

COLLEGE OF THE MARSHALL ISLANDS

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEAR ENDED SEPTEMBER 30, 2001

INDEPENDENT AUDITORS' REPORT

Board of Regents
College of the Marshall Islands:

We have audited the accompanying balance sheet of the College of the Marshall Islands (the College), a component unit of the Republic of the Marshall Islands, as of September 30, 2001, and the related statements of changes in fund balances (deficit) and current funds revenues, expenditures, and other changes for the year then ended. These financial statements are the responsibility of the management of the College. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Because of inadequacies in the accounting records and internal control over financial reporting, we were unable to determine the propriety of tuition and fees receivable, prepaid items and due to grantor agencies, stated at \$1,663,890, \$174,417 and \$396,670, respectively. Tuition and fees receivable, prepaid items and due to grantor agencies enter into the determination of the results of operations for the year ended September 30, 2001.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to determine the propriety of tuition and fees receivable, prepaid items and due to grantor agencies, as discussed in the third paragraph above, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the College as of September 30, 2001, and the changes in fund balances (deficit) and the current funds revenues, expenditures, and other changes for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 21, 2003, on our consideration of the College's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Deloitte & Touche

March 21, 2003

COLLEGE OF THE MARSHALL ISLANDS

Balance Sheet
September 30, 2001
(With comparative totals as of September 30, 2000)

<u>ASSETS</u>	<u>2001</u>	<u>2000</u> (As Restated note 10)
Current funds:		
Unrestricted:		
Cash and cash equivalents	\$ 47,342	\$ 47,130
Time certificate of deposit	-	18,463
Receivables:		
Tuition and fees	1,663,890	1,674,069
College of Micronesia	246,897	95,375
Employees and officers	52,737	46,687
Other	117,691	148,405
Total receivables	2,081,215	1,964,536
Less: allowance for doubtful accounts	(768,543)	(768,543)
	<u>1,312,672</u>	<u>1,195,993</u>
Prepaid items	174,417	183,590
Total unrestricted	<u>1,534,431</u>	<u>1,445,176</u>
Restricted:		
Cash and cash equivalents	65,111	448
Prepaid items	3,217	3,217
Due from other funds	591,032	381,613
Total restricted	<u>659,360</u>	<u>385,278</u>
Total current funds	<u>\$ 2,193,791</u>	<u>\$ 1,830,454</u>
Endowment fund:		
Cash	\$ 115	\$ 160
Investments (note 4)	131,562	174,242
Due from other funds	11,177	2,411
Total endowment fund	<u>\$ 142,854</u>	<u>\$ 176,813</u>
Plant fund:		
Investment in plant (note 5):		
Furniture, vehicles and equipment	\$ 1,331,300	\$ 1,106,202
Buildings and improvements	836,004	836,004
Construction work in progress	301,636	301,636
Less accumulated depreciation	(1,560,254)	(1,443,419)
Total plant fund	<u>\$ 908,686</u>	<u>\$ 800,423</u>

See accompanying notes to financial statements.

COLLEGE OF THE MARSHALL ISLANDS

Balance Sheet, Continued
 September 30, 2001
 (With comparative totals as of September 30, 2000)

<u>LIABILITIES AND FUND BALANCES (DEFICIT)</u>	<u>2001</u>	<u>2000</u> <u>(As Restated</u> <u>note 10)</u>
Current funds:		
Unrestricted:		
Bank overdraft	\$ -	\$ 100,545
Payable to the Republic of the Marshall Islands (note 7)	225,809	225,809
Accounts payable	305,004	153,177
Accrued liabilities	1,189,861	848,254
Deferred revenue	714,911	670,564
Due to other funds	602,209	384,024
Deficit	<u>(1,503,363)</u>	<u>(937,197)</u>
Total unrestricted	<u>1,534,431</u>	<u>1,445,176</u>
Restricted:		
Accounts payable	6,155	5,678
Accrued liabilities	29,628	29,181
Due to grantor agencies (note 6)	396,670	319,513
Fund balance	<u>226,907</u>	<u>30,906</u>
Total restricted	<u>659,360</u>	<u>385,278</u>
Total current funds	<u>\$ 2,193,791</u>	<u>\$ 1,830,454</u>
Endowment fund:		
Fund balance:		
Restricted - nonexpendable	\$ 142,854	\$ 176,813
Total endowment fund	<u>\$ 142,854</u>	<u>\$ 176,813</u>
Plant fund:		
Investment in plant:		
Net investment in plant	<u>\$ 908,686</u>	<u>\$ 800,423</u>
Total plant fund	<u>\$ 908,686</u>	<u>\$ 800,423</u>
Commitments and contingencies (notes 3, 8 and 9)		

See accompanying notes to financial statements.

COLLEGE OF THE MARSHALL ISLANDS

Statement of Changes in Fund Balances (Deficit)
Year Ended September 30, 2001

	Current Funds		Endowment Fund	Plant Fund
	Unrestricted	Restricted		Investment in Plant
Revenues and other additions:				
Unrestricted current fund revenues	\$ 3,126,772	\$ -	\$ -	\$ -
U.S. Federal grants - restricted	-	2,955,474	-	-
Private gifts, grants and donations - restricted	-	411,317	8,719	-
Investment income - restricted	-	-	14,772	-
Total revenues and other additions	<u>3,126,772</u>	<u>3,366,791</u>	<u>23,491</u>	<u>-</u>
Expenditures and other deductions:				
Educational and general expenditures	3,473,379	3,044,681	-	-
Auxiliary enterprises expenditures	120,570	-	-	-
Depreciation of plant and equipment	-	-	-	116,835
Investment management fees	-	-	2,373	-
Net decrease in the fair value of investments - restricted	-	-	55,077	-
Total expenditures and other deductions	<u>3,593,949</u>	<u>3,044,681</u>	<u>57,450</u>	<u>116,835</u>
Transfers among funds - additions (deductions):				
Mandatory:				
Renewals and replacements	(98,989)	(126,109)	-	225,098
Total transfers	<u>(98,989)</u>	<u>(126,109)</u>	<u>-</u>	<u>225,098</u>
Net increase (decrease) for the year	(566,166)	196,001	(33,959)	108,263
Fund balances (deficit) at beginning of year	(937,197)	30,906	176,813	800,423
Fund balances (deficit) at end of year	<u>\$ (1,503,363)</u>	<u>\$ 226,907</u>	<u>\$ 142,854</u>	<u>\$ 908,686</u>

See accompanying notes to financial statements.

COLLEGE OF THE MARSHALL ISLANDS

Statement of Current Funds Revenues, Expenditures, and Other Changes
 Year Ended September 30, 2001
 (With comparative totals for the year ended September 30, 2000)

	Unrestricted	Restricted	Total	
			2001	2000
Revenues:				
U.S. Federal grants	\$ -	\$ 2,239,291	\$ 2,239,291	\$ 2,634,926
Tuition and fees	1,798,129	-	1,798,129	1,556,029
RepMar contributions (note 7)	860,900	-	860,900	597,249
Private gifts, grants and donations	-	411,317	411,317	28,109
Sales and service of auxiliary enterprises	291,937	-	291,937	82,558
Interest	1,818	-	1,818	3,078
Other	173,988	-	173,988	82,199
Total current revenues	3,126,772	2,650,608	5,777,380	4,984,148
Expenditures and mandatory transfers:				
Educational and general:				
Student	-	2,225,791	2,225,791	1,851,836
Instructional	1,351,790	121,622	1,473,412	1,238,632
Administration	1,061,685	224,670	1,286,355	1,208,141
Post-secondary	95,047	380,382	475,429	672,227
Operations and maintenance	523,648	14,888	538,536	219,418
Library	202,771	77,328	280,099	200,733
Student services	238,438	-	238,438	238,140
Educational and general expenditures	3,473,379	3,044,681	6,518,060	5,629,127
Mandatory transfers for:				
Renewals and replacements	98,989	126,109	225,098	206,544
Total educational and general	3,572,368	3,170,790	6,743,158	5,835,671
Auxiliary enterprises expenditures	120,570	-	120,570	109,523
Total expenditures and mandatory transfers, net	3,692,938	3,170,790	6,863,728	5,945,194
Other transfers and additions (deductions):				
Excess of transfers to revenues over restricted receipts	-	716,183	716,183	64,055
Net (decrease) increase in fund balances	\$ (566,166)	\$ 196,001	\$ (370,165)	\$ (896,991)

See accompanying notes to financial statements.

COLLEGE OF THE MARSHALL ISLANDS

Notes to Financial Statements September 30, 2001

(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) Minister of Education. Previous to the Act, the College was a component of the College of Micronesia (COM). The College operates another program, the Land Grant program, but results of its operations are substantially reported within the financial statements of COM. Therefore, the accompanying financial statements relate solely to those accounting records maintained within the College and do not incorporate any accounts related to its operations that may be accounted for as a separate component of COM.

(2) Summary of Significant Accounting Policies

The accounting policies of the College conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental colleges and universities. Governmental Accounting Standards Board (GASB) Statement No. 15, *Governmental College and University Accounting and Financial Reporting Models*, provides that governmental colleges and universities use one of two models: (1) the AICPA College Guide model or (2) the Governmental model. The College has elected to adopt the AICPA College Guide model - the accounting and financial reporting guidance recognized by the American Institute of Certified Public Accountants (AICPA) Industry Audit Guide, as amended by AICPA Statement of Position (SOP) 74-8, *Financial Accounting and Reporting by Colleges and Universities*, and as modified by applicable Financial Accounting Standards Board (FASB) pronouncements issued through November 30, 1989, and as modified by all applicable GASB pronouncements. The significant accounting policies used by the College are as follows:

Accrual Basis

The accompanying financial statements of the College have been prepared on the accrual basis. The statement of current funds revenues, expenditures, and other changes is a statement of financial activities of current funds related to the current reporting period. It does not purport to present the results of operations or the net income or loss for the period as would a statement of income or a statement of revenues and expenditures.

To the extent that current funds are used to finance plant assets, the amounts so provided are accounted for as (1) expenditures, in the case of normal replacement of movable equipment and library books; (2) mandatory transfers, in the case of required provisions for debt amortization and interest, and equipment renewal and replacement; and (3) transfers of a non-mandatory nature for all other cases.

Fund Accounting

In order to ensure observance of limitations and restrictions placed on the use of the resources available to the College, the accounts of the College are maintained in accordance with the principles of "fund accounting". This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds that are in accordance with activities or objectives specified. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group.

COLLEGE OF THE MARSHALL ISLANDS

Notes to Financial Statements September 30, 2001

(2) Summary of Significant Accounting Policies, Continued

Fund Accounting, Continued

Within each fund group, fund balances restricted by outside sources are so indicated and are distinguished from unrestricted funds allocated to specific purposes by action of the governing board. Externally restricted funds may only be utilized in accordance with the purposes established by the source of such funds and are in contrast with unrestricted funds over which the governing board retains full control to use in achieving any of its institutional purposes.

An endowment fund established by the governing board accounts for gifts requiring in perpetuity that the principal be invested and the income only be utilized, but only after the principal has grown to sufficiently generate enough income to support institutional operations.

All other unrestricted revenue is accounted for in the unrestricted current fund. Restricted gifts, grants, appropriations, endowment income, and other restricted resources are accounted for in the appropriate restricted funds. Restricted current funds are reported as revenues and expenditures when expended for current operating purposes.

Cash and Cash Equivalents

For the purpose of the balance sheet, cash and cash equivalents is defined as cash on hand and cash held in demand accounts as well as short-term investments with a maturity date within ninety days of the date acquired. As of September 30, 2001, cash and cash equivalents was \$112,568 and the corresponding bank balances were \$216,217, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2001, bank deposits in the amount of \$118,660 were FDIC insured. The College does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized.

Investments

Investments are carried at fair value. Fair value is the amount at which an investment could be exchanged in a current transaction between willing parties.

Interfund Receivables/Payables

During the course of operations, the College records transactions between individual funds for goods provided or services rendered. Receivables and payables resulting from transactions between funds are classified as "due from other funds" or "due to other funds" on the balance sheet.

Investment in Plant

Property and equipment are recorded at cost in instances where cost is determinable or estimated cost where cost is not determinable. Depreciation on plant assets is provided using the straight-line basis over the estimated useful lives of the respective assets. To the extent that current funds are used to finance plant assets, the amounts so provided are accounted for as (1) expenditures, in the case of normal replacement of movable equipment, or (2) transfers to the Plant Fund.

COLLEGE OF THE MARSHALL ISLANDS

Notes to Financial Statements September 30, 2001

(2) Summary of Significant Accounting Policies, Continued

Compensated Absences

The College recognizes cost for accrued annual leave at the time such leave is earned. As of September 30, 2001, the College recorded accrued annual leave in the amount of \$61,334, which is included within the balance sheet as accrued liabilities. The College does not participate in an employee pension plan.

Revenue Recognition

Tuition and fees are recorded as deferred revenue as of the applicable enrollment date and are recognized totally within the fiscal year in which the semester is predominantly conducted. Other grants and revenues are recorded as income at the point the revenues are earned and measurable.

Functional Allocation of Expenditures

The costs of providing the various programs and other activities have been summarized on the functional basis in the statements of changes in fund balances (deficit). Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Estimates

The preparation of financial statements in conformity with 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 expenditures during the reporting period. Actual results could differ from those estimates.

(3) 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 with respect to workers' compensation, general liability, and the use of motor vehicles. Settled claims have not exceeded this commercial coverage in any of the past three years. For other risks of loss to which it is exposed, the College has elected not to purchase commercial insurance. Instead, College management believes it is more economical to manage its risks internally. The College will report all of its risk management activities, if and when such occurs, in the unrestricted current fund. Claims expenditures and liabilities will be reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Losses, if reported, include an estimate of claims that have been incurred but not reported. No losses as a result of these risks have occurred or have been reported within the accompanying financial statements.

COLLEGE OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2001

(4) Investments

GASB Statement No. 3 requires government entities to categorize investments to give an indication of the level of credit risk assumed by the entity at year end. The three categories are described below:

- Category 1 Insured or registered, or securities held by the College or its agent in the College's name;
- Category 2 Uninsured and unregistered, with securities held by the broker's or dealer's trust department or agent in the College's name; or
- Category 3 Uninsured and unregistered, with securities held by the broker or dealer, or by its trust department or agent but not in the College's name.

Investments of the College as of September 30, 2001, are Category 2 investments held in mutual funds.

(5) Plant and Equipment

Summarized below is the College's investment in plant and equipment and changes for the year ended September 30, 2001:

	Estimated Useful Lives	Balance at October 1, 2000	Additions	Deletions	Balance at September 30, 2001
Furniture, vehicles and equipment	3 - 5 years	\$ 1,106,202	\$ 225,098	\$ -	\$ 1,331,300
Buildings and improvements	20 years	<u>836,004</u>	<u>-</u>	<u>-</u>	<u>836,004</u>
		1,942,206	225,098	-	2,167,304
Less accumulated depreciation		<u>(1,443,419)</u>	<u>(116,835)</u>	<u>-</u>	<u>(1,560,254)</u>
		498,787	108,263	-	607,050
Construction work in progress		<u>301,636</u>	<u>-</u>	<u>-</u>	<u>301,636</u>
Net investment in plant		\$ <u>800,423</u>	\$ <u>108,263</u>	\$ <u>-</u>	\$ <u>908,686</u>

(6) Due to Grantor Agencies

The College is a recipient of federal programs from various federal agencies. Excess receipts over grant disbursements are recognized as a payable to grantor agencies. Changes in the federal grants payable account for the year ended September 30, 2001, are as follows:

Balance at beginning of year	\$ 319,513
Deductions - federal program outlays	(2,955,472)
Additions - cash receipts from grantor agencies	<u>3,032,629</u>
	\$ <u>396,670</u>

COLLEGE OF THE MARSHALL ISLANDS

Notes to Financial Statements September 30, 2001

(7) RepMar Contributions

To ensure that the College receives its full accreditation by the Western Association of Schools and Colleges and to meet the educational and vocational needs of the community, the Nitijela (Legislature) of RepMar passed a resolution on March 15, 1991 to provide for an annual appropriation in an amount sufficient to provide stable financial backing for the College in order to obtain the above objectives. During the year ended September 30, 2001, the College received unrestricted funding from RepMar of \$860,900 to administer various postsecondary functions.

In addition, RepMar previously processed the College's payroll. As of September 30, 2001, the College is liable in the amount of \$225,809 for this service.

(8) 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.

Future minimum lease payments under these leases are as follows:

<u>Year ending September 30,</u>	
2002	\$ 64,000
2003	64,000
2004	64,000
2005	64,800
2006	67,200
Thereafter	<u>1,756,000</u>
	<u>\$ 2,080,000</u>

(9) Contingencies

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, 2001, is \$140,394.

COLLEGE OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2001

(9) Contingencies, Continued

Federal Grants

The College participates in a number of U.S. Department of Education assisted grant programs and other various federally assisted grants. These programs are subject to financial and compliance audits to ascertain if Federal laws and guidelines have been followed. Cumulative questioned costs of \$457,641 relating to fiscal years 1997 through 2001 have been set forth in the College's Single Audit Report for the year ended September 30, 2001. 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.

(10) Restatement

Management has determined that as of September 30, 2000, tuition and fees receivable and due to/from other funds in the unrestricted current fund were understated and overstated, respectively, and that due from grantor agencies and due to/from other funds in the restricted current fund were overstated. Accordingly, the beginning tuition and fees receivable and due to/from other funds in the unrestricted current fund and the beginning due from grantor agencies and due to/from other funds in the restricted current fund have been restated from the amounts previously reported as follows:

	As Previously Reported	As Restated
At October 1, 2000:		
Unrestricted fund:		
Tuition and fees receivable	\$ <u>1,266,716</u>	\$ <u>1,674,069</u>
Due to/from other funds	\$ <u>23,329</u>	\$ <u>384,024</u>
Restricted fund:		
Due from grantor agencies	\$ <u>87,840</u>	\$ <u>-</u>
Due to/from other funds	\$ <u>25,740</u>	\$ <u>381,613</u>
Due to grantor agencies	\$ <u>-</u>	\$ <u>319,513</u>

(11) Subsequent Event

On June 21, 2002, the College sued a former employee for alleged misappropriation of funds amounting to \$641,601. A trial date has been set for June 23, 2003.