication with the grantor agency.
2011-7	10.308/ 84.047	96,370	(96,370)	0	Resolved per OMB A-133 Section.315 (b)(4).
2012-3	15.875	0	0	0	Not corrected or resolved. Currently in communication with the grantor agency.
2012-4	15.875	196,154	(196,154)	0	Resolved per CMI correspondence with U.S. DOI.
2012-5	15.875	0	0	0	Not corrected. Currently in communication with U.S. DOI to resolve prior year findings on CFDA 15.875
2012-9	84.063	1,387	(1,387)	0	Resolved per OMB A-133 Section.315 (b)(4).
2013-2	15.875	0	0	0	Not corrected or resolved. Currently in communication with the grantor agency.
2013-3	84.063	4,210	0	4,210	Not corrected or resolved. Currently in communication with the grantor agency.
2013-4	84.063	0	0	0	Resolved per CMI correspondence with U.S. DOE
		<u>\$ 1,141,132</u>	<u>\$ (1,136,922)</u>	<u>\$ 4,210</u>	