

**BOARD OF HIGHER EDUCATION**  
**REQUEST FOR COMMITTEE AND BOARD ACTION**

**COMMITTEE:** Academic Affairs

**NO.:** AAC 18-14

**COMMITTEE DATE:** December 5, 2017

**BOARD DATE:** December 12, 2017

---

**PETITION OF NORTHEAST MARITIME INSTITUTE, INC. TO AWARD THE  
ASSOCIATE IN APPLIED SCIENCE IN NAUTICAL SCIENCE DEGREE WITHOUT  
CONDITIONS**

**MOVED:** The Board of Higher Education (BHE) hereby grants the request of **Northeast Maritime Institute, Inc.** (NMI) to remove the conditional restriction on its authority to award the **Associate in Applied Science in Nautical Science** previously imposed by the BHE on NMI through AAC 15-09.

**Authority:** Massachusetts General Laws c. 69, § 30 et seq.

**Contact:** Patricia A. Marshall, Ph.D., Deputy Commissioner for Academic Affairs and Student Success



July 19, 2017

Massachusetts Department of Higher Education  
Commissioner Carlos Santiago  
One Ashburton Place Room 1401  
Boston, MA 02108

Dear Commissioner Santiago:

We write to you today to request full approval of our Associate in Applied Science in Nautical Science program. We believe we have met the requirements of Standard 2.07 (f) Financial Resources which we understand to be the item previously preventing the Institute from being granted full approval. Enclosed please find an updated financial report which outlines our advances and reflects updates to the financial ratios previously measured by the Visiting Committee. In addition, we are submitting the audited financial statements for the fiscal year 2016 ending 12/31/2016.

The Institute has 26 students enrolled in the AASNS program, with 9 scheduled to graduate in September and a new September cohort enrolling now. We graduated two students in December and both have received their U.S. Coast Guard licenses and endorsements and are currently employed in the industry. Since the commencement of the program in January 2015, we have increased enrollments, began work on articulation agreements with other higher education institutions and have increased community engagement and partnerships. The New Bedford Whaling Museum and the Egan Institute of Nantucket are two.

Currently, the lack of full approval of the program results in delays in numerous areas which provides additional hardships to enroll students who can afford it. The lack of approval delays our ability to apply for accreditation which is directly linked to qualification for federal financial aid, Veterans Administration benefits and student loan options for our applicants. Approval to issue F-student visas is also pending either accreditation or articulation agreements, both of which are dependent upon full approval. The ability to recruit and enroll international students would additionally increase our tuition revenues.

We hope the enclosed reports clearly demonstrate the financial growth and progress we have made over the past two years and we ask for your consideration to grant full approval of the Associate in Applied Science in Nautical Science program under 610 CMR 2.00.

We thank you for your time and consideration.

Sincerely,

Dr. D. Steven White  
Northeast Maritime Board of Trustees  
Chairman of the Finance Committee

Encl: Financial Ratio Report and 12/31/2016 Audited Financial Statements

# Northeast Maritime Institute

## 2016 Financial Review Report

### Background

Originally established in New Bedford in 1981, Northeast Maritime Institute (NMI) is a private, for-profit, post-secondary education institution offering training for the maritime industry. Currently located in Fairhaven, MA, it was initially approved to offer non-college level education and training by the Massachusetts Department of Professional Licensure. The institution received approval from the U.S. Coast Guard in April 2013 for their proposed Applied Nautical Science Program (NOREMI-737). The Coast Guard approval means that the program satisfies applicable requirements for the appropriate licenses and STCW (Standards of Training, Certification and Watchkeeping) endorsements. In April 2014, the Board of Higher Education conditionally approved the Articles of Amendment of Northeast Maritime Institute, Inc., to offer the Associate in Applied Science in Nautical Science.

The Department of Higher Education (DHE) commissioned a Visiting Committee (VC), who performed a site visit in May 2015. The site visit was conducted under the supervision of Kristen Stone with the support of Lynette Robinson, representatives from the MA-DHE. During this visit, the committee visited all facilities, administrative offices, classrooms, labs and library. The VC also had the opportunity to review syllabi, procedures and policies, and NMI's website in addition to other written and published materials. Additional information was obtained from direct communication with the NMI administration, faculty, staff, and students including: President, Chief Academic Officer, Chief Financial Officer, Director of the Nautical Science Program, Director of Continuing Education, Director of Multimedia, Director of Admissions/Registrar, admissions staff, and students from the AAS program and the continuing education program, and several adjunct faculty.

The VC prepared and submitted a report to DHE in June 2015. Based upon the financial information available during the May 2015 site visit, the VC concluded that it "was unable to properly evaluate the institution's progress in meeting Standard 2.07 (f) Financial Resources."

Northeast Maritime Institute has just received Audited Financial Statements for the 2016 Fiscal Year ending 12/31/2016 which reflect a positive net income. NMI has performed ratio analysis on the financial statements per the guidance provided by the Department of Higher Education previously and has reported the results below.

### Methodology

As a follow up to the June 2015 VC report, NMI has provided audited financial statements for FY2016 is seeking input concerning the institute's financial standing under Standard 2.07(f), the Financial Resources section of the standards established by the Independent Institutions of Higher Education Standards, 610 C.M.R. 2.07(3) under M.G.L. Chapter 69 S. 30.

According to the standard, section 2.07(3)(f), "annual statements shall be audited and certified by an independent certified public accountant authorized to practice in the Commonwealth." NMI has provided audited financial statements for FY2016, prepared by a MA CPA firm. The CPA firm reported an unqualified opinion, stating that "In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the [NMI] as of December 31, 2016."

The Fiscal Year 2016 Net Income for Operations is reported at \$47,720.00 on overall reporting revenue of \$1,627,395, a significant increase from FY2014 reports.

NMI continues to recruit and enroll students in order to increase enrollment and tuition income. Currently the Associate in Applied Science in Nautical Science program has 26 enrolled students, with 9 graduating in September and a September 2017 cohort being enrolled at this time, anticipated to be between 12 and 16 students. Two students graduated in December 2016 and are both currently employed. A 27.5% increase in tuition in the higher education division was experienced between 2015 and 2016 with an increase to \$445,451 from \$147,318. Tuition revenues in our Continuing Education program also rose 20% from 2015 to 2016.

The internally calculated **Primary Reserve Ratio** for FY2016 (measures Unrestricted and Expendable Net Equity divided by Total Operating Expenses) was calculated at 36.48% which is a strong increase from the 2014 number and meets the industry standard of 25% (which is also a Massachusetts Department of Higher Education benchmark target).

The **Return on Net Assets** was internally calculated for FY2016 as 5.8%, a significant improvement and increase from the FY2014 number of -16.5%. This ratio reflects how effectively and efficiently the company is using its assets to generate earnings.

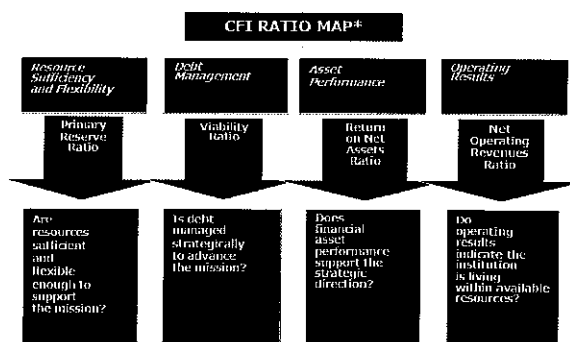
**Net Income Ratio** (which measures Net (less Operating Expenses) Operating and Non-Operating Income over Total Operating and Non-Operating Income) is another measure of how effectively an organization generates income. The ratio was internally calculated at 6.7%, another significant increase from the FY2014 number of -20.9%.

The **Viability Ratio** (measuring Unrestricted and Expendable Net Position divided by Total Long Term Debt) and the Debt Burden Ratio (measuring Annual Debt Service Expense divided by Total Operating Expenses) were also calculated for the FY2016 numbers. A Viability Ratio of 1.0 or higher theoretically indicates an institution has sufficient available net position/reserves that it could rely upon, if necessary, to immediately satisfy all debt requirements. The internally calculated number for **FY2016 is 1.7** which indicates **adequate debt capacity using this indicator**.

The **Debt Burden Ratio** (Annual Debt Service (principal and interest) divided by Total Expenditures) is a traditionally more useful measure to determine debt capacity based on a benchmark that if more than **5%** of an institution's budget were devoted to debt service, that institution's flexibility to devote its resources to other needs could be compromised. The internally calculated number for **2016 is 2.2%**, an improvement from the FY2014 number of 4.6%. It was noted previously that a non-interest bearing loan made by the shareholders had not been included in the calculations. For FY2016, an annual repayment amount of \$10,000.00 was included in the calculations.

**Composite Financial Index (CFI) Analysis**

The CFI is a measure of the institution's overall financial health based on the sufficiency and flexibility of resources, the management of debt, the performance of assets, and the results of operations. The CFI provides a more complex picture of the financial health of an institution at a point in time than is possible by simply comparing multiple indicators.



\*Adapted from: Strategic Financial Analysis for Higher Education, p. 107.

A matrix identifying strategic positioning as suggested by the composite index score has been developed to place the CFI scores into a strategic context:

CFI Score	
-4 to -2	Consider whether financial exigency is appropriate
-3 to 1	Structured programs to conserve cash and thus survive
1 to 3	Consider substantial program adjustments, then
3 to 5	Direct resources toward transformation
5 to 7	Focus resources to compete in future
7 to 9	Experiment with initiatives; design a robust mission
9 to 10	Deploy resources to achieve robust mission

The computed CFI for Northeast Maritime Institute, Inc. for FY2016, using the standard methodology is as follows:

	0.401	0.133	0.35	1.055263158
	0.019	0.417	0.35	0.015947242
	0.093	0.02	0.2	0.93
	0.111	0.013	0.1	0.853846154
				<b>2.855056554</b>

The internally calculated CFI based upon **FY2016 numbers is 2.86**, a significant improvement from the -1.35 score from FY2014.

A score of 2.86 puts NMI in the “consider substantial program adjustments” category. Considering that the degree program is so new (less than 3 years old), and enrollments are not yet at full capacity, we feel this is a reasonable place for us to be. Beginning the accreditation process and qualifying to offer Federal Financial Aid will also assist to increase our enrollments and students’ ability to pay, which is currently a restriction for the Institute. This will also open up opportunities for more student loan opportunities and programs for interested students and their families. Obtaining full approval from the Department of Higher Education is also the first step in the process for NMI to apply for accreditation with NEASC and will also provide the opportunity to:

1. Apply for accreditation with NEASC (linked to federal financial aid access);
2. Finalize articulation agreements with other institutions of higher education;
3. Gain approval by the Veterans Administration for students to apply GI Bill benefits towards the Associate in Applied Science in Nautical Science Program (NMI’s Continuing Education courses are currently approved by the VA for GI Bill benefits);
4. Qualify for F student visas through SEVIS in order to attract and enroll international students (NMI is currently approved under the M student visa program for our Continuing Education programs).

Of note to the prepared financial statements is the Institute’s Sailing Vessel Fritha asset which has been fully depreciated but which is currently valued based upon a 2017 insurance survey at \$795,000.00 (the vessel was originally purchased at \$495,000), which would additionally contribute to the fiscal strength of Northeast Maritime Institute.

NMI also continues to monitor and address items recommended in the 2015 Visiting Committee Report.

1. Prepare timely independent audited financial statements for future years, as required by the standard, and continue to develop financial history in order to provide longitudinal

information to support trend analysis.

*Currently in place with the goal of having statements completed by April 1<sup>st</sup> in the future.*

2. Hire a Chief Financial Officer.

*We currently fulfill this request with a weekly financial committee meeting comprised of the President, Chief Operating Officer and Chief Academic Officer/Financial Manager, where financials are reviewed, trends noted and enrollments tracked. We would like to be in a stronger financial position before hiring another full-time position at a significant pay level who is not directly involved in delivery and operation of the program to students.*

3. Continue to develop and implement internal controls policies and procedures and segregation of duties to limit the exposure to fraud and other financial risks.

*These efforts continue with the hiring of an Accounting Officer, a Financial Manager (filled by the CAO on a part-time basis) as well as the formal financial committee.*

4. Perform ratio analysis on financial statements to better assess the financial health of the institution and to identify trends indicating strengthening or weakening of the financial position. These should be reviewed by the Board of Trustees when the report of the auditor is reviewed.

*This is currently being done.*

5. Continue to develop multiyear budgets in order to develop financial history.

*This is currently being done.*

6. Continue to identify an institutional budget reflecting both divisions – i.e. continuing education and higher education – with ongoing budget to actual reporting to provide a comprehensive financial plan for the entire institution.

*This is currently being done. Budgets and projections reflecting both Continuing Education and the Higher Education divisions are prepared and reviewed.*

7. Continue to identify tuition and fee revenue projections within the budget with alternative scenarios reflecting different enrollment levels, cohort attrition, uncollectable amounts, tuition discounting and other factors that may affect actual receipts.

*This is currently in place. Multiple budget projections are developed to account for varying attrition, and discounting. An allowance for uncollectable receivables is also estimated and posted to actual annually.*

# NORTHEAST MARITIME INSTITUTE, INC. COLLEGE OF MARITIME SCIENCE



## **Financial Statements** **Year Ended December 31, 2016**







**NORTHEAST MARITIME INSTITUTE, INC.**  
**FINANCIAL STATEMENTS**  
December 31, 2016

*This page was intentionally left blank*



**NORTHEAST MARITIME INSTITUTE, INC.**  
**FINANCIAL STATEMENTS**  
December 31, 2016

**Table of Contents**

INDEPENDENT AUDITOR'S REPORT .....	1
Financial Statements: .....	3
Balance Sheet .....	3
Statement of Operations and Retained Earnings .....	4
Statement of Cash Flows .....	5
Notes to the Financial Statements .....	6
Note 1: Nature of Operations .....	7
Note 2: Significant Accounting Policies .....	7
Note 3: Related Party Transactions .....	12
Note 4: Cash, Cash Equivalents and Investments .....	12
Note 5: Accounts Receivable, net .....	13
Note 6: Property and Equipment, net .....	14
Note 7: Disaggregation of Accounts Payable and Accrued Expenses .....	15
Note 8: Notes Payable and Long-Term Debt .....	16
Note 9: Disaggregation of Deferred Revenues .....	17
Note 10: Rental and Lease Agreements .....	18
Note 11: Variable Interest Entities / Investment in ROV Project .....	19
Note 12: Employee Advances and Notes Payable to Shareholders .....	20
Note 13: Profit Sharing Plan .....	21
Note 14: Loss Contingencies .....	21
Note 15: Subsequent Events .....	22
Supplementary Information .....	24
Detailed Schedule of Changes in Operating Revenues .....	25
Schedule of Selling, General and Administrative Expenses .....	27

CERTIFIED PUBLIC ACCOUNTANTS

126 President Avenue

Fall River, MA 02720

TEL. (508) 675-7889

FAX (508) 675-7859

[www.hague-sahady.com](http://www.hague-sahady.com)

**INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors and Stockholders of  
the Northeast Maritime Institute, Inc.  
Fairhaven, Massachusetts

We have audited the accompanying financial statements of the Northeast Maritime Institute, Inc. (a Delaware S Corporation), which comprise the balance sheets as of December 31, 2016 and 2015, and the related statement of operations, retained earnings, and 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.

**Auditor's 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. 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.

**Auditor's Responsibility (continued)**

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 Northeast Maritime Institute, Inc. as of December 31, 2016 and 2015, and the results of its operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The detailed schedule of changes in operating revenues and the schedule of selling, general and administrative expenses are presented for purposes of additional analysis and are 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 information is fairly stated in all material respects in relation to the financial statements as a whole.

*Hague, Sahady & Co, CPA's, P.C.*

Hague, Sahady & Co.,P.C.

Fall River, MA  
July 17, 2017



**NORTHEAST MARITIME INSTITUTE, INC.**  
**BALANCE SHEET**  
 December 31, 2016

	<u>(comparative)</u>	
	<u>2016</u>	<u>2015</u>
<b><u>ASSETS</u></b>		
Current assets:		
Cash and cash equivalents (Note 4)	\$ 172,533	\$ 160,556
Accounts receivable, net allowance (Note 5)	326,430	197,707
Prepaid expenses	1,723	19,754
Employee advances (Note 12)	18,994	18,994
Inventory	13,376	7,811
	<u>533,056</u>	<u>404,822</u>
Total current assets		
Other assets:		
Property and equipment, net (Note 6)	1,159,624	1,229,013
	<u>1,159,624</u>	<u>1,229,013</u>
Total other assets		
	<u>\$ 1,692,680</u>	<u>\$ 1,633,835</u>
Total assets		
<b><u>LIABILITIES &amp; EQUITY</u></b>		
Current Liabilities:		
Accounts payable and accrued expenses (Note 7)	\$ 107,231	\$ 146,338
Current portion of notes payable (Note 8)	7,466	29,521
Current portion of capital leases payable (Note 10)	7,034	7,034
Deferred revenue (Note 9)	116,401	157,689
	<u>238,132</u>	<u>340,582</u>
Total current liabilities		
Long-term Liabilities:		
Notes payable - shareholders (Note 12)	196,299	206,127
Long-term portion of capital leases payable (Note 10)	-	19,228
Notes payable (Note 8)	154,998	164,498
	<u>351,297</u>	<u>389,853</u>
Total long-term liabilities		
	<u>589,429</u>	<u>730,435</u>
Total liabilities		
Stockholder's Equity (deficit):		
Capital stock:		
Common stock, no par value, authorized 10,000 shares, issued 2,000 shares	1,000	1,000
Paid in capital	2,046,186	2,026,186
Retained earnings (deficit)	(943,935)	(1,123,786)
	<u>1,103,251</u>	<u>903,400</u>
Total stockholder's equity		
	<u>\$ 1,692,680</u>	<u>\$ 1,633,835</u>
Total liabilities & stockholder's equity		



**NORTHEAST MARITIME INSTITUTE, INC.**  
**STATEMENT OF OPERATIONS AND RETAINED EARNINGS**  
**For the Year Ended December 31, 2016**

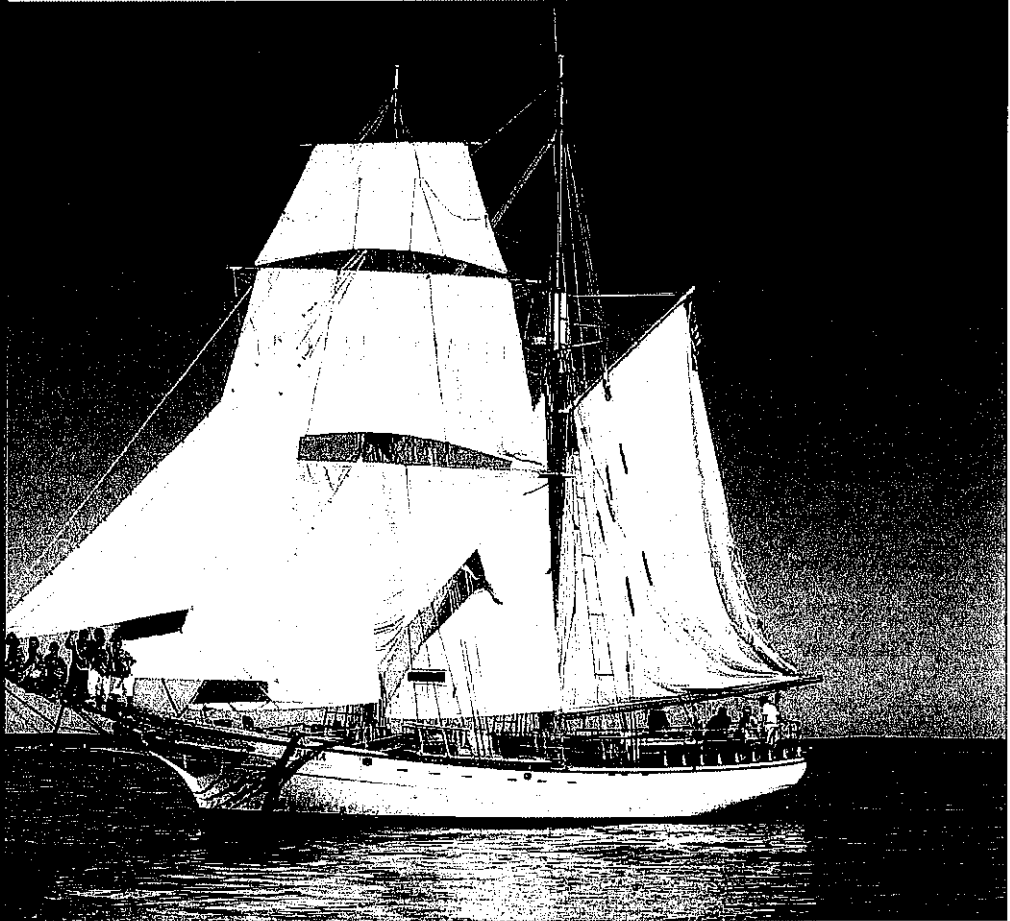
	(comparative)	
	2016	2015
Operating Revenue:		
Tuition and Educational Services Revenue, Net Discounts		
- Continuing Education:	\$ 866,410	\$ 793,408
Tuition and Educational Services Revenue, Net Discounts		
- Higher Education:	445,451	147,318
Materials Revenue	51,759	68,756
Consulting Revenue	191,200	229,097
NMI Affiliation Fees	30,000	3,035
Lodging Income	746	1,800
Rent Income	12,875	7,941
Licensing Fees	-	8,500
Other Revenues	28,954	16,556
	<u>1,627,395</u>	<u>1,276,411</u>
Total Operating Revenue:		
Cost of Revenues:		
Payroll, Payroll Taxes and Employee Benefits		
- Continuing Education:	(532,125)	(542,943)
Payroll, Payroll Taxes and Employee Benefits		
- Higher Education:	(155,552)	(225,861)
Textbooks	(22,322)	(22,135)
	<u>(709,999)</u>	<u>(790,939)</u>
Total Cost of Revenues:		
Gross Profit	<u>917,396</u>	<u>485,472</u>
Operating Expenses:		
Selling, General and Administrative	562,861	639,875
Bad Debt Expense	13,642	128,497
Depreciation	148,494	145,606
	<u>724,997</u>	<u>913,978</u>
Total Operating Expenses		
Income (loss) from operations	<u>192,399</u>	<u>(428,506)</u>
Other Income (Expense):		
Interest income	463	479
Interest expense	(13,011)	(9,815)
Donation income	-	65,000
	<u>(12,548)</u>	<u>55,664</u>
Total other income (expense)		
Net income before unusual or extra-ordinary items	<u>179,851</u>	<u>(372,842)</u>
Unusual or Extra-ordinary items - gain (loss)		
Unusual item - loss on ROV project	-	(324,000)
Unusual item - employee assistance	-	(6,791)
	<u>-</u>	<u>(330,791)</u>
Total unusual or extra-ordinary items		
Net income	<u>179,851</u>	<u>(703,633)</u>
Retained earnings (deficit), beginning of year, restated	(1,123,786)	(420,153)
Current Year Distributions	-	-
Retained earnings (deficit), end of year	<u>\$ (943,935)</u>	<u>\$ (1,123,786)</u>



**NORTHEAST MARITIME INSTITUTE, INC.**  
**STATEMENT OF CASH FLOWS**  
 For the Year Ended December 31, 2016

	(comparative)	
	2016	2015
<b>Cash Flows from Operating Activities:</b>		
Net income	\$ 179,851	\$ (703,633)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	148,494	145,606
<b>Changes in:</b>		
Accounts receivable	(128,723)	128,504
Prepaid expenses	18,031	(2,742)
Employee Advances	-	2,640
Inventory	(5,565)	7,119
Accounts payable	(39,107)	36,620
Provisions for liabilities and reserves of DMRI	-	26,262
Deferred revenue	(41,288)	41,543
Net cash provided by operating activities	<u>131,693</u>	<u>(318,081)</u>
<b>Cash Flows from Investing Activities:</b>		
Purchases of fixed assets	(79,105)	(175,895)
Investment in joint venture	-	324,000
Net cash provided by investing activities	<u>(79,105)</u>	<u>148,105</u>
<b>Cash Flows from Financing Activities:</b>		
Paid in capital	10,172	(10,075)
Principal payments on notes payable	(50,783)	108,801
Net cash provided by financing activities	<u>(40,611)</u>	<u>98,726</u>
Increase (decrease) in cash	11,977	(71,250)
Cash and cash equivalents, Beginning of Year	<u>160,556</u>	<u>231,806</u>
Cash and cash equivalents, End of Year	<u>\$ 172,533</u>	<u>\$ 160,556</u>

# NOTES TO THE FINANCIAL STATEMENTS







**NORTHEAST MARITIME INSTITUTE, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
December 31, 2016

**Note 1: Nature of Operations**

The NORTHEAST MARITIME INSTITUTE, INC. ("NMI", "the Company"), is a private, co-educational maritime institution that offers its students an opportunity to pursue maritime career-oriented education. The NMI provides required marine safety education, ship operation courses, Coast Guard license and document courses, as well as programs that grant students with a certificate and Merchant Marine Document upon completion. In addition, the Company has developed and subsequently sold a proprietary water-proofing technology for maritime electronics.

In addition to the main campus in Fairhaven, Massachusetts the Company established a revenue-sharing agreement with the Batumi Navigational Institute in Batumi, Georgia in August of 2009. Subsequently, the Company established other affiliated training centers in Thailand, Bangladesh and India in 2012.

On January 20, 2011, the Company completed the acquisition of 100% of the preferred and a 50% interest in the common stock of The Commonwealth of Dominica Maritime Registry, Inc. (DMRI), an entity engaged in maintaining a maritime ship registry as well as a ship and mariner certification program for the Commonwealth of Dominica.

On January 5, 2014, the Company sold its interest in the Commonwealth of Dominica Maritime Registry Inc. back to the Commonwealth of Dominica for \$400,000 and the forgiveness of the balance of the note payable to the DMRI.

**Note 2: Significant Accounting Policies**

*Basis of Presentation*

The Company maintains its accounting records on an accrual basis in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP").

*Use of Estimates*

The preparation of financial statements in accordance with GAAP requires management to make certain estimates and assumptions that affect the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from these estimates.



**NORTHEAST MARITIME INSTITUTE, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
December 31, 2016

**Note 2: Significant Accounting Policies (continued)**

*Revenue Recognition*

The Company's educational programs, primarily comprised of Northeast Maritime Institute programs, range in length from one-day seminars to certificate programs lasting up to two years to the newly approved Associate Degree program in Applied Science in Nautical Science which was approved by the Massachusetts Board of Higher Education on October 21, 2014. Generally, students are billed on a course-by-course basis when the student first attends a session, resulting in the recording of a receivable from the student and deferred revenue in the amount of the billing. Students generally fund their education through tuition assistance from their employers or personal funds.

*Tuition and educational services revenue* consists largely of tuition and fees associated with different educational programs as well as related revenues from maritime consulting, ship inspection and mariner certification. Net revenues are shown net of discounts.

*Consulting revenue* consists primarily of non-educational services to the maritime industry in areas safety, security and regulatory compliance.

*Other revenues* consist of the *lodging fees* paid primarily by exchange students, tutoring income and other miscellaneous fees and reimbursements. Other revenue also includes non-tuition generating revenues, such as *renting* classroom space. This revenue is recognized as the services are provided.

*Discounts* reflect reductions in tuition or other revenue including military, corporate, and other employer discounts, grants, and promotions.

Generally, total net revenue varies from period to period based on several factors, including the aggregate number of students attending classes, the number of classes held during the period and the tuition price per credit hour.

Net revenue excludes any applicable state sales taxes. Sales tax collected from students is excluded from net revenue. Collected but unremitted sales tax is included as a liability in our balance sheet and is not material to our financial statements.



**NORTHEAST MARITIME INSTITUTE, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
December 31, 2016

**Note 2: Significant Accounting Policies (continued)**

*Allowance for Doubtful Accounts*

Accounts receivable are reduced by an allowance for amounts that may become uncollectible in the future. Estimates are used in determining the allowance for doubtful accounts and are based on historical collection experience and current trends. In determining these amounts, management looks at the historical write-offs of all receivables. Management monitors our collections and write-off experience to assess whether adjustments are necessary. Management periodically evaluates the standard allowance estimation methodology for propriety and modifies as necessary. In doing so, the allowance for doubtful accounts reflects the most recent collections experience and is responsive to changes in trends.

Currently, management applied appropriate percentages to each stratum of account receivable aging intervals, based on experience, as follows:

<u>Aging Interval</u>	<u>Estimated Uncollectable</u>
1 - 30 days	1%
31 - 60 days	3%
61 - 90 days	5%
91 - 180 days	10%
181 - 365 days	15%
366 - 730 days	20%
731 days+	100%

Accounts receivable are written off once the account is deemed to be uncollectible. This typically occurs once all efforts are exhausted to collect the account, which include collection attempts by both our employees and outside collection agencies.

Please refer to “Note 5: Accounts Receivable, net”, for further discussion.

*Translation of Foreign Currencies*

The company conducts business with companies in several countries as part of its ongoing maritime consulting and ship registry business. This results in a number of payables denominated in the currencies of those countries, with about \$50,000 to \$60,000 of such payables being outstanding at any one time. The company does not engage in hedging activities to offset the risk of exchange rate fluctuations on these payables. During the reporting period, the company experienced no material benefit or loss from foreign exchange on these accounts payable.



**NORTHEAST MARITIME INSTITUTE, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
December 31, 2016

**Note 2: Significant Accounting Policies (continued)**

*Cash and Cash Equivalents*

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents include money market funds, bank overnight deposits, and tax-exempt commercial paper, which are all placed with high-credit-quality institutions. The Company has not experienced any losses on our cash and cash equivalents.

*Credit and Market Risk*

The Company maintains bank accounts with several financial institutions. From time to time during the year the amounts of deposit may exceed federally insured amounts.

*Inventory*

Inventories consist of textbooks purchased from the Company's suppliers or books printed and produced in house. Inventories are stated at the lower of cost or market. Costs for all finished goods are valued at actual cost. Inventory is periodically reviewed to determine if it is marketable, obsolete or impaired. Inventory that is determined to not be marketable is written down to market value. Inventory that is determined to be obsolete or impaired is written off to expense at the time the impairment is identified. The Company sells its inventory directly to students and affiliated schools.

*Property and Equipment, net*

Property and equipment is recorded at cost less accumulated depreciation. Property and equipment under capital leases, and the related obligation, is recorded at an amount equal to the present value of future minimum lease payments. Buildings, furniture, equipment, and software, including internally developed software, are depreciated using straight-line methods over the estimated useful lives of the related assets, which range from three to forty years. It is management's policy to evaluate the estimated useful lives on a periodic basis.

Capital leases and leasehold improvements are amortized using the straight-line method over the shorter of the lease term or the estimated useful lives of the related assets. Construction in progress, excluding software, is recorded at cost until the corresponding asset is placed into service and depreciation begins. Software is recorded at cost and is amortized once the related asset is ready for its intended use. Maintenance and repairs are expensed as incurred. Please refer to "Note 6: Property and Equipment, net", for further discussion.



**NORTHEAST MARITIME INSTITUTE, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
December 31, 2016

**Note 2: Significant Accounting Policies (continued)**

*Income Taxes*

The Company and its subsidiary are S Corporations under the Internal Revenue Code (26 USC Section 1361). As an S Corporation, the Company's taxable income flows through to its shareholders and income tax is assessed on the shareholder's individual federal and state income tax returns. Each shareholder is responsible for paying taxes on their pro rata share of the S corporation's items of income, deductions, and credits. Therefore, no provision or liability for income taxes is reflected in these financial statements.

The Company follows the guidance under ASC 740 in accounting for uncertainties in income taxes, which defines the thresholds for recognizing the benefits of tax return positions in the financial statements as "more-likely-than-not" to be sustained by the taxing authority. The Company recognizes interest and penalties related to unrecognized tax benefits as a component of income tax expense. At December 31, 2016, the Company has no unrecognized tax benefits and the Company's statutes of limitations are closed for all federal and state tax years before 2013 and 2012, respectively. The Company is not currently under any Internal Revenue Service or state tax examination.

As of December 31, 2016, the Company had no uncertain tax positions, or interest and penalties, that qualify for either recognition or disclosure in the financial statements.

*Advertising*

Advertising costs are expensed when the advertisement or commercial appears in the selected media. Advertising and sales promotion expense was \$5,916 and \$21,842 for the years December 31, 2016 and December 31, 2015, respectively.

*Summarized Financial Information*

The financial information includes certain prior year summarized comparative information in total. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Institute's financial statement for the year ended December 31, 2015 from which the summarized information was derived.



**NORTHEAST MARITIME INSTITUTE, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
December 31, 2016

**Note 3: Related Party Transactions**

The advances from related parties consist of non-interest bearing loans from entities that are affiliated to the Company by common management. The Company received some consulting income and rental income from the Commonwealth of Dominica Maritime Registry, Inc. The consulting income was \$191,200 and \$229,097 for the years ended December 31, 2016 and 2015, respectively.

The rental income was paid to the shareholders from NMI in the amounts of \$72,000 and \$72,000 for the years ended December 31, 2016 and 2015, (respectively) for the 32 Washington Street property and \$36,000 and \$38,702 for the years ended December 31, 2016 and 2015, (respectively) for the 56 Main Street property. Vehicles were also leased from the shareholders. Please refer to "Note 10: Rental and Lease Agreements" for more information.

**Note 4: Cash, Cash Equivalents and Investments**

Deposits are in various financial institutions and are carried at cost or fair value in the case of pooled deposits for trust funds. The carrying value is separately displayed on that balance sheet as "cash and cash equivalents". Petty cash is included in the presentation of cash on the statement of net position in the amount of \$203 at December 31, 2016 and \$235 at December 31, 2015.

Custodial credit risk for deposits is the risk that, in the event of failure of a depository financial institution, the entity will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party.

At year end December 31, 2016, the entity's carrying amount of deposits was \$172,533, including \$203 of petty cash and the bank balance was \$188,176. Of the bank balance, \$188,176 was covered by Federal Depository Insurance.

The Company has not experienced any losses of funds in excess of federally insured limits held in any financial institutions. Management feels that the entity is not exposed to any significant credit risk related to cash.



**NORTHEAST MARITIME INSTITUTE, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
December 31, 2016

**Note 5: Accounts Receivable, net**

Accounts receivable, net of allowances, as of December 31, 2016 is as follows:

	<b>2016</b>	<b>(comparative)</b> <b>2015</b>
Current	\$ -	\$ -
1 - 30 days	\$ 69,116	\$ 68,265
31 - 60 days	25,608	36,053
61 - 90 days	7,267	13,566
91 - 180 days	105,884	20,763
181 - 365 days	116,169	53,379
366 - 730 days	20,570	18,223
731 days+	<u>122,300</u>	<u>115,300</u>
Less: Allowance	<u>(140,484)</u>	<u>(127,842)</u>
	<u>\$ 326,430</u>	<u>\$ 197,707</u>

The largest portion of receivables relates to the school affiliations billing as of December 31, 2016. The amount uncollected from "NMI Punjab, India" was \$91,300 at December 31, 2016. The amount uncollected from "NMI Punjab, India" was \$91,300 at December 31, 2015. Against the amount uncollected of \$90,300 from "NMI Punjab, India", an allowance was recorded for 100% as those receivables fall into the "731 days +" category above. This allowance was recorded initially at December 31, 2015 (i.e. the prior year).

See "Note 2: Significant Accounting Policies" on page 9 for further detail on estimated allowance percentages across all aging intervals.



**NORTHEAST MARITIME INSTITUTE, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
 December 31, 2016

**Note 6: Property and Equipment, net**

Changes in property and equipment as of December 31, 2016, is as follows:

2016	Beginning Balance	Additions	Retirements	Ending Balance	2015 (comparative)
Non-depreciable assets:					
Model ship	\$ 65,000	\$ -	\$ -	\$ 65,000	\$ 65,000
Total non-depreciable assets:	<u>65,000</u>	<u>-</u>	<u>-</u>	<u>65,000</u>	<u>65,000</u>
Assets being depreciated:					
Building	235,000	-	-	235,000	235,000
Leasehold improvements	961,405	7,995	-	969,400	961,405
Boats	586,102	9,497	-	595,599	586,102
Equipment	1,018,229	-	-	1,018,229	1,018,229
Office equipment	195,033	58,735	-	253,768	195,033
Furniture & fixtures	159,142	2,879	-	162,021	159,142
Vehicles	105,069	-	-	105,069	105,069
Total assets being depreciated:	<u>3,259,980</u>	<u>79,106</u>	<u>-</u>	<u>3,339,086</u>	<u>3,259,980</u>
Total capital assets:	<u>\$ 3,324,980</u>	<u>\$ 79,106</u>	<u>\$ -</u>	<u>\$ 3,404,086</u>	<u>\$ 3,324,980</u>
Accumulated depreciation:					
Building	(33,737)	(4,275)	-	(38,012)	(33,737)
Leasehold improvements	(424,415)	(42,257)	-	(466,672)	(424,415)
Boats	(299,557)	(10,501)	-	(310,058)	(299,557)
Equipment	(951,023)	(54,331)	-	(1,005,354)	(951,023)
Office equipment	(157,817)	(19,098)	-	(176,915)	(157,817)
Furniture & fixtures	(121,515)	(14,171)	-	(135,687)	(121,515)
Vehicles	(107,902)	(3,863)	-	(111,765)	(107,902)
Total accumulated depreciation:	<u>(2,095,967)</u>	<u>(148,495)</u>	<u>-</u>	<u>(2,244,462)</u>	<u>(2,095,967)</u>
Total assets net of accumulated depreciation:	<u>\$ 1,229,013</u>	<u>\$ (69,389)</u>	<u>\$ -</u>	<u>\$ 1,159,624</u>	<u>\$ 1,229,013</u>

The gross amount of assets in the balance sheet recorded under capital leases was \$100,000 at December 31, 2016. The accumulated amortization (depreciation) on those assets was \$93,000 at December 31, 2016. See "Note 10: Rental and Lease Agreements" for more information.





**NORTHEAST MARITIME INSTITUTE, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
 December 31, 2016

**Note 6: Property and Equipment, net (continued)**

The cost of the property and equipment is being depreciated using the straight-line method over its useful life. It is management's policy to re-evaluate useful lives on a periodic basis. Useful lives by asset class are as follows:

<u>Asset Class:</u>	<u>Useful Life:</u>
Buildings	40 years
Leasehold Improvements	20 years
Boats – Large vessel	20 years
Boats – Small vessel	10 years
Boats – Inflatable	5 years
Furniture & Fixtures	10 years
Equipment	5-7 years
Office Equipment & Computers	5 years
Vehicle	5 years

Depreciation expense for the year ended December 31, 2016 is \$148,495.

**Note 7: Disaggregation of Accounts Payable and Accrued Expenses**

The balance in "accounts payable and accrued expenses" can be disaggregated as follows at December 31, 2016:

	<u>2016</u>	<u>(comparative)</u> <u>2015</u>
Bristol County Savings Credit Card	\$ 6,482	\$ 6,475
Accounts Payable	74,977	119,832
Misc Withholdings	2,519	613
Accrued Payroll Taxes	2,301	1,851
Accrued Payroll	<u>20,952</u>	<u>17,567</u>
Total	<u>\$ 107,231</u>	<u>\$ 146,338</u>

Of the \$74,977 of accounts payable at December 31, 2016, \$32,948 was due to the shareholders for unpaid rent and was paid subsequent to the December 31, 2016 period end.

**THE EAST MARITIME INSTITUTE, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
 December 31, 2016

**and Long-Term Debt**

**Long-Term Debt Payable**

<b>aturity Dates</b>	<b>Balance 12/31/2015</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance 12/31/2016</b>	<b>Principal due in 2017</b>	<b>Interest Paid in 2016</b>
4/7/2016	\$ 23,249	\$ -	\$ 23,249	\$ -	\$ -	\$ 237
12/28/2030	170,770	-	8,306	162,464	7,946	10,540
	<u>\$ 194,019</u>	<u>\$ -</u>	<u>\$ 31,555</u>	<u>\$ 162,464</u>	<u>\$ 7,946</u>	<u>\$ 10,777</u>

**Long-Term Debt Payable (continued from above)**

<b>Effective Interest Rate</b>	<b>Payments Required</b>	<b>Secured By</b>
4.25%	Monthly	Training Vessel
6.25%	Monthly	Real Property
<u>NA</u>	<u>NA</u>	<u>NA</u>



**NORTHEAST MARITIME INSTITUTE, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
December 31, 2016

**Note 9: Disaggregation of Deferred Revenues**

The balance in “deferred revenues” can be disaggregated as follows at December 31, 2016:

	<u>2016</u>	(comparative) <u>2015</u>
Tuition - Continuing Ed.	\$ 40,005	\$ 79,135
Tuition - Higher Ed.	61,496	54,625
Fees	12,038	26,186
Books	<u>2,862</u>	<u>5,587</u>
Less: Related Discounts	<u>-</u>	<u>(7,844)</u>
Total Deferred Revenue (net)	<u>\$ 116,401</u>	<u>\$ 157,689</u>

At December 31, 2016, deferred revenues represent amounts related to the spring semester for both higher education and continuing education classes.



**NORTHEAST MARITIME INSTITUTE, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
 December 31, 2016

**Note 10: Rental and Lease Agreements**

*Rental Agreements*

The Company rents its operating facility from its shareholders. Rent expense amounted to \$191,643 and \$188,637 for the years ended December 31, 2016 and 2015, respectively.

*Capital Lease Agreements*

The Company is obligated under one vehicle lease through 2016 and two copier leases through 2017.

Vehicle lease depreciation amounted to \$12,000 for the years ended December 31, 2016 and 2015, respectively. Interest paid on vehicles totaled \$0 for the year ended December 31, 2016 and \$0 for the year ended December 31, 2015.

Copier lease depreciation amounted to \$8,000 for the years ended December 31, 2016 and 2015, respectively. Interest paid on copiers totaled \$4,048 for the year ended December 31, 2016 and \$6,946 for the year ended December 31, 2015.

Future obligations due under these lease agreements are as follows:

<b>Year</b>	<b>Beginning Lease Obligation</b>	<b>Interest</b>	<b>Less: Cash Payment</b>	<b>Decrease to Lease Obligation</b>	<b>Ending Lease Obligation</b>
2017	\$ 7,033	\$ 605	\$ 7,638	\$ 7,033	\$ -



**NORTHEAST MARITIME INSTITUTE, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
December 31, 2016

**Note 11: Variable Interest Entities / Investment in ROV Project**

Management performs an analysis of the NMI's variable interests to determine if those type interests are held in other entities. The analysis primarily is based on a qualitative review, but also includes quantitative considerations in evaluating the variable interests. Qualitative analyses are performed based on an evaluation of the design by the entity, its organizational structure (to include decision-making ability), and financial arrangements. When used to supplement qualitative analyses, quantitative analyses are based on forecasted cash flows of the entity.

U.S. GAAP requires reporting entities to consolidate VIEs when they have variable interests that provide a controlling financial interest in VIEs. Entities that consolidate VIEs are referred to as "primary beneficiaries".

Ocean Science Services, Inc. (an S-Corporation / partnership) ("OSS") is a joint venture with Deep Ocean Exploration and Research Company (DOER), a builder of deep sea research vessels. DOER was to fabricate a Remotely Operated Vehicle (ROV) which NMI would use for training purposes and operate under certain lease arrangements.

The NMI is the owner and lessor of the ROV in which the OSS is the sole lessee of the asset under single-lease arrangements. The lease of the entity was evaluated to determine if the arrangement gave the NMI a variable interest in a VIE, and to determine whether the NMI was the primary beneficiary that would result in consolidating the VIE. The NMI is considered to be the primary beneficiary as a result of an obligation to absorb losses that could be significant to the VIE. Additionally, because the NMI operates the asset being leased from the VIE, the NMI directs activities that most significantly affect economic performance of the VIE.

As of December 31, 2016 construction of the ROV was behind schedule and Northeast Maritime notified DOER of its intention to withdraw from the joint venture and requested progress payments to date be returned. As of December 31, 2016 total payments to DOER of \$324,000 remain outstanding and negotiations are in progress.



**NORTHEAST MARITIME INSTITUTE, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
December 31, 2016

**Note 11: Variable Interest Entities / Investment in ROV Project (continued)**

In 2014, DOER was notified that the Northeast Maritime Institute was seeking repayment of the \$324,000 due to non-performance and non-completion of promised work. The Institute has reached out to a law enforcement agency based upon numerous actions by DOER identified as intentional misleading conduct. The Institute plans to file a lien against DOER for collection of the amount of \$324,000. NMI has held off on issuing a lien until notified by law enforcement agencies as to what their findings are. Further investigation into breach of contract has been conducted and at some point we will either have to drop the matter or proceed. It is our intention to proceed to file a lien.

On the basis of showing the most conservative financial position of the NMI, management elected to write-off this balance from our balance sheet during 2015 (the prior year). Should we be successful in obtaining repayment of the \$324,000 in the future, we will recognize that revenue at that point in time.

**Note 12: Employee Advances and Notes Payable to Shareholders**

During 2013, the NMI extended disbursements to employees related to emergency health issues totaling \$20,400. The shareholders of the NMI did not require repayment agreements. The NMI also extended a loan to an employee for \$2,500 in 2013, requiring the employee to pay back the amount over 62 pay periods beginning on September 17, 2013. The balance of the "employee advance" receivable totaled \$18,994 at December 31, 2016 and \$18,994 at December 31, 2015.

On August 28, 2013, the shareholders entered into an agreement with the NMI to loan the NMI \$288,104 in order to provide "additional financial support during the higher education application process". This loan was provided to the NMI at 0%. The NMI is not on a regular payment schedule to the shareholders and the agreement provides that the outstanding amount may be "reduced by expenses paid for the shareholders that are considered personal and any other amounts that may be due from the shareholders to NMI." The balance of the account was \$196,299 and \$206,127 at December 31, 2016 and 2015, respectively.



**NORTHEAST MARITIME INSTITUTE, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
December 31, 2016

**Note 13: Profit Sharing Plan**

The Company implemented a 401 (k) profit sharing plan during 2004 which covers all employees meeting the eligibility requirements relating to age, length of service and compensation. Profit sharing contributions, if any, are determined by the Board of Directors.

Participants may elect to make plan contributions by having their gross compensation reduced through payroll withholding. These elective deferrals may not exceed 15% of gross compensation, subject to a maximum deferral limit set by IRS regulations. In addition, the Company can make discretionary matching contributions equal to 25% of the participant's elective deferral contribution up to 3% of compensation. Contributions charged to operations amounted to \$1,804 for 2016 and \$4,300 for 2015.

**Note 14: Loss Contingencies**

The Company is subject to various claims and contingencies which are in the scope of ordinary and routine litigation incidental to our business, including those related to regulation, litigation, business transactions, employee-related matters and taxes, among others. In accordance with SFAS No. 5, "Accounting for Contingencies", when we become aware of a claim or potential claim, the likelihood of any loss or exposure is assessed. If it is probable that a loss will result and the amount of the loss can be reasonably estimated, we record a liability for the loss. The liability recorded includes probable and estimable legal costs incurred to date and future legal costs to the point in the legal matter where we believe a conclusion to the matter will be reached. If the loss is not probable or the amount of the loss cannot be reasonably estimated, we disclose the claim if the likelihood of a potential loss is reasonably possible and the amount of the potential loss is material. For matters where no loss contingency is recorded, our policy is to expense legal fees as incurred.



**NORTHEAST MARITIME INSTITUTE, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
December 31, 2016

**Note 15: Subsequent Events**

Events that occur after the balance sheet date but before the financial statements were available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the balance sheet date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the balance sheet date, require disclosure in the accompanying notes.

Management has evaluated the activity of NORTHEAST MARITIME INSTITUTE, INC. through July 17, 2017 (the date the financial statements were available to be issued) and concluded that there were no subsequent events to be disclosed.





**NORTHEAST MARITIME INSTITUTE, INC.**  
**FINANCIAL STATEMENTS**  
December 31, 2016

*This page was intentionally left blank*

# SUPPLEMENTARY INFORMATION





**NORTHEAST MARITIME INSTITUTE, INC.**  
**DETAILED SCHEDULE OF CHANGES IN OPERATING REVENUES**  
 Years Ended December 31, 2016 and December 31, 2015

	<u>2016</u>	<u>2015</u>	<u>2016 vs. 2015</u> <u>Change in \$</u>	<u>2016 vs. 2015</u> <u>Change in %</u>
<b>Continuing Education:</b>				
Tuition and Fees - Continuing Education	\$ 905,268	\$ 826,810	\$ 78,458	9.5%
Discounts - Continuing Education	(38,858)	(33,402)	(5,456)	16.3%
<b>Higher Education:</b>				
Tuition and Fees - Higher Education	445,451	147,318	298,133	202.4%
Discounts - Higher Education	-	-	-	N/A
<b>Materials Revenues:</b>				
Books	51,759	68,756	(16,997)	-24.7%
<b>Consulting Revenue:</b>				
Dominica Maritime Registry & Other	191,200	229,097	(37,897)	-16.5%
NMI Affiliation Fees	30,000	3,035	26,965	888.5%
Lodging Income	746	1,800	(1,054)	-58.6%
Rent Income	12,875	7,941	4,934	62.1%
Licensing Fees	-	8,500	(8,500)	-100.0%
Other Revenues	28,954	16,556	12,398	74.9%
<b>Total Operating Revenue:</b>	<u>\$ 1,627,395</u>	<u>\$ 1,276,411</u>	<u>\$ 350,984</u>	<u>27.5%</u>



**NORTHEAST MARITIME INSTITUTE, INC.**  
**DETAILED SCHEDULE OF CHANGES IN OPERATING REVENUES**  
Years Ended December 31, 2016 and December 31, 2015

*This page was intentionally left blank*



**NORTHEAST MARITIME INSTITUTE, INC.**  
**SCHEDULE OF SELLING, GENERAL AND ADMINISTRATIVE EXPENSES**  
 Years Ended December 31, 2016 and December 31, 2015

	<u>2016</u>	<u>2015</u>
Advertising	\$ 5,917	\$ 21,841
Auto Expense	5,437	6,532
Building Maintenance and Repair	3,891	9,969
Course Development Fees	-	1,600
Donations	1,049	2,194
Dues and Subscriptions	51,812	62,297
Equipment	867	17,557
Fees	53,985	39,726
Insurance	27,778	25,554
Lease Expense	2,589	6,946
Legal Fees	1,426	13,256
Meals and Entertainment	17,507	24,270
Miscellaneous	16,877	2,513
Office Expense	-	15,066
Other Payroll	57,828	36,913
Outside Labor	500	8,636
Postage and Supplies	6,478	1,826
Printing	2,794	10,643
Professional Fees	23,115	19,684
Reference/Educational Materials	4,574	3,766
Rent	191,643	188,637
SV Fritha Vessel Expenses	22,414	27,436
Taxes	11,391	11,890
Telephone	8,228	9,264
Travel Expense	19,625	48,373
Utilities	22,446	23,065
Water and Sewer	2,690	421
	<u>\$ 562,861</u>	<u>\$ 639,875</u>



**NORTHEAST MARITIME INSTITUTE, INC.**  
**SCHEDULE OF SELLING, GENERAL AND ADMINISTRATIVE EXPENSES**  
Years Ended December 31, 2016 and December 31, 2015

*This page was intentionally left blank*



## Massachusetts Department of Higher Education

---

One Ashburton Place, Room 1401  
Boston, MA 02108-1696

TEL (617) 994-6950  
FAX (617) 727-0955  
WEB [www.mass.edu](http://www.mass.edu)

Carlos E. Santiago, *Commissioner*  
Chris Gabrieli, *Chairman*  
*Massachusetts Board of Higher Education*

November 24, 2015

Mr. Eric R. Dawicki  
President  
Northeast Maritime Institute  
32 Washington Street  
Fairhaven, MA 02719

Dear President Dawicki:

In October 2014, the Massachusetts Board of Higher Education (BHE) conditionally approved the Articles of Amendment of Northeast Maritime Institute, Inc. (NMI) to offer the Associate in Applied Science in Nautical Science, provided that the Board of Higher Education undertake to review, during the next year, the continued progress of the institution toward meeting the goals set forth in connection with its petition to the Board of Higher Education and subject to its compliance with the following stipulations:

1. The DHE will commission an external committee review of the continued progress of NMI towards meeting all standards of the 610 CMR 2.10. This report shall be completed by June 30, 2015.
2. The institution shall post on its website a notice regarding the conditional nature of the BHE's approval of the institution's degree granting authority; the exact language of the notice is to be determined by Department staff after consultation with the institution.
3. The institution shall enroll a relatively small cohort of no more than 11 students in January 2015.

In accordance with these stipulations, the Department of Higher Education (DHE) appointed a visiting committee to evaluate the progress of NMI towards meeting the standards of 610 CMR 2.00: Degree-Granting Regulations for Independent Institutions of Higher Education. The on-site visit occurred on May 5 through May 7, 2015, and the final report of the visiting committee was completed on June 12, 2015.

In the June 2015 report, the visiting committee noted NMI's significant progress in addressing many of the areas noted in the report of the November 2013 visiting committee and found the administration, faculty and staff committed to the mission of the institution and the students they serve. However, the visiting committee was unable to properly evaluate the institution's progress in meeting Standard 2.07 (f) Financial Resources due to the lack of audited 2014 financial statements and updated financial projections after the January 2014 separation of NMI and DMRI. As a result, the visiting committee recommended a continuation of the conditional approval of the degree

program until sufficient financial information was provided to the DHE to assure that the standard on financial resources is met. NMI was required to submit to the DHE audited financial statements for FY2014.

NMI complied with this requirement and audited financial statements for FY2014 were submitted to the DHE in August 2015. The visiting committee was tasked with reviewing the audited financial statements for FY2014 and evaluating the institution's ability to meet Standard 2.07(f) Financial Resources.

The visiting committee's report regarding NMI's ability to meet Standard 2.07(f) Financial Resources is enclosed. The visiting committee found:

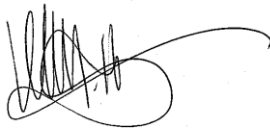
*The Financial Resource standard requires the institution to present "evidence of past, present, and future financial stability, with resources adequate for effective accomplishment of its announced purposes." Unfortunately, based upon the financial information available, NMI does not currently appear to meet the requirement for financial stability.*

Additionally, the visiting committee determined that the current review of the FY2014 audited financial statements continues to support the visiting committee's recommendations provided in the June 2015 report.

In light of the visiting committee's findings concerning Standard 2.07(f) Financial Resources, the Department has determined to continue Northeast Maritime Institute's conditional approval to award the Associate in Applied Science in Nautical Science until sufficient financial information is provided to the DHE to assure that Standard 2.07(f) is met. NMI should continue to update the DHE on its progress in meeting the visiting committee's recommendations concerning Standard 2.07(f). When it has been determined that NMI is in compliance with Standard 2.07(f), the BHE will take action, by formal vote, to approve or disapprove the request to lift the conditional status of NMI's authority to award the Associate in Applied Science in Nautical Science.

If you require further clarification, please contact Kristen Stone, Assistant Director for Regulatory and Veterans Affairs, at [kstone@bhe.mass.edu](mailto:kstone@bhe.mass.edu) or (617) 994-6959.

Sincerely,



Winifred M. Hagan, Ed.D  
Interim Deputy Commissioner for Academic Affairs and Student Success



## BACKGROUND AND DEGREE AUTHORITY REQUESTED

Originally established in New Bedford in 1981, NMI is a private, for-profit, post-secondary education institution offering training for the maritime industry. Currently located in Fairhaven, MA, it was initially approved to offer non-college level education and training by the Massachusetts Department of Professional Licensure. The institution received approval from the U.S. Coast Guard in April 2013 for their proposed Applied Nautical Science Program (NOREMI-737). The Coast Guard approval means that the program satisfies applicable requirements for the appropriate licenses and STCW (Standards of Training, Certification and Watchkeeping) endorsements. In April 2014, the Board of Higher Education conditionally approved the Articles of Amendment of Northeast Maritime Institute, Inc., to offer the Associate in Applied Science in Nautical Science with the following stipulations:

- The DHE would commission an external committee review of the continued progress of NMI towards meeting all standards of the 610 CMR 2.10. The external committee was required to complete a report by June 30, 2015.
- The institution would post on its website a notice regarding the conditional nature of the Board of Higher Education's approval of the institution's degree granting authority.
- The institution would enroll a relatively small cohort of no more than 11 students in January 2015.

NMI has complied with stipulations #2 and #3; the January cohort began with six students but dropped to 4 by mid-semester. DHE commissioned a Visiting Committee (VC), who performed a site visit in May 2015. The site visit was conducted under the supervision of Kristen Stone with the support of Lynette Robinson, representatives from the MA-DHE. During this visit, the committee visited all facilities, administrative offices, classrooms, labs and library. The VC also had the opportunity to review syllabi, procedures and policies, and NMI's website in addition to other written and published materials.

Additional information was obtained from direct communication with the NMI administration, faculty, staff, and students including: President, Chief Academic Officer, Chief Financial Officer, Director of the Nautical Science Program, Director of Continuing Education, Director of Multimedia, Director of Admissions/Registrar, admissions staff, and students from the AAS program and the continuing education program, and several adjunct faculty.

The VC prepared and submitted a report to DHE in June 2015. Based upon the financial information available during the May 2015 site visit, the VC concluded that it "was unable to properly evaluate the institution's progress in meeting Standard 2.07 (f) Financial Resources due to the inconsistency of past financial performance (FY2011 through 2013), the lack of audited FY2014 Financial Statements, the inability to quantify the potentially significant financial impact to NMI due to the 01/01/14 separation of NMI and DMRI, and the reported FY2015 budget to actual information for the institution overall."

### Methodology

As a follow up to the June 2015 VC report, NMI has provided audited financial statements for FY2014, as requested in the report, and is seeking input concerning the institute's financial standing under Standard 2.07(f), the Financial Resources section of the standards established by the Independent Institutions of Higher Education Standards, 610 C.M.R. 2.07(3) under M.G.L. Chapter 69 S. 30.

According to the standard, section 2.07(3)(f), “annual statements shall be audited and certified by an independent certified public accountant authorized to practice in the Commonwealth.” NMI provided audited financial statements for FY2014, prepared by a MA CPA firm. The CPA firm reported an unqualified opinion, stating that “In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the [NMI] as of December 31, 2014.” No opinion was offered regarding the FY13 comparative information in these financial statements as only a review, rather than an audit, was performed by other accountants for FY2013. It appears that the FY2013 financial information has been restated to reflect the separation of the DMRI business component.

***The FY2014 Net Loss from Operations was \$<445,176> on overall revenue of \$999,914, a significant loss from operations.*** Although a portion of this loss was recovered through a Gain on Sale of Stock of \$200,000, Net Income before Unusual or Extraordinary Items, was also a loss of \$250,252. Focusing upon the Operating Loss, as no explanation is offered regarding the Sale of Stock, it appears that each dollar of revenue produced requires an NMI outlay of about \$1.42, due to the level of Selling, General and Administrative overhead costs.

The Financial Resource standard requires the institution to present “evidence of past, present, and future financial stability, with resources adequate for effective accomplishment of its announced purposes. For new institutions, and for new or modified degree-granting authority for an existing institution, this evidence shall take into account the anticipated student demand for the program....” Unfortunately the amount of tuition directly related to the Associate in Applied Science in Nautical Science is undeterminable from the financial statements and / or footnotes, so the ability to project increases to tuition revenue, based upon an increased student enrollment is not possible with the information provided in the financial statements. ***The current loss position of existing operations cannot be categorized as financially stable.***

A variety of other financial ratios were reviewed in evaluating NMI’s financial condition as follows. One indicator of fiscal health is the Primary Reserve Ratio (that measures Unrestricted and Expendable Net Equity divided by Total Operating Expenses). This ratio provides a snapshot of an institution’s financial strength, resource sufficiency and flexibility. The ratio indicates how long the school could operate using expendable reserves without relying on additional new assets generated by operations. An industry standard of 25% (which is also a Massachusetts Department of Higher Education benchmark target) reflects essentially 3 months of available resources to cover annual expenditures. ***The Institute’s Primary Reserve Ratio as of the end of FY2014 falls just shy of the standard at 24.8%.***

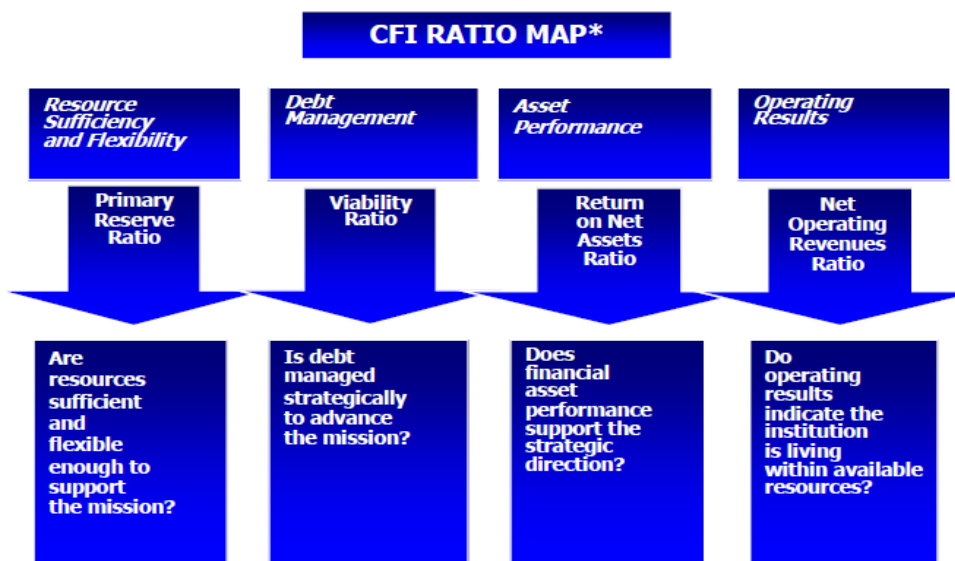
Other financial indicators focus on the institution’s earning capability such as either the Return on Net Assets or the Net Income Ratio. The Return on Net Assets measures Net Income divided by Fixed Assets and Net Working Capital. This ratio tells how effectively and efficiently the company is using its assets to generate earnings. ***The Institute’s Return on Net Position Ratio for FY2014 was -16.5%.*** Net Income Ratio (which measures Net (less Operating Expenses) Operating and Non-Operating Income over Total Operating and Non-Operating Income) is another measure of how effectively an organization generates income. ***As a result of its operating losses NMI’s FY2014 Net Income Ratio is a -20.9%.***

Two debt capacity-focused financial ratios are the Viability Ratio (measuring Unrestricted and Expendable Net Position divided by Total Long Term Debt) and the Debt Burden Ratio (measuring

Annual Debt Service Expense divided by Total Operating Expenses). A Viability Ratio of 1.0 or higher theoretically indicates an institution has sufficient available net position/reserves that it could rely upon, if necessary, to immediately satisfy all debt requirements; *as of FY2014, the Institute's Viability Ratio is 1.5 indicating adequate debt capacity using this indicator.* The Debt Burden Ratio (Annual Debt Service (principal and interest) divided by Total Expenditures) is a traditionally more useful measure to determine debt capacity based on a benchmark that if more than 5% of an institution's budget were devoted to debt service, that institution's flexibility to devote its resources to other needs could be compromised; *the Institution's Debt Burden Ratio at the end of FY2014, is 4.6% signifying some, but limited, additional debt capacity under this measure.* It should be noted that both debt ratios are artificially low as they do not include debt service on the non-interest bearing loan of \$288,104 made by the shareholders to NMI; this loan has no regular payment schedule (see footnote 12 of the FY2014 Audited Financial Statements).

### Composite Financial Index Analysis

To provide a broader context to the various ratio analyses that are presented, the following Composite Financial Index (CFI)<sup>1</sup> analysis is presented; the CFI is a measure of the institution's overall financial health based on the sufficiency and flexibility of resources, the management of debt, the performance of assets, and the results of operations. The CFI provides a more complex picture of the financial health of an institution at a point in time than is possible by simply comparing multiple indicators. The CFI is essentially a blend of four commonly used financial ratios<sup>2</sup>:



*\*Adapted from Strategic Financial Analysis for Higher Education, p. 107.*

<sup>1</sup> The Composite Financial Index was developed by KPMG, Prager, Sealy & Co., LLC, and Bearing Point, Inc. (see Tahey, P., Salluzzo, R.E., Prager, F.J., Mezzina, L., & Cowen, C.J., (2010). Strategic Financial Analysis for Higher Education: Identifying, Measuring and Reporting Financial Risks, (7<sup>th</sup> ed.); KPMG, Prager, Sealy & Co., LLC, and Attain).

<sup>2</sup> Prager, F. J., Cowen, C. J., Beare, J., Mezzina, L., Salluzzo, R. E., Lipnick, J. & Tahey, P. (2005). Strategic Financial Analysis for Higher Education. (6th ed.): KPMG, Prager, Sealy & Co., LLC, and BearingPoint, Inc.

Once each of the four ratios is calculated, the relative strength of the score (standardization of the ratio) and its importance in the mix (weighting) are considered in calculation of a composite score. Both the Methodology Adjustment Value and the Weight Factor are standards established in the Composite Financial Index (CFI) model. The result is one weighted score for each indicator that when added together produces the CFI. The strength factors and CFI score are standardized scores that fall along a scale of -4 to 10. A matrix identifying strategic positioning as suggested by the composite index score has been developed to place the CFI scores into a strategic context<sup>1</sup>:

CFI Score	
-4 to -2	Consider whether financial exigency is appropriate
-3 to 1	Structured programs to conserve cash and thus survive
1 to 3	Consider substantial program adjustments, then
3 to 5	Direct resources toward transformation
5 to 7	Focus resources to compete in future
7 to 9	Experiment with initiatives; design a robust mission
9 to 10	Deploy resources to achieve robust mission

The computed CFI for Northeast Maritime Institute, Inc. for FY2014, using the standard methodology (Tahey, et al.) is as follows:

Composite Financial Index	FY2014 Ratio	Methodology Adjust. Value	Weight Factor	Computed Value
Primary Reserve Ratio	24.8%	0.133	35%	0.65
Viability Ratio	1.5	0.417	35%	1.26
Return on Net Position Ratio	-16.5%	0.020	20%	-1.65
Net Income Ratio	-20.9%	0.013	10%	<u>-1.61</u>
<b>Composite Score</b>				<b>-1.35</b>

- *NMI's overall composite score of -1.35 places NMI in a precarious position, where financial viability is questionable.*
- For comparative context regarding the composite score, in a recent review<sup>3</sup> of a large number of independent institutions (n=691 – while ratio measurement for independent colleges varies slightly from public institutions due to different accounting standards, the methodologies that have been developed are meant to make the scores comparable), the national average (50<sup>th</sup> percentile) CFI score was 3.7 (a CFI score of 3.0 is considered the threshold for financial health indicating that an institution has sufficient and adequately managed resources to fulfill its mission objectives), while the 25<sup>th</sup> percentile was 2.1 and the 75<sup>th</sup> percentile was 5.6.

<sup>3</sup> “CIC Financial Indicators Tool” Report, Council of Independent Colleges (July 2015).

- Comparing performance on this composite financial health indicator over time will provide another mechanism for tracking changes in NMI's financial condition and consideration of the institution's ability to fulfill its mission objectives.

The Financial Resource standard requires the institution to present "evidence of past, present, and future financial stability, with resources adequate for effective accomplishment of its announced purposes." Unfortunately, based upon the financial information available, NMI does not currently appear to meet the requirement for financial stability.

The current review of the FY2014 continues to support the VC's recommendations, provided in the June 2015 report, as follows:

- Prepare timely independent audited financial statements for future years, as required by the standard, and continue to develop financial history in order to provide longitudinal information to support trend analysis.
- Hire a chief financial officer.
- Continue to develop and implement internal controls policies and procedures and segregation of duties to limit the exposure to fraud and other financial risks.
- Perform ratio analysis on financial statements to better assess the financial health of the institution and to identify trends indicating strengthening or weakening of the financial position. These should be reviewed by the Board of Trustees when the report of the auditor is reviewed.
- Continue to develop multiyear budgets in order to develop financial history.
- Continue to identify an institutional budget reflecting both divisions – i.e. continuing education and higher education – with ongoing budget to actual reporting to provide a comprehensive financial plan for the entire institution.
- Continue to identify tuition and fee revenue projections within the budget with alternative scenarios reflecting different enrollment levels, cohort attrition, uncollectable amounts, tuition discounting and other factors that may affect actual receipts.

**Visiting Committee Report for Northeast Maritime Institute**  
**Prepared for the Massachusetts Department of Higher Education**  
*Associate in Applied Science in Nautical Science*

June 12, 2015

**Team Members**

Elizabeth True, Ed.D. (Chair)

Vice President for Student Affairs and Enrollment Management

Maine Maritime Academy

CDR Michael Turdo

Branch Chief

Professional Maritime Studies

U.S. Coast Guard Academy

Rachel Trant

Director, Fiscal Affairs

Framingham State University

**Visiting Committee Report for Northeast Maritime Institute**  
**Prepared for the Massachusetts Department of Higher Education**  
*Associate in Applied Science in Nautical Science*

**Table of Contents**

<b>Section</b>	<b>Page</b>
Charge	3
Background and Degree Authority Requested	3
Methodology	4
Standard One: Mission, Planning and Evaluation	5
Standard Two: Organization and Governance	6
Standard Three: Programs and Instruction	7
Standard Four: Faculty	8
Standard Five: Student Services	9
Standard Six: Financial Resources	11
Standard Seven: Public Disclosure	14
Standard Eight: Physical Resources	15
Standard Nine: Library and Information Resources	15
Overall Readiness of the Institution to Offer the Program	16

## CHARGE

The charge of the Visiting Committee (VC) is to evaluate and make a recommendation on the proposed charter amendment by Northeast Maritime Institute (NMI) to offer the degree of Associate in Applied Science (AAS) in Nautical Science. The Board's evaluation of the institution's ability to offer and support the proposed programs must address the institution's "faculty, equipment, courses of study, financial organization, leadership and other material facts relative thereto," as mandated by M.G.L. Chapter 69 S. 30 and regulated by the Independent Institutions of Higher Education Standards (610 CMR 2.00).

In accordance with 610 CMR 2.10, the criteria which guide the review are the standards established by the Independent Institutions of Higher Education Standards, 610 C.M.R. 2.07(3).

As part of this mandate, the visiting team is asked to investigate and evaluate the following during the site visit:

- integrity of the proposed program (admission and degree requirements, curriculum, level of instruction, courses, evaluation of student performance, program outcomes, etc.);
- administration and governance of the proposed program within the context of the institution;
- fiscal ability of the institution to mount and sustain the program;
- selection, qualifications, and role of faculty;
- adequacy of human and physical resources to support the program, students, and faculty;
- degree nomenclature; and
- overall readiness of the institution to offer the program.

## BACKGROUND AND DEGREE AUTHORITY REQUESTED

Originally established in New Bedford in 1981, NMI is a private, for-profit, post-secondary education institution offering training for the maritime industry. Currently located in Fairhaven, MA, it is approved to offer non-college level education and training by the Massachusetts Department of Professional Licensure but is now seeking to become a college. The institution received approval from the U.S. Coast Guard in April 2013 for their proposed Applied Nautical Science Program (NOREMI-737). The Coast Guard approval means that the program satisfies applicable requirements for the appropriate licenses and STCW (Standards of Training, Certification and Watchkeeping) endorsements. The institution submitted a proposal to the Board of Higher Education to offer an AAS in Nautical Science degree.

A Visiting Committee met with campus administrators in November of 2013 and concluded the following:



*“While the Visiting Committee applauds the Institute’s efforts to launch an associate degree program, we do not believe that NMI has provided sufficient evidence of compliance with all of the State’s 610 CMR 2.07 standards to be approved by the Board of Higher Education to offer the AAS degree in Nautical Science at this time, especially in regards to Standard 2: Organization and Governance, Standard 4: Faculty, and Standard 6: Financial Resources.*

*We encourage NMI to work with the MA-DHE and to develop their knowledge and higher education expertise to achieve compliance with the 610 CMR 2.07 standards. The Visiting Committee believes that with further development the institution has the potential to make a significant contribution to higher education and the maritime industry.”*

In April 2014, the Board of Higher Education conditionally approved the Articles of Amendment of Northeast Maritime Institute, Inc., to offer the Associate in Applied Science in Nautical Science with the following stipulations:

- The DHE will commission an external committee review of the continued progress of NMI towards meeting all standards of the 610 CMR 2.10. This report shall be completed by June 30, 2015.
- The institution shall post on its website a notice regarding the conditional nature of the Board of Higher Education’s approval of the institution’s degree granting authority.
- The institution shall enroll a relatively small cohort of no more than 11 students in January 2015.

This report is prepared to comply with stipulation #1. NMI has complied with stipulations #2 and #3; the January cohort began with six students but dropped to 4 by mid-semester.

## METHODOLOGY

This report is the result of the VC’s review of NMI’s written proposal submitted to the Massachusetts Department of Higher Education (MA-DHE) for approval to offer the AAS degree in Nautical Science (April, 2013), the VC’s review of the report submitted by the previous Visiting Committee, and the VC’s site visit on May 5-7, 2015. The site visit was conducted under the supervision of Kristen Stone with the support of Lynette Robinson, representatives from the MA-DHE. During this visit, the committee visited all facilities, administrative offices, classrooms, labs and the library. The VC also had the opportunity to review syllabi, procedures and policies, and NMI’s website in addition to other written and published materials.

Additional information was obtained from direct communication with the NMI administration, faculty, staff, and students including: President, Chief Academic Officer, Chief Financial Officer, Director of the Nautical Science Program, Director of Continuing Education, Director of Multimedia, Director of Admissions/Registrar, admissions staff, and students from the AAS program and the continuing education program, and several adjunct faculty.

The VC immediately addressed the issue of nomenclature with the President upon arrival to campus; specifically, that NMI was using an incorrect term in written and on-line materials for the degree for which it was seeking approval. The correct nomenclature is Associate in Applied Science in Nautical Science. The VC noted that the website was immediately updated after the visit with the correct nomenclature.

The VC noted significant progress in addressing many of the areas noted in the previous report and found the administration, faculty and staff committed to the mission of the institution and the students they serve. The students interviewed were extremely satisfied with their experience. The cohort of six students started in January 2015 and four have persisted through the spring semester and were about to begin summer co-op/internship experiences in the industry.

#### STANDARD ONE: Mission, Planning and Evaluation

The Institute has a clear mission statement, displayed prominently throughout the campus. This mission is “to equip graduates with the combination of knowledge, critical thinking, problem solving, ethical decision making, and confidence which will enable them to safely and efficiently operate, maintain, and manage the ships of today and the maritime industry of tomorrow.” This mission is consistent with the profile of the type of student the institute wishes to serve. During the visit, the president further elaborated on the Institute’s commitment to serving the local community by educating students who might not otherwise have the opportunity for higher education or career advancement. In addition, he discussed strategies to attract international students who could receive licensure through the Commonwealth of Dominica Maritime Registry. All faculty and staff demonstrated a commitment to the mission and the success of their students which was confirmed in meetings with students.

The newly formed Institute Alliance, a representative group of faculty, staff and students, has been tasked with engaging in planning and evaluation and making recommendations directly to the Board of Trustees. The Alliance initially focused on creating a structure and constitution and will next begin to review and revise the current strategic plan to better align with the mission and plans to provide the Associate’s degree.

The new Chief Academic Officer is experienced in developing and assessing learning outcomes and has spent significant time training the faculty on assessment. She will be a key component in expanding outcome development and assessment to non-academic areas and assisting the Institute Alliance in developing assessment measures to determine NMI’s success in achieving its strategic goals.

#### Recommendations:

- Task the Institute Alliance with creating a timeline for updating the Strategic Plan and meeting measurable outcomes.

#### STANDARD TWO: Organization and Governance

The Institute is to be commended for the progress made in addressing the recommendations of the 2013 Visiting Committee as relates to governance. The Board of Trustees is now chaired by Vincent Patton, a retired Master Chief Petty Officer of the Coast Guard, who has no other role at NMI. The institution has also carried through the separation of NMI from the Dominica Registry which will be further discussed under Financial Resources. During the visit, the team learned that Angela Dawicki, the CFO for NMI, is still serving as the treasurer for the Board, a clear conflict of interest which was mentioned by the previous team.

The faculty were not all in place at the last visit and now have been hired and are engaged in creating curriculum, meeting as a Faculty Committee and Curriculum Committee, and participating in training on developing and assessing learning outcomes. While all but one of the faculty are part-time employees, those interviewed indicated that they are impressed by their inclusion in decision-making and the Institute's commitment to training and sharing information. Faculty also have representatives on the Institute Alliance, a new college-wide committee charged with updating the NMI Strategic Plan and developing measures to assess the success of the plan. The Institute Alliance is chaired by the Director of Nautical Science, Tom Sullivan, and includes two faculty members elected by the Faculty Committee, students, a representative from the Board of Trustees and the Director of General Education.

Student governance is a democratic affair as the student cohort is so small that the students meet together daily. Once the student body size increases, the Institute may want to help the students develop a Student Government Association with elected student representatives.

#### Recommendations:

- Advise the Board of Trustees to elect a Treasurer of the Board who is not an employee or owner of NMI.
- Consider convening the Board of Trustees more often than the current two meetings per year, given the challenges of starting the program and their role in providing oversight for all the new committees and policies.
- Continue to develop charters, policies and procedures for committees and governance bodies such as the Institute Alliance and Curriculum Committee
- Encourage Trustees to participate in training programs offered through AGB.
- Consider sending President Dawicki to the Harvard Seminar for New Presidents

### STANDARD THREE: Programs and Instruction

In response to the recommendations of the 2013 VC, NMI has made significant strides in developing academic programs to comply with Standard Three. The Director of Nautical Science and the Director of General Education, under the supervision of the Chief Academic Officer, have reviewed the entire curriculum vis-à-vis NEASC Standards for Accreditation.

Course syllabi clearly lay out weekly assignments, objectives, and assessments and are consistent with the number of academic credit hours being awarded. Respective syllabi have been more thoroughly developed by instructors and there appears to be on-going dialogue amongst faculty with respect to establishing shared learning objectives.

A curriculum committee was established in the summer of 2014. This committee includes representation from both the Nautical Science and General Education divisions and works under the direction of the Chief Academic Officer. The Curriculum Committee is conversant with NEASC standards and has employed these standards as their model for assigning credit hours. The faculty of both the Nautical Science and General Education departments appear to be engaged, contributing members of the Curriculum Committee.

The General Education curriculum was bolstered at the recommendation of the last visiting committee and is modeled after a “standard” general education curriculum employed by many community colleges. The Nautical Science curriculum is driven by Coast Guard credentialing requirements. Under the auspices of the CAO and curriculum committee, NEASC policy on credits and degrees (Standards 4.30-4.54) has been adopted to evaluate all Coast Guard approved mariner courses. The review process is consistent with the practices employed at other maritime colleges.

The curriculum committee is cognizant of their obligation to review/approve any changes to courses yielding academic credit, regardless of changes to Coast Guard credentialing requirements. A review of all course-work was completed by the Curriculum Committee utilizing NEASC Standards for Accreditation (Integrity in the Award of Academic Credit 4.30-4.54).

To date, no formal process for outcomes assessment has been established. The CAO has this matter for action and is in the process of developing a formal plan. On a positive note, there is strong evidence that the entire faculty is engaged in on-going dialogue regarding how to better “assess and improve” the higher education program and is creating shared or complementary learning outcomes.

As noted under the Governance Standard, the Institute Alliance has been established, with the Chief Academic Officer playing a central role. The CAO plays an integral role in curriculum development and assessment for both the general education and professional mariner courses.

Recommendations:

- Continue to develop role of Curriculum Committee and other governance entities. Develop charters to codify respective committee membership and responsibilities. Ensure committees are meeting regularly and functioning in accordance with approved charters.
- Develop or utilize an assessment instrument that solicits feedback from the graduates and their employers approximately 6 months after graduation to determine whether NMI is preparing graduates for industry needs. An example is the Level III Survey (Kirkpatrick Training Model).
- Include statements in course syllabi that clearly state the governing policy regarding Coast Guard credentialing exams (i.e., Is passing a CG credentialing exam a requirement for passing the course and earning academic credit?)
- Develop a formal plan for outcomes assessment, continuous improvement and data-based decision making.
- Continue to develop and refine class syllabi; clearly identify and outline terminal performance/enabling objectives; include specific reading assignments, homework assignments; specify total number of points available to be earned in each assignment/quiz/exam/project.
- Continue to leverage Learning Management System (LMS) to assess/measure/track student retention and understanding of key enabling objectives.

#### STANDARD FOUR: Faculty

At the time of the 2013 visit, the faculty for the AAS program was not yet in place. Since that visit, NMI has hired a full-time Chief Academic Officer (CAO) who holds an Ed.D. The CAO provides counsel and oversight to the faculty; the faculty from both General Education and Nautical Science appear to be very collaborative and appreciate the important to be engaged in curriculum development and goal-setting. There are a sufficient number of adjunct professors with the requisite level of education assigned to the General Education department. The faculty in the nautical science program possess impressive industry credentials. However, the Director of the Nautical Science department is the only full-time faculty member on staff at NMI and he does not hold a bachelor's degree despite an impressive resume of industry experience. Robert Glover is the only instructor within the Nautical Science department who holds a formal academic degree (BS in Nautical Science from Maine Maritime Academy).

In response to the recommendation of the 2013 VC, NMI submitted and received approval from the MA-DHE for letters of commitment from the general education faculty as well as the other faculty in the AAS degree program along with their resumes and a revised faculty table. The Faculty and Staff Handbook was completed and includes policies for degree and non-degree faculty and satisfactorily addresses matters of academic freedom as they pertain to faculty members.

While currently compliant with the standard regarding faculty, the CAO and Director of Nautical Science acknowledge that an increase in student population is not sustainable under current staffing levels. In order to fully meet the requirements of 610 CMR 2.07(3)(d)(1)(a), NMI has made plans to bring the Director of Continuing Education, Robert Glover, to the Department of Nautical Science as a full-time faculty member in January. Mr. Glover holds a Bachelor of Science from Maine Maritime Academy, where he majored in Nautical Science, and has an impressive professional resume. His full time status would clearly satisfy the requirement that, “A two-year institution that offers associate degree programs shall ensure that at least one full-time faculty member teaching in each degree program holds at least a master’s degree, or equivalent experience and/or attainment , in an appropriate field.” The addition of Mr. Glover to “full-time” status would also meet the staffing requirements of 610 CMR 2.07(3)(d)(2) not to exceed 15 contact hours per week.

#### Recommendations:

- Add a full-time faculty member to the Nautical Science program who possesses the appropriate degree for teaching in this program.
- Clarify titles for teaching faculty – terms such as professor are used as a sign of respect but lack the imprimatur of a credentialing process. Instructor is perhaps the most appropriate title at this point. In future, this could be resolved by the establishment of a Credentials Committee to govern the credentialing/promotion process by which professorial ranks are attained.
- Continue to balance professional mariner experience with academic experience when hiring new faculty.

#### STANDARD FIVE: Student Services

Significant progress in developing and publishing admissions standards and policies was noted since the previous visit. NMI has an open admissions policy. A new Admissions professional was recently hired who has developed a recruiting plan to attract prospective students. Prospective students participate in a campus interview, and submit an essay in addition to an application. The active involvement of many staff in the interview process is a preview to prospective students of the significant staff attention they would receive as students. While tuition and fees are clearly published on the website, more information on financial aid for prospective students should be added to the NMI website rather than simply referring students to the admissions office for financial aid information.

The registrar ensures that records are stored properly and in keeping with the published record-keeping and FERPA policies.

The 2013 VC recommended that NMI continue to develop plans for serving students with learning disabilities and those in need of remedial education. With the arrival of the new CAO,

much progress has been noted in this area. Students undergo Accuplacer testing prior to matriculation and the results are used by the CAO to create a remediation plan if necessary as well as shared with faculty. In addition to on-site tutoring by faculty and students, an agreement exists to access math and English tutoring through Bristol Community College in New Bedford. The CAO developed and teaches a required, non-credit Skills for Success course to enhance freshman transition. Retention efforts by weekly advising meetings and outreach to students experiencing academic or other challenges. Writing skills were identified as a challenge for the current cohort. Plans are underway to add a writing lab in the library twice a week by the fall semester. Faculty will also participate in "Writing Across the Curriculum" training.

NMI is seeking to recruit international students in future, especially as the connection to the Dominica Registry would provide an avenue for international students to be licensed. The VC recommended establishing a TOEFL score minimum and publishing it on the website to avoid having to provide ESL and more extensive remediation for students for whom English is not the native tongue.

While the first cohort has yet to participate in career placement activities, all are engaged in cooperative or internship experiences this summer related to their career plans. The NMI faculty and administration have extensive contacts in the maritime industry. Given the high demand for licensed mariners, the career placement rate is expected to be 100%.

The current cohort has not required assistance with local housing but NMI does have an agreement with a local hotel for continuing education students which can be extended to the college students as well. Recognizing the future need for dedicated housing as well as staff supervision of student housing, NMI is reviewing options to purchase real estate in Fair Haven which could be converted to student housing.

As the cohort grows, it is anticipated that the demand for support services in areas such as food service, student activities and health and counseling will increase. Creative partnerships with nearby larger institutions may be the most effective solution.

The CAO plans to turn her attention next to assessment of non-academic areas and will work with the Institute Alliance on strategic goals and assessment of outcomes related to student services. However, the current students provided anecdotal evidence of high satisfaction with both academic and student services.

Currently the student handbook notes that the Dean of Students is responsible for adjudicating violations of student conduct. The Dean of Students role is currently held by the President. So as to allow for an appeal of a judicial decision to the President, it would be advisable if he would appoint another staff member to serve as Dean of Students.

## Recommendations:

- Include in-house supervisory staff in plans for providing housing either on campus or at a local hotel.
- Consider including a minimum TOEFL score for international applicants in the catalog and on the website and recruiting publications.
- Develop a plan for assessing the effectiveness of student services.
- Publish policies and procedures for the awarding of financial aid on the website for prospective students.
- Separate the role of Dean of Students from the President's role to allow for an appeal process.

## STANDARD SIX: Financial Resources

Standard Six requires that the institution must “present evidence of past, present, and future financial stability, with resources adequate for effective accomplishment of its announced purposes.” To demonstrate its financial stability, the institution provided consolidated financial statements for the fiscal years ending December 31, 2012 and 2013. The CPA firm had reported an unqualified opinion on the FY12 comparative statements, but stated that no opinion was offered regarding the FY13 financial statements as management requested only a review, rather than an audit, of the financial information for FY13; management explained that this change was made as a cost savings measure. FY13 net income before unusual or extraordinary items was \$44,712 on overall revenue of \$2,514,419. Although net income is positive, the overall level of income is marginal and leaves little reserve for any possible contingencies.

The footnotes to the FY13 Financial Statements (Note 12 re: Subsequent Events) reveal that “On January 1, 2014, the Company agreed to sell its 50% interest in DMRI to its shareholders ...” NMI’s President explained that this action was taken to separate the two business components and to focus NMI’s efforts on its educational mission. Although the separation of DMRI from NMI supports the regulation’s requirement that “financial records and reports ... shall be made separate and distinct from those of any affiliated ... entity,” its divestiture may have a significant financial impact on the overall financial position of NMI. The FY13 financial statements identify Consulting and Other Revenue (which consists primarily of non-educational services to the maritime industry, vessel registration, inspection and mariner fees, etc.) as \$1.65 million, or 73%, of NMI’s overall \$2.5M revenue. Discussion with management confirms that the bulk of this revenue is DMRI related. The exact impact of this separation cannot be assessed as financial statements were not available for the most recent fiscal year, FY14. Management explained that these statements were still in the process of being prepared.



The financial information currently available is not adequate to determine if 610 CMR 2.07(3)(f) has been met for a number of reasons. Annual financial statement information displays inconsistent results from year to year and the most recent fiscal year's financial information is unavailable. Although audited financial statements were provided for FY2011 and FY2012, as noted by the last VC, "there were significant differences between these two years. Therefore, they offer no way to determine past fiscal health and any trends in financial position." As noted, the FY2013 financial statements were not audited. The FY2013 results show some marginal improvement over the prior year as Revenue increased from \$2.1 million to \$2.5 million, a \$403,000 or 19% increase; corresponding Net Income before unusual or extraordinary items improved from a \$57 thousand loss (FY12) to a \$45 thousand profit (FY13), a 4.5% swing from loss to profit. The reported profitability is still marginal. The separation of DMRI from NMI will likely significantly impact the overall financial performance but this cannot be substantiated until the FY2014 Financial Statements are available.

The lack of FY2014 Audited Financial Statements is concerning. NMI was granted conditional approval to offer the Associate in Applied Science in Nautical Science on October 21, 2014. According to the standard, section 2.07(3)(f), "annual statements shall be audited and certified by an independent certified public accountant authorized to practice in the Commonwealth," therefore annual financial statements for 2014 and future years must be audited, rather than "reviewed" by an independent certified public accountant. Additionally, according to the NMI Board of Trustees By-Laws, Article II, Section 2.10(a), Annual Reports will be issued "within 120 days of the end of each Fiscal Year," yet financial statements for 2014 were not available to the VC although the 120 day deadline had been passed. Preliminary FY2014 statements were alternatively requested by the VC but were not available. The audited financial statements provide management, the Board of Trustees, and external sources such as the DHE with valuable information regarding financial position and performance; this information should be reviewed on a timely basis so that adjustments to NMI's business strategy and decisions gain the benefit of this information.

Management provided additional financial information for FY2015 in response to a request by the VC. NMI's internal budget for FY2015 for both the Continuing Education and Higher Education divisions was provided for the full year of FY2015 as well as the Year-to-Date Budget vs. Actuals for each of the divisions through the date of the VC visit. Projected revenue for the Higher Education division for this period was \$197,000 versus the actual of \$50,000 and projected Net Income was \$38,000 profit vs. the actual net loss of \$60,000. The VC understands that the conditional approval to offer the Associate in Applied Science in Nautical Science was not provided until October 21, 2014 and as a result, little time was available to market this program for the spring 2015 semester. The internal budget to actual information also noted that "the Brazil Pilot Program, which was to occur in 2015, and whose income was prorated over a 12 month period, has been postponed until 2016"; based upon this note, it appears that a portion of the Brazil Pilot Program revenue has been recognized in the actuals of the internal budget in account 7420, Travel Company, which displays a YTD actual of \$25,000.

Reducing the YTD overall Actual Net Income of \$42,000 by the \$25,000 related to the Brazil Pilot Program provides only marginal net income for FY2015 YTD, which cannot be viewed as “resources adequate for effective accomplishment of [NMI’s] announced purposes.” The budget also does not appear to include the costs to outfit the necessary laboratories for physics, biology and chemistry instruction that will be required in the Fall 2015 semester as a part of the general education requirements; these costs will further reduce the current net income projections and actuals.

Based upon the financial information available, the VC was unable to properly evaluate the institution’s progress in meeting Standard 2.07 (f) Financial Resources due to the inconsistency of past financial performance (FY2011 through 2013), the lack of audited FY2014 Financial Statements, the inability to quantify the potentially significant financial impact to NMI due to the 01/01/14 separation of NMI and DMRI, and the reported FY2015 budget to actual information for the institution overall.

The VC discussed with management the ongoing concerns regarding the segregation of duties and development of internal financial controls. The VC recognizes that in a small scale institution such as NMI complete segregation of duties is not realistic. However, NMI’s proposal to “hire a new CFO no later than three years after the initial cohort of Associate Degree students are admitted” does not meet regulatory requirement set forth in section 2.07(3)(b)(4) in determining whether an institution should be granted authority to award degrees. The standard requires that there is “sufficient distinction among the roles, functions and identities of the governing board of the institution and of the administration and faculty to ensure the appropriate separation and independence of board, administration, and faculty.” In addition to the standard’s requirements the NMI Board of Trustees By-Laws Article II, Section 2.1(f)(ii) regarding the Structure of the Board of Trustees and its Duties, also require that “The Board of Trustees may not appoint the Chief Financial Officer as the Treasurer nor as the Chair of the Finance Committee.” Although a financial assistant was hired to support the CFO, it does not appear that adequate progress has been made in differentiating the CFO responsibilities as the CFO continues to be designated as the Treasurer and as a member of the Board of Trustees.

The VC recognizes that, in response to the previous VC’s recommendation, NMI has revised its by-laws to establish the Board of Trustees as the authority for setting tuition and fee rates.

#### Recommendations:

- Prepare timely independent audited financial statements for 2014 and future years, as required by the standard, and continue to develop financial history in order to provide longitudinal information to support trend analysis.
- Hire a chief financial officer.
- Continue to develop and implement internal controls policies and procedures and segregation of duties to limit the exposure to fraud and other financial risks.

- Perform ratio analysis on financial statements to better assess the financial health of the institution and to identify trends indicating strengthening or weakening of the financial position. These should be reviewed by the Board of Trustees when the report of the auditor is reviewed.
- Continue to develop multiyear budgets in order to develop financial history.
- Continue to identify an institutional budget reflecting both divisions (i.e., continuing education and higher education) with ongoing budget to actual reporting to provide a comprehensive financial plan for the entire institution.
- Continue to identify tuition and fee revenue projections within the budget with alternative scenarios reflecting different enrollment levels, cohort attrition, uncollectable amounts, tuition discounting and other factors that may affect actual receipts.

#### STANDARD SEVEN: Public Disclosure

NMI has worked diligently to update the website with the information needed for both prospective students and current students. In some cases, they have jumped ahead of themselves by including policies, procedures and even staff projected for the future but not yet in place. As noted earlier, NMI was previously using the wrong nomenclature for the degree on the website and in printed materials. The website has since been updated with appropriate nomenclature. While the website does include required information regarding tuition, fees, and where to find information on financial aid, the standard requires that more information is available on the website rather than referring potential students to Admissions. In addition, NMI has been unable to offer student insurance due to the small cohort and thus needs to clarify on the website the options students have to meet the Massachusetts requirement of insurance coverage while in college.

#### Recommendations:

- Update all publications and documents (print and on-line) with the proper nomenclature for the degree: Associate in Applied Science in Nautical Science.
- Clarify the requirement for medical insurance coverage on the website.
- Include more information about financial aid policies and procedures and scholarships on the website.
- Delete references in the Student Handbook to future positions such as the Dean of Students or clarify who is filling such roles in the interim.

## STANDARD EIGHT: Physical Resources

The physical facilities at NMI are in excellent condition, with no visible deferred maintenance. The administrative building houses library and lounge space as well as administrative offices, classrooms, a full gymnasium and the simulator labs. Additional classroom and lab space is available in two other buildings located within walking distance of the main building. Classrooms are equipped with technology to aid in learning and the simulator labs are equipped with industry-standard software. NMI has access to waterfront facilities for hands-on training, including a lifeboat training facility as well as a tall ship, the S/V Fritha, for training in navigation, rigging and sailing.

One of the annex classroom buildings will be renovated by fall of 2015 to accommodate science laboratories for the academic program. As the size of the student body increases, a leased or owned housing facility will be needed, especially if international students are recruited as planned. Ideally, this facility should include kitchen facilities. NMI is assessing several local buildings or hotels as prospective housing facilities for the future.

### Recommendations:

- Continue with plans to equip a newly purchased building with adequate lab facilities for instruction in Technical Physics and Ocean Sciences.
- Continue to develop plans to provide local housing for students with kitchen facilities.

## STANDARD NINE: Library and Information Resources

NMI has devoted significant physical space, resources and personnel to library and information resources for their students. In addition to the more traditional library, extensive simulator resources, and the private maritime collection of the International Slocum Society, NMI also has an ambitious project underway to create NMI Online – an impressive on-line delivery system which was originally developed for the continuing education program but will also provide supplemental instruction to the college students. The students were very satisfied not only with resources but also the access to computers and willingness of all staff to assist them with locating required resources.

Currently, the position of the librarian is vacant and NMI is actively searching for a part-time librarian to fill the vacancy. Prior to departing, the librarian drafted a detailed report providing a status-update on all on-going initiatives:

- Library Action Plan has not yet been developed.
- NEASC self-assessment completed.
- NMI became a member of the Massachusetts Library System (MassCat), which includes 70 members in the state of Massachusetts. Membership includes full access to all member libraries. Thus, the recommendation from the previous VC to execute a

Memorandum of Agreement with the University of Massachusetts Dartmouth is no longer a necessity. NMI is also a member of the International of Aquatic and Marine Science Libraries and Information Centers (IAMSLIC).

Information technology is utilized extensively in the program and will be more so once the NMI Online program is implemented. All of the classrooms are equipped with hardware to maximize use of technology and the faculty do so regularly. The Director of Multimedia who is designing the online program is extremely talented and planning a learning management system tailored specifically for NMI that is extremely forward thinking, mobile, and adaptable. He is surrounded by many technically competent administrators and faculty at NMI. For example, the faculty noted that they only need an external consultant for the Campus View management system and other software for trouble-shooting, as they generally can provide their own IT support.

Recommendations:

- Continue the hiring search for a librarian.
- Draft and approve a Library Action Plan.
- Fully integrate the new librarian into newly established academic governance bodies (eg: Curriculum Committee).
- In conjunction with the CAO, the librarian should be fully integrated into the process of developing shared learning objectives across the curriculum – specifically in the area of information literacy.

#### OVERALL READINESS OF THE INSTITUTION TO OFFER THE PROGRAM

The Visiting Committee enjoyed our visit to NMI and noted significant progress in addressing the recommendations from the 2013 visit. In particular, the team noted the following strengths:

- Separation of DMRI and NMI was a good strategy to address concerns from the previous visiting team and open up options for additional partnerships with other countries.
- Significant strides in addressing governance recommendations in the last report – Board Chair not otherwise affiliated with the institution, hiring of CAO, Institute Alliance, curriculum committee.
- The CAO and faculty have developed course syllabi with appropriate learning outcomes.
- NMI is very forward thinking and entrepreneurial.
- Students are very satisfied with their experience and especially noted the hands-on experience and support provided by faculty.
- Faculty are engaged, committed, appreciate of the atmosphere of collegiality.
- Quality and condition of the facilities.
- Exciting work on the Online Delivery Platform.

A commitment to continuous improvement was evidenced by the ability of the CAO and faculty to adapt to varying levels of academic preparation in the January 2015 cohort by providing out of class tutoring, implementing a mandatory non-credit course entitled Skills for Success, and planning for a writing lab in the library for Fall 2015. The institution provided an impressive demonstration of the learning management system currently under development which, while initially designed for distance learning within the continuing education program, will also provide significant support to the students in the College program as well.

As noted earlier, the nomenclature of the degree to be offered, the Associate in Applied Science in Nautical Science, must be correctly stated in all publications and documents, as several incorrect titles of this degree were noted in publications and on the institution's website.

The significant planning for the governance of the institution needs to be enacted through formation and regular meetings of committees, and development of charters and policies.

The Visiting Committee was unable to properly evaluate the institution's progress in meeting Standard 2.07 (f) Financial Resources due to the lack of audited 2014 financial statements and updated financial projections after the 01/01/14 separation of NMI and DMRI. In addition, as the first semester just concluded, updated expense and revenue statements were not yet available. It is obvious that the Dawickis are committed to the program financially and emotionally and have begun to explore options such as a foundation, but a long-term plan for financial sustainability is critical to meeting the standard on financial resources.

The VC recommends continuation of the conditional status of the degree program until sufficient financial information is provided to the Board of Higher Education to assure that the standard on financial resources is met. Given the small size of the current cohort, it is likely a cohort could be admitted for the fall of 2015 without exceeding the 11 student limit set by the BHE for NMI during the conditional period. Within 60 days from the date of this report NMI should prepare and submit to the BHE audited financial statements for FY14 and a long term financial plan with enrollment projections updated to reflect current numbers.

**BOARD OF HIGHER EDUCATION**

**REQUEST FOR COMMITTEE AND BOARD ACTION**

**COMMITTEE:** Academic Affairs

**NO.:** AAC 15-09

**COMMITTEE DATE:** October 14, 2014

**BOARD DATE:** October 21, 2014

---

**PETITION OF NORTHEAST MARITIME INSTITUTE, INC. TO AWARD THE ASSOCIATE IN APPLIED SCIENCE IN NAUTICAL SCIENCE**

**MOVED:** The Board of Higher Education hereby conditionally approves the Articles of Amendment of **Northeast Maritime Institute, Inc.** to offer the **Associate in Applied Science in Nautical Science**, provided that the Board of Higher Education undertake to review, during the next year, the continued progress of the institution toward meeting the goals set forth in connection with its petition to the Board of Higher Education and subject to its compliance with the following stipulations:

1. The DHE will commission an external committee review of the continued progress of NMI towards meeting all standards of the 610 CMR 2.10. This report shall be completed by June 30, 2015.
2. The institution shall post on its website a notice regarding the conditional nature of the Board of Higher Education's approval of the institution's degree granting authority; the exact language of the notice is to be determined by Department staff after consultation with the institution.
3. The institution shall enroll a relatively small cohort of no more than 11 students in January 2015.

Provided further that if the College does not show significant measurable progress toward meeting the goals set forth in connection with its petition to the Board of Higher Education and its compliance with the above referenced stipulations, the Board of Higher Education will take appropriate steps to withdraw the College's authority to grant degrees, consistent with 610 CMR 2.10.

**Authority:** Massachusetts General Laws c. 69, § 30 et seq., c. 15A, § 6

**Contact:** Carlos Santiago, Ph.D., Senior Deputy Commissioner of Academic Affairs

## **BOARD OF HIGHER EDUCATION**

**October 2014**

### **Northeast Maritime Institute, Inc. Associate in Applied Science in Nautical Science**

#### **OVERVIEW**

Northeast Maritime Institute (NMI), located in Fairhaven, Massachusetts is a private, for-profit, post-secondary education institution offering occupational training for maritime careers. NMI has submitted a proposal to offer its first degree program, an Associate in Applied Science in Nautical Science. Originally established in New Bedford in 1981, NMI is licensed by the Massachusetts Department of Professional Licensure as an occupational school. If approved by the Board of Higher of Education (BHE), the institution would become a college. The Institute plans to seek approval through the New England Association of Schools and Colleges (NEASC), if approved by the Board of Higher Education. The Institute is currently not accredited.

The institution's non-college level training programs are approved by the United States Coast Guard for applicable licensures and endorsements, such as a U.S. Coast Guard limited tonnage license and certification for Standards of Training Certification and Watch Keeping (STCW) competencies. STCW requirements are international standards required for mariners for certain positions. Current students also have the option of applying for licenses via the Dominica Mariner Registry, Inc (DMRI), a Delaware corporation and subsidiary company of NMI with 50% ownership by NMI and 50% by Eric R. Dawicki, NMI's President. DMRI is contracted with the Government of the Commonwealth of Dominica to manage its International Ship Registry for the Commonwealth of Dominica and Maritime Administration regulatory framework and also provides licensures to mariners. NMI is also currently approved to utilize GI Bill funds for its non-college level courses.

The institution's Board of Trustees approved the proposed program on December 21, 2010. The application was received by the Department of Higher Education (DHE) on July 27, 2011. The first versions of the institution's proposal were incomplete and the institution was required to resubmit the application several times. The application was deemed complete on June 18, 2013.

#### **EXTERNAL REVIEW AND INSTITUITONAL RESPONSE**

The proposed program was reviewed November 13-16, 2013 by a visiting committee comprised of members Capt. Ernest Fink, Dean, Maritime Education & Training, SUNY Maritime College; John Barlow, Ph.D., Vice President of Academic Affairs and Provost, Maine Maritime Academy ; Wayne Burton, Ph.D. , Emeritus President, North Shore Community College; Andrew Soll, Vice President, Finance & Facilities, Salem State University and Deborah J. Hirsch, Ed.D., Vice President for Development and Director of External Relations, Mount Ida College. A Department of Higher Education representative was also present during the site visit. The Department, in consultation with the institution, selected the Visiting Committee. The institution requested Capt. Fink's participation on the Visiting Committee. He served as the Chair.



The Visiting Committee studied all materials submitted by the institution, visited facilities, administrative offices, classrooms, labs and library. Additional information was obtained from direct communication with the NMI administration, faculty, staff, and students including: President & Chief Academic Officer, Chief Financial Officer, members of the Board of Trustees, Director of the Nautical Science Program, Department Head – General Education, Director of Continuing Education, Director of Information Resources/Student Services, Director of Admissions/Registrar, a number of full-time and adjunct faculty and Maintenance Engineer.

The Visiting Committee assessed the institution's compliance with the 610 CMR 2.07 and its overall character and fitness to offer the degree requested. The institution was assessed based upon the review criteria found in the 610 CMR 2:07(3). These criteria are referred to as standards for ease of analysis.

In its written report submitted to the Department, the Visiting Committee applauded the Institute's efforts to launch an associate degree program, however, it found that NMI had not provided sufficient evidence of compliance with the majority of the criteria contained in the 610 CMR 2.07 to be approved by the Board of Higher Education to offer the AAS degree in Nautical Science. The Visiting Committee urged NMI to work with the Department to develop their knowledge and higher education expertise to eventually achieve compliance with the 610 CMR 2.07 standards.

Department staff forwarded the Visiting Committee's response to the institution on December 24, 2013 for their response. The Department received the institution's response to the Visiting Committee on January 22, 2014. Differences of opinion between the Visiting Committee's perspective and that of the institution emerged regarding whether the institution met minimal standards. DHE staff concurred with the Visiting Committee assessment and provided NMI with a detailed list of areas where changes were necessary to meet the standards of 610 CMR. It should be noted that the required public hearing was held on March 27, 2014 at the Department of Higher Education, located at One Ashburton Place in Boston, Massachusetts.

## **ASSESSMENT OF RESPONSE TO VISITING COMMITTEE CONCERNS**

The Visiting Committee made a number of recommendations that needed to be addressed by the institution. In order of significance, the areas of concern are (i) Standard 2: Organization and Governance, (ii) Standard 6: Financial Resources, (iii) Standard 1: Mission, Planning and Evaluation, (iv) Standard 3: Programs and Instruction and (v) Standard 4: Faculty. It is worth noting that the lack of compliance with Standard 2: Organization and Governance adversely impacts all areas of the proposal.

In light of these deficiencies, NMI began addressing each area of concern and worked with DHE staff to comply with the provisions of the 610 CMR. Updated documentation of the institutional response to the mentioned deficiencies was provided to DHE on August 15, 2014. Department staff has reviewed the updated documentation and has been working with NMI to ensure compliance. DHE staff now has confidence that NMI has addressed the majority of the deficiencies and its recommendation to the Board of Higher Education is based largely on the new materials that were submitted.

The most salient concerns that emerged and have been partially addressed in the August 15, 2014 submission are summarized as follows<sup>1</sup>:

*Concern Regarding Independence of Board, Administration, and Faculty*

- The institution has not shown that its organization and governance structure “ensures the appropriate separation and independence of board, administration and faculty”. Section 610 CMR 2.07(3)(b)(4). The overlapping of the institution’s Board and senior administration does not allow for the institution’s Board to effectively approve policies, evaluate the CEO or otherwise direct the institution. The current structure provides no checks and balances. Section 610 CMR 2.07(3)(b (Standard 2)

Major progress has been made in this regard through the adoption of a new set of institutional bylaws. Two major changes include separating the role of president from that of chairman of the board and adding a new chief academic officer to the leadership team. The chief financial officer and the Treasurer are now two distinct positions and the former can no longer serve as chair of the board’s Finance Committee. While these changes provide evidence of greater independence of board, administration, and faculty, areas of concern remain. For example, while a new board chair is a welcome addition, in the absence of the chair (who lives out of state), board meetings are still chaired by the President and CEO. Likewise, the CFO (a senior administrative officer) remains a voting member of the board.

The addition of a Chief Academic Officer (a role previously undertaken by the President) represents a significant and welcome change to the management team. The new CAO is overseeing a newly established Curriculum Committee. There is some reference to a University Senate—while little detail is available at this time, this does represent a major enhancement of the governance process once it is constituted.

The need for governance changes were a major focus of the review team as well as DHE staff. We believe that NMI is moving in the right direction in allowing for more separation between the board and those responsible for managing the day to day operations of the campus as well as allowing for greater faculty voice in curricular and programmatic issues.

*Concern Regarding Financial Stability*

- The institution has not shown that it is financially stable and sustainable, 610 CMR 2.07(3)(f). (Standard Six)

The separation of the position of CFO from that of Treasurer indicates recognition that financial checks and balances are necessary to ensure financial accountability and stability. However, more information is necessary here as the external audit needs to be updated. This is an area where more time should be given to the institution to provide the necessary documentation to show compliance with 610 CMR 2.07(3)(f). The institution has provided projected budgets for 20015-2018. The budgets reflect both financial stability and sustainability for the Division of Higher Education but the updated

---

<sup>1</sup> The attachment to the motion consists of the correspondence from NMI that indicates where each outstanding issue is addressed in the documentation submitted on August 15, 2014.

audit will potentially provide additional support for this assertion. Enrollments are anticipated to be modest, from a minimum of 8-11 students for each of the first four years of operation.

#### *Concern Regarding Stakeholder Involvement*

- The institution has not shown evidence that its long term plans or current proposal reflects broad stakeholder involvement. 610 CMR 2.07(3)(a) (Standard 1)

The restructuring of the board following the newly adopted bylaws and the creation of campus committees that allow for faculty input provide an indication of greater stakeholder involvement. With continued assessment over time it can be determined whether these new structures truly allow for greater stakeholder involvement.

#### *Concern Regarding Content of Academic Offerings*

- As a degree-granting institution, the expectation is that the course content include more than basic training for licensure. The institution has not shown that the academic content of the degree represents college-level expectations. 610 CMR 2.07(3)(c) (Standard 3).

The initial concern was that the curriculum was heavily focused on nautical science and the general education requirements of an Associate degree program were not fully addressed. The new CAO has followed the requirements of the MassTransfer bloc and has recruited faculty to deliver a curriculum that meets the requirements for a general education curriculum.

#### *Concern Regarding Faculty Credentials*

- The institution has not shown that it has an appropriately qualified faculty in sufficient number to meet all requirements of the institution's courses of study. Section 610 CMR 2.07(3)(d). Many of the institution's proposed faculty either do not have college degrees or have no experience teaching at the college level. The institution has not provided adequate documentation to support its claim that faculty are qualified through equivalent experience. 610 CMR 2.07(3)(d) (Standard 4).

The primary challenge for NMI has been to identify faculty with the appropriate credentials that can effectively execute a general education curriculum to support the faculty already engaged in nautical science training. The recent information provided by NMI suggests that they have identified qualified faculty to cover these instructional duties. The strength of NMI has been in the expertise of faculty in the area of nautical sciences and the addition of a number of faculty that have the qualifications to contribute to the general education curriculum represents a marked improvement over past practice. While many of these new instructors appear to be part-time, they seem to be providing similar services to surrounding community colleges and other higher education institutions.

## RECOMMENDATION

The fundamental question at this juncture is whether the positive changes that NMI has made over the last few months are sufficient so that the BHE will have confidence that the institutions is abiding by the provisions of the 610 CMR. While the current materials represent a vast improvement over the earlier materials and there is evidence that the institution is moving in the right direction, it is also clear that the work ahead remains significant. NMI seems to better understand the key elements that are necessary to sustain a successfully academic enterprise.

**Staff recommend that the Board of Higher Education conditionally approve NMI's application to allow the Northeast Maritime Institute to admit no more than 11 students to its Associate in Applied Science in Nautical Science program.** We would also ask NMI to focus its efforts on providing an updated set of documents that address areas highlighted in the past external reviewer's report that have not yet been fully addressed. Staff will continue to work with NMI to review compliance with 610 CMR 2.07. Since DHE staff acknowledges that the institution will not be able to immediately address all of the outstanding issues raised over the last few months, another external review should be conducted in late spring 2015.

LAW OFFICES

**LANG, XIFARAS & BULLARD**

115 ORCHARD STREET

NEW BEDFORD, MASSACHUSETTS 02740

TELEPHONE (508) 992-1270

FAX (508) 993-8696

WWW.LXBLAW.COM

**SCOTT W. LANG** \*\*  
**MARGARET D. XIFARAS** \*\*  
**PETER C. BULLARD** \*

**SUSAN FORGUE WEINER** \*  
**GIGI D. TIERNEY** \*  
**JULIE K. PETERSON** \*

**OF COUNSEL**  
**HON. JOHN M. XIFARAS** \*  
*RETIRED JUSTICE OF THE SUPERIOR COURT*

**ADMITTED TO PRACTICE**  
\*MASSACHUSETTS  
°DISTRICT OF COLUMBIA  
-RHODE ISLAND  
#FLORIDA

August 14, 2014

Dr. Carlos Santiago  
Senior Deputy Commissioner for Academic Affairs  
One Ashburton Place, Room 1401  
Boston, MA 02108

Dear Dr. Santiago:

I am writing you in regards to the Northeast Maritime Institute's (NMI) application for approval to offer an Associates Degree in Applied Nautical Science. NMI submitted an application in November 2013.

In the Department of Higher Education's (DHE) review of the November application, Ms. Shelley Tinkham, Assistant Commissioner for Academic, P-16 and Veterans Policy and the Visiting Committee identified various areas that must be improved upon before approval can be granted. NMI obtained my legal services to ensure compliance with both DHE's report and all applicable regulations, including the DHE's 610 CMR 2.07 and the Massachusetts Attorney General's 940 CMR 31.00.

Enclosed is a CD that contains amended application documents. NMI has taken steps internally to address DHE's feedback and recommendations, including hiring a full time Chief Academic Officer. Among the documents and policies amended are:

- Standard One: Mission, Planning, and Evaluation
  - Amended Bylaws to reflect
    - The Power of the Board to evaluate planning and NMI's progress towards achieving goals and
    - Creation of Institution Policy Making Committees that consist of broad stakeholder involvement.
- Standard Two: Organization and Governance
  - Amended Bylaws that reflect

*CFD still  
a trustee*

- Board oversight of the Division of Higher Education and Division of Continuing Education;
- Separation and independence between the Board of Trustees, the Administration, and the Faculty;
- The Chair of the Board of Trustees cannot be a shareholder or member of the senior staff;
- The hiring of Chief Academic Officer, Dr. Cynthia Stone;
- The hiring of several general education faculty members with higher education degrees and teaching and academic administration experience at the college level;
- The addition of a maritime and general education faculty member to the Institute Alliance Committee; and
- Policies that ensure compliance with the Massachusetts Attorney General's Regulations: Operating Fairly and Honestly in the Institute's Business Practices (940 CMR 31.00).
- A revised NMI Organizational Chart to reflect board oversight of the Division of Higher Education and Division of Continuing Education.
- Standard Three: Programs and Instruction
  - Adoption of the NEASC Policy on Credits and Degrees to ensure all general education and maritime classes meet the standards for college level work. Setting of the expectation that all faculty members know and understand the policy.
  - Amended Bylaws that reflect the creation of a curriculum committee with representation from the maritime and general education faculty members. Creation of the curriculum committee will ensure that outcomes assessment and continuous improvement occur as well as ensure faculty plays a significant role in degree and course requirements, assessments, and developments.
  - Adoption of the American Association of University Professors' Academic Freedom Policy.
  - Revised Syllabi to reflect unique and tailored grading and curriculum appropriate for each particular subject area.
  - Revised Associates Degree Program to reflect the MassTransfer Block's suggested core classes. Additionally, discussions have begun with the University of Massachusetts, Dartmouth's Chancellor, Divina Grossman, to sign a Memorandum of Understanding for a cross curriculum program for both NMI and UMass Dartmouth students.
- Standard Four: Faculty
  - The hiring of several general education faculty members with higher education degrees and experience teaching and academic administration at the college level.
  - A revised faculty table to reflect recent hires and show that no professor is teaching more than 15 credit hours per week.
  - Submission of general education faculty resumes.




*no new  
audit*

- Standard Five: Student Services
  - A copy of NMI's "Disability Services Policies and Procedures."
- Standard Six: Financial Resources
  - The hiring of a Chief Financial Officer, Angela Dawicki.
  - Amended Bylaws to ensure that the Chief Financial Officer is also not the Treasurer of NMI.
  - A revised budget projected to 2018 that reflects tuition and fee projections and various attrition rates. All the budget projections show financial stability and sustainability of NMI and the Division of Higher Education.
  - Clarification about the relationship between the Commonwealth of Dominica Maritime Registry (DMRI) and NMI.
- Standard Seven: Public Disclosure
  - An Amended Course Catalog that reflects the addition of tuition and fees, financial aid and scholarships, a list of faculty with credentials, and information about how the AAS program will align with prospective student educational and career goals.
  - NMI is prepared to publish the Course Catalog on its website as soon as approval from DHE is received. NMI's web designer has created a placeholder for the catalog and must merely "publish" it to the website.
- Standard Eight: Physical Resources
  - A copy of a Memorandum of Understanding between NMI and the Seaport Inn and Marina to provide room for NMI students.
- Standard Nine: Library and Information Resources
  - A revised overview and both short and long term plan of the Joshua Slocum Library, including, increasing the number of general education volumes available to students and forming an advisory council with external advisors.
  - A copy of the letter sent to Chancellor Grossman of UMass Dartmouth asking to execute a Memorandum of Understanding to allow NMI students to access the university's library holdings.

I am confident that NMI's amended application will meet the rigorous standards that the Department of Higher Education requires for approval. Please do not hesitate to contact me if you have any questions or need any further information. I can be reached at 508-992-1270.

Sincerely,

*Scott W. Lang*   
Scott W. Lang, Esq.

Law Offices  
LANG,  
XIFARAS & BULLARD  
115 Orchard Street  
Bedford, Massachusetts  
02740  
Telephone (508) 992-1270



- Standard One: Mission, Planning, and Evaluation
  - Amended Bylaws to reflect
    - The Power of the Board to evaluate planning and NMI's progress towards achieving goals and
      - **Attachments Binder/Attachment 6 (Bylaws)**
    - Creation of Institution Policy Making Committees that consist of broad stakeholder involvement.
      - **Attachments Binder/Attachment 6 (Bylaws)**
  
- Standard Two: Organization and Governance
  - Amended Bylaws that reflect
    - Board oversight of the Division of Higher Education and Division of Continuing Education;
      - **Attachments Binder/Attachment 6 (Bylaws)**
    - Separation and independence between the Board of Trustees, the Administration, and the Faculty;
      - **Attachments Binder/Attachment 6 (Bylaws)**
    - The Chair of the Board of Trustees cannot be a shareholder or member of the senior staff;
      - **Attachments Binder/Attachment 6 (Bylaws)**
    - The hiring of Chief Academic Officer, Dr. Cynthia Stone
      - **Attachments Binder/Attachment 6 (Bylaws)**
      - **Attachments Binder/Attachment 16 (CEO and CAO Information)**
    - The hiring of several general education faculty members with higher education degrees and teaching and academic administration experience at the college level
      - **Attachments Binder/Attachment 6 (Bylaws)**
      - **Attachments Binder/Attachment 11 (Faculty Information)**
    - The addition of a maritime and general education faculty member to the Institute Alliance Committee; and
      - **Attachments Binder/Attachment 6 (Bylaws)**
    - Policies that ensure compliance with the Massachusetts Attorney General's Regulations: Operating Fairly and Honestly in the Institute's Business Practices (940 CMR 31.00).
      - **Attachments Binder/Attachment 6 (Bylaws)**
  - A revised NMI Organizational Chart to reflect board oversight of the Division of Higher Education and Division of Continuing Education.
    - **Attachments Binder/Attachment 6 (Organizational Chart)**
  
- Standard Three: Programs and Instruction
  - Adoption of the NEASC Policy on Credits and Degrees to ensure all general education and maritime classes meet the standards for college level work. Setting of the expectation that all faculty members know and understand the policy.



- **Attachments Binder/Attachment 8 (Course Catalog)**
  - Amended Bylaws that reflect the creation of a curriculum committee with representation from the maritime and general education faculty members. Creation of the curriculum committee will ensure that outcomes assessment and continuous improvement occur as well as ensure faculty plays a significant role in degree and course requirements, assessments, and developments.
    - **Attachments Binder/Attachment 6 (Bylaws)**
  - Adoption of the American Association of University Professors' Academic Freedom Policy.
    - **Attachments Binder/Attachment 6 (Bylaws)**
    - **Attachment 8 (Course Catalog)**
  - Revised Syllabi to reflect unique and tailored grading and curriculum appropriate for each particular subject area.
    - **General Education Classes Binder/Exhibits 1-12**
    - **Maritime Education Classes Binder/Exhibits 3, 4, 6, 7, 11, 13**
  - Revised Associates Degree Program to reflect the MassTransfer Block's suggested core classes. Additionally, discussions have begun with the University of Massachusetts, Dartmouth's Chancellor, Divina Grossman, to sign a Memorandum of Understanding for a cross curriculum program for both NMI and UMass Dartmouth students.
    - **Attachments Binder/Attachment 10 (Course Curriculum and Graduation Requirements)**
- Standard Four: Faculty
  - The hiring of several general education faculty members with higher education degrees and experience teaching and academic administration at the college level.
    - **Attachments Binder/Attachment 11 (Faculty Information)**
  - A revised faculty table to reflect recent hires and show that no professor is teaching more than 15 credit hours per week.
    - **Attachments Binder/Attachment 11 (Faculty Information)**
  - Submission of general education faculty resumes.
    - **Attachments Binder/Attachment 11 (Faculty Information)**
- Standard Five: Student Services
  - A copy of NMI's "Disability Services Policies and Procedures."
    - **Attachments Binder/Attachment 17 (Disability Services and Policies and Procedures)**
- Standard Six: Financial Resources
  - The hiring of a Chief Financial Officer, Angela Dawicki.
  - Amended Bylaws to ensure that the Chief Financial Officer is also not the Treasurer of NMI.
    - **Attachments Binder/Attachment 6 (Bylaws)**

- A revised budget projected to 2018 that reflects tuition and fee projections and various attrition rates. All the budget projections show financial stability and sustainability of NMI and the Division of Higher Education.
  - **Attachments Binder/Attachment 13 (New Academic Budget Program)**
- Clarification about the relationship between the Commonwealth of Dominica Maritime Registry (DMRI) and NMI.
  - **Attachments Binder/Attachment 14 (Additional Financial Information)**
- Standard Seven: Public Disclosure
  - An Amended Course Catalog that reflects the addition of tuition and fees, financial aid and scholarships, a list of faculty with credentials, and information about how the AAS program will align with prospective student educational and career goals.
    - **Attachments Binder/Attachment 8 (Course Catalog)**
  - NMI is prepared to publish the Course Catalog on its website as soon as approval from DHE is received. NMI's web designer has created a placeholder for the catalog and must merely "publish" it to the website.
- Standard Eight: Physical Resources
  - A copy of a Memorandum of Understanding between NMI and the Seaport Inn and Marina to provide room for NMI students.
    - **Attachments Binder/Attachment 19 (MOU between the Seaport Inn and Marina and NMI)**
- Standard Nine: Library and Information Resources
  - A revised overview and both short and long term plan of the Joshua Slocum Library, including, increasing the number of general education volumes available to students and forming an advisory council with external advisors.
    - **Attachments Binder/Attachment 20 (Overview of Joshua Slocum Library)**
  - A copy of the letter sent to Chancellor Grossman of UMass Dartmouth asking to execute a Memorandum of Understanding to allow NMI students to access the university's library holdings.
    - **Attachments Binder/Attachment 20 (Overview of Joshua Slocum Library)**

## BOARD OF HIGHER EDUCATION

December 2017

### Northeast Maritime Institute, Inc. Associate in Applied Science in Nautical Science

#### BACKGROUND

Northeast Maritime Institute (NMI), located in Fairhaven, Massachusetts is a private, for-profit, post-secondary education institution offering training for maritime careers. In October 2014, the Board conditionally approved the Articles of Amendment for NMI to offer an Associate in Applied Science in Nautical Science, subject to three stipulations: first, that the Department would commission an external committee review of the continued progress of NMI towards meeting all standards of 610 CMR 2.00, to be completed by June 30, 2015; second, that NMI would post on its website a notice regarding the conditional nature of the Board's approval; and third, that NMI would enroll a relatively small cohort of no more than 11 students in January 2015. (See **Attachment A, AAC 15-09**)

NMI complied with stipulations #2 and #3 (the January 2015 cohort began with six students but dropped to four by mid-semester).

In order to evaluate NMI's compliance with stipulation #1, the DHE assembled a visiting committee comprised of members Elizabeth True, Ed.D., Vice President for Student Affairs and Enrollment Management, Maine Maritime Academy; CDR Michael Turdo, Branch Chief, Professional Maritime Studies, U.S. Coast Guard Academy; and Rachel Trant, Director of Fiscal Affairs, Framingham State University. Dr. True served as the Chair.

The visiting committee reviewed NMI's original written proposal for approval to offer the AAS degree, the report submitted by the previous visiting committee, and a site visit on May 5-7, 2015. During this visit, the committee visited all facilities, administrative offices, classrooms, labs, and the library and also had the opportunity to review syllabi, procedures and policies, and NMI's website in addition to other written and published materials. Additional information was obtained from direct communication with the NMI administration, faculty, staff, and students including: President, Chief Academic Officer, Chief Financial Officer, Director of the Nautical Science Program, Director of Continuing Education, Director of Multimedia, Director of Admissions/Registrar, admissions staff, and students from the AAS program and the continuing education program, and several adjunct faculty. A Department representative was also present during the site visit.

The visiting committee was asked to investigate and evaluate the following standards: integrity of the proposed program (admission and degree requirements, curriculum, level of instruction, courses, evaluation of student performance, program outcomes, etc.); administration and governance of the proposed program within the context of the institution; fiscal ability of the institution to mount and sustain the program; selection, qualifications, and role of faculty; adequacy of human and physical resources to support the program, students, and faculty; degree nomenclature; and overall readiness of the institution to offer the program.

The visiting committee issued a report on June 12, 2015. (See **Attachment B**) In its report, the visiting committee noted improvement in some of the areas cited in the Board's conditional

approval; however, it determined that it had insufficient data to properly review NMI's progress toward meeting the requirements of 610 CMR 2.07(3)(f) regarding institutional financial resources. Specifically, the visiting committee noted that the unavailability of any financial statements for FY14 and the lack of audited financial statements for FY13, combined with inconsistent annual financial statement information and a significant corporate action separating NMI's related non-educational services entity from the institution, gave the visiting committee no way to determine past fiscal health and any trends in financial position.

As such, the visiting committee recommended the continuation of the conditional status of NMI's degree program "until sufficient financial information is provided to the Board of Higher Education to assure that the standard on financial resources is met." The visiting committee also instructed NMI to prepare and submit FY14 audited financial statements within 60 days from the date of the report.

The audited financial statements were submitted to the Department in August 2015 and were reviewed by the visiting committee, which determined that its recommendations and concerns as expressed in the June 2015 report were ongoing. (See **Attachment C**) As a result, in a letter dated November 24, 2015, the Department continued NMI's conditional approval "until sufficient financial information is provided to the DHE to assure that Standard 2.07(f) is met." (See **Attachment D**) The letter further instructed NMI to continue to update the Department on its progress in meeting the visiting committee's recommendations concerning financial responsibility and stability and that, when NMI has shown that it is in compliance with Standard 2.07(f), the Board would conduct a formal vote whether to approve or disapprove NMI's request to lift the conditional status of NMI's authority to award the Associate in Applied Science in Nautical Science.

In July 2017, NMI submitted a request that the Board grant full approval of its degree program. In support of this request, NMI provided audited financial statements for FY16 and FY15, along with a financial review report which mirrors and updates the analysis issued by the visiting committee in 2015. (See **Attachment E**) NMI seeks the removal of its conditional approval at least in part because it cannot achieve accreditation while it is on conditional status with the Commonwealth, and without accreditation, NMI students cannot access federal financial aid, GI Bill funds, or other sources of tuition assistance.

## **ANALYSIS**

In 2015, the visiting committee analyzed the following financial positions and ratios, based on FY14 financials, to come to its conclusion:

- Net Loss from Operations
- Primary Reserve Ratio
- Return on Net Assets
- Net Income Ratio
- Viability Ratio & Debt Burden Ratio

The visiting committee also analyzed the Composite Financial Index (CFI) to evaluate the institution's overall financial health.

### **1. Net Loss from Operations**

In 2015, the visiting committee noted that the FY14 Net Loss from Operations was \$445,176 on overall revenue of \$999,914, with a significant loss from operations. In

FY16, NMI showed a Net *Income* from Operations at \$47,720 on overall revenue of \$1,627,395, a significant improvement. NMI noted that it has experienced a considerable increase in enrollment, which has led to greater tuition income.

## **2. Primary Reserve Ratio**

The Primary Reserve Ratio (Unrestricted and Expendable Net Equity divided by Total Operating Expenses) was measured in FY14 at 24.8%, just shy of the Department benchmark of 25% (which indicates that an institution has at least three months' of available resources to cover expenditures). In NMI's FY16 report, the Primary Reserve Ratio was calculated at 36.48%, a marked increase and surpassing the Department's benchmark level.

## **3. Return on Net Assets**

The Return on Net Assets (Net Income divided by Fixed Assets and Net Working Capital) demonstrates how the institution uses its assets to generate earnings. In FY14, the visiting committee calculated that measure at -16.5%, whereas the FY16 calculation is at 5.8%.

## **4. Net Income Ratio**

The Net Income Ratio (Net Operating and Non-Operating Income over Total Operating and Non-Operating Income, as a measure of effective income generation) was calculated in FY14 at -20.9%, due to aforementioned operating losses. For FY16, given the increase in operating income, that calculation is now at 6.7%.

## **5. Viability Ratio & Debt Burden Ratio**

The visiting committee calculated two ratios associated with debt capacity: the Viability Ratio (Unrestricted and Expendable Net Position divided by Total Long Term Debt) and the Debt Burden Ratio (Annual Debt Service Expense divided by Total Operating Expenses). For FY14, the Viability Ratio was 1.5, and according to the visiting committee, that indicates "adequate debt capacity using this indicator." The Debt Burden Ratio, which standards dictate should stay below 5%, was measured at 4.6%, showing "some, but limited additional debt capacity under this measure."

In FY16, the Viability Ratio for NMI was measured at 1.7, which indicates (as it did in 2015) adequate debt capacity. The Debt Burden Ratio was calculated at 2.2%, allowing for greater debt capacity than in 2015.

## **6. Composite Financial Index (CFI) Analysis**

The final measure of financial analysis relied upon by the visiting committee in its 2015 report is the Composite Financial Index (CFI) Analysis, which "is a measure of the Institution's overall financial health based on the sufficiency and flexibility of resources, the management of debt, the performance of assets, and the results of operations. The CFI provides a more complex picture of the financial health of an institution at a point in time than is possible by simply comparing multiple indicators." These factors calculate ratios with relative strength of each as well as relative importance, and results in a composite score, on a scale of -4 to 10. These scores are analyzed as follows:



<b>CFI Score</b>	<b>Determination</b>
-4 to -2	Consider whether financial exigency is appropriate
-3 to 1	Structure programs to conserve cash and thus survive
1 to 3	Consider substantial program adjustments
3 to 5	Direct resources toward transformation
5 to 7	Focus resources to compete in future
7 to 9	Experiment with initiatives; design a robust mission
9 to 10	Deploy resources to achieve robust mission

In the visiting committee's 2015 analysis, NMI's CFI was computed at -1.35, which the visiting committee concluded "places NMI in a precarious position, where financial viability is questionable."

NMI's CFI for FY16, based upon their calculations, is 2.86. This score is lower than the threshold score of 3.0, which, according to the visiting committee, "is considered the threshold for financial health indicating that an institution has sufficient and adequately managed resources to fulfill its mission objectives." However, it is above the 25th percentile (a score of 2.1), represents a significant improvement over the course of two fiscal years. NMI posits that, while this CFI score still puts the institution into a category where it should "consider substantial program adjustments", it reflects the newness of the program, and the score will continue to improve given actual and projected increases in enrollments and revenue which will follow NMI's pursuit of accreditation with NEASC and its students' resulting ability to access federal financial aid and other sources of tuition assistance.

NMI's report notes that the only recommendation from the visiting committee that NMI has not satisfied is that the institution hire a Chief Financial Officer. Currently, NMI's President, Chief Operating Officer, and Chief Academic Officer/Financial Manager meet weekly to review the institution's financial statements and positions, and NMI reports that it is waiting until it is stronger financially before hiring a full time person at a high pay rate.

Based upon the Department's review of the materials submitted by NMI and its analysis of NMI's current position relative to its position at the time of the visiting committee's report in 2015, staff concludes that NMI is taking its financial stability and responsibility seriously, that it has notably improved its financial position, and that it is committed to continuous improvements in this area.

## **RECOMMENDATION**

The fundamental question at this juncture is whether NMI has established sufficient financial stability as required by 610 CMR 2.07(3)(f) that the Board can remove the conditional restriction on its authority to grant the AAS degree and permit NMI to grant the degree unconditionally.

**Staff recommend that the Board of Higher Education grant NMI's request that the conditions placed upon its authority to grant the Associate in Applied Science in Nautical Science degree by AAC 15-09 be removed and its degree-granting authority be unconditional.**