

COLLEGE OF MICRONESIA-FSM
(A COMPONENT UNIT OF THE
FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT)

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

SEPTEMBER 30, 2010 AND 2009

COLLEGE OF MICRONESIA-FSM
(A COMPONENT UNIT OF THE FSM NATIONAL GOVERNMENT)

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INDEPENDENT AUDITORS' REPORT

Board of Regents
College of Micronesia-FSM:

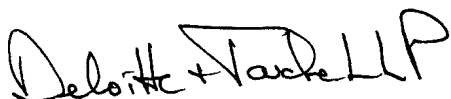
We have audited the accompanying statements of net assets of the College of Micronesia-FSM, a component unit of the FSM National Government, as of September 30, 2010 and 2009, and the related statements of revenues, expenses and changes in net assets and of cash flows for the years then ended. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the College of Micronesia-FSM as of September 30, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 2 through 10 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the College's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 14, 2011, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



June 14, 2011

COLLEGE OF MICRONESIA-FSM

Management's Discussion and Analysis September 30, 2010 and 2009

The Management's Discussion and Analysis (MD & A) is supplementary information required by the Government Accounting Standards Board 35 (GASB 35) on reporting model. The preparation of MD & A is the responsibility of the management of COM-FSM, and it is designed to help readers in understanding the accompanying financial statements and the accompanying notes to the financial statements.

INSTITUTION BACKGROUND

The College of Micronesia-FSM (COM-FSM) is a multi-campus institution and serves as the only higher education facility in the Federated States of Micronesia (FSM). The COM-FSM has a network of six college campuses located in four different islands in the Western Pacific. The main campus (referred to as the National campus) is located in Palikir, Pohnpei. The other college sites are state campuses in Pohnpei (Kolonia Town), Kosrae, Yap and Chuuk. FSM Fisheries and Maritime Institute (FSM – FMI), the sixth campus, is located in Yap State.

COM – FSM is a public corporation of FSM established by Public Law 7 – 79 on September 25, 1992 and is considered a component unit of the FSM National Government. The governing body for the general management and control of COM – FSM is the five-member Board of Regents appointed by the FSM President with the advice and consent of the FSM Congress. The President of the College, appointed by the Board of Regents, has the full charge and control in the administration and business affairs of the College.

COM – FSM is accredited by the Accrediting Commission for Community and Junior Colleges (ACCJC) of the Western Association of Schools and Colleges, an institutional accrediting body recognized by the Commission on Recognition of Post-secondary Accreditation and the U.S. Department of Education. Accreditation was awarded to the College in 1978 and reaffirmed in 1982, 1987, 1992, 1998 and June, 2005. The ACCJC conducted the accreditation visit on April, 2010 and placed the College on the warning status. A recent follow – up visit by the ACCJC team occurred on April, 2011 and results of the follow – up will be received after three months.

COM-FSM MISSION

The mission statement of the College adopted by the Board of Regents in its September 2005 meeting reads:

“Historically diverse, uniquely Micronesian, and globally connected, the College of Micronesia-FSM is a continuously improving and student centered institute of higher education. The College is committed to assisting in the development of the Federated States of Micronesia by providing academic, career and technical education opportunities for student learning.”

The College's mission statement links with the FSM Strategic Development Plan (SDP) under the strategic goal “To allow FSM students to complete postsecondary education to assist in the economic development of the FSM”.

The College's mission statement was revisited by the College community as part of the discussions during the presidential retreat last year.

OVERVIEW OF FISCAL YEAR 2010

COM – FSM awards associate degrees to students who complete a prescribed two-year program of study. The time is extended for students who need to complete preparation classes before beginning the degree program. The College offers six Associate of Arts degrees, eight Associate of Science degrees and three Associate of Applied Science degrees. The College also awards certificates of achievement to students who complete a prescribed one – year program of study. There are seven third – year Certificates of Achievement and fourteen other Certificates of Achievement. Other short – term certificate programs are also offered at the state campuses in response to expressed local needs.

COLLEGE OF MICRONESIA-FSM

Management's Discussion and Analysis September 30, 2010 and 2009

The College enrolled 7,327 students in degree and certificate programs across all campuses for fall 2009, spring 2010 and summer 2010. The National campus enrolled 2,788 students or 38%, Pohnpei campus enrolled 1,793 students or 25%, Chuuk campus enrolled 1,493 students or 20%, Kosrae campus enrolled 595 students or 8%, and Yap campus enrolled 658 students or 9%. The College enrollment has increased by 1,047 students or by 17% compared with the budget, and by 930 students or by 15% compared with prior year.

FSM – FMI served 113 students for school year 2010, 33 students for fall 2009, 34 students for spring 2010 and 46 students for summer 2010. The enrollment of FSM – FMI for the fiscal year 2010 indicated an increase of only 2 students.

The financial resources for the operations of the College are derived from tuition and other fees, and subsidies from the FSM National Government. The College continues to administer the U.S. Federal Pell Grant Scholarship Aid (Pell Grant) Program, and about 85% of the students received scholarship awards from Pell Grant. For fiscal year 2010, the amount of Pell Grants to students was \$14.565 million of which \$8.219 million or 56% of the Pell Grant award was used by the students to pay tuition and fees at the College. The subsidy from FSM government which is part of the Education Sector grant from U.S. Department of the Interior (Compact of Free Association II) was \$3.8 million. In addition, the College received other grants from U.S. Department of the Interior consisting of \$659k for Supplemental Education Grant, \$301k for Infrastructure Maintenance and \$107k for Family Planning.

The U.S. Department of Education continues to provide competitive grants to support and assist the College. The College received \$1.113 million from upward bound, \$258k from talent search and \$234k from student support services programs. The College also received \$178k from U.S. Department of Health and Human Services, and \$105k from U.S. Department of Agriculture for various programs.

FINANCIAL STATEMENTS ANALYSIS

The College implemented financial reporting standards for public colleges and universities in accordance with Government Accounting Standards Board (GASB) principles in fiscal year 2003. The funds are presented in consolidated financial statements as a whole, rather than on the fund basis used prior to fiscal year 2003. The adoption of the GASB principles provides financial reporting of the following three basic financial statements:

1. Statement of Net Assets (SNA)

The SNA presents what the College owns (assets), owes (liabilities) and the net assets (the difference between total assets and total liabilities) at the end of the fiscal year. The net assets is one indicator of the current financial condition of the College, while the change in net assets is an indicator of whether the overall financial condition has improved or worsened during the year.

A Comparative Statement of Net Assets at September 30, 2010, 2009 and 2008 is summarized below:

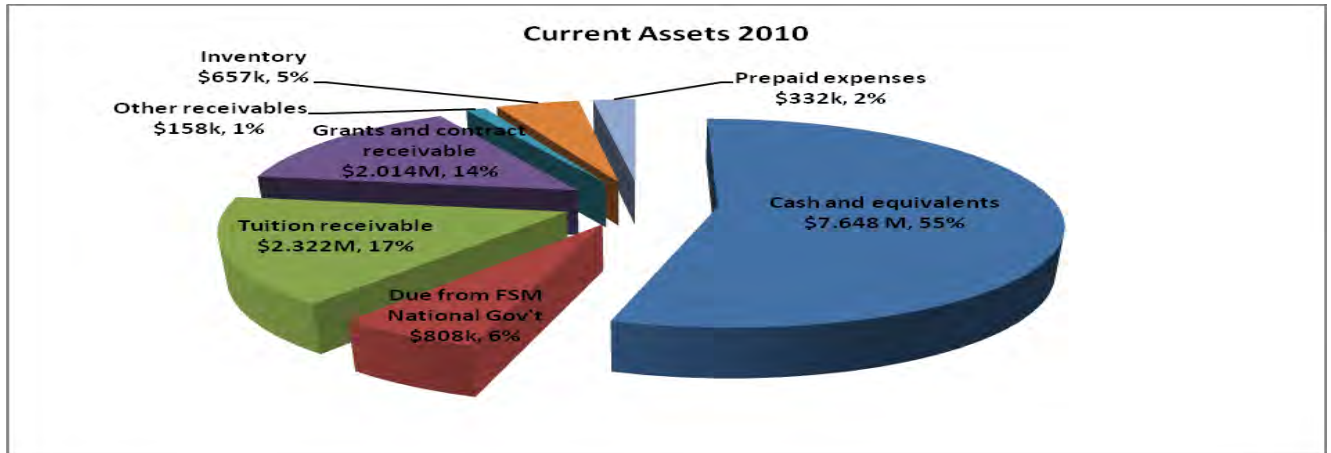
	FY 2010 (In 000's)	FY 2009 (In 000's)	Difference (In 000's)	FY 2008 (In 000's)
Assets:				
Current assets	\$ 13,939	\$ 11,539	\$ 2,400	\$ 9,758
Noncurrent asset	<u>13,563</u>	<u>13,863</u>	<u>(300)</u>	<u>14,452</u>
Total assets	<u>27,502</u>	<u>25,402</u>	<u>2,100</u>	<u>24,210</u>
Liabilities:				
Current liabilities	4,420	4,052	368	3,945
Noncurrent liabilities	<u>263</u>	<u>258</u>	<u>5</u>	<u>238</u>
Total liabilities	<u>4,683</u>	<u>4,310</u>	<u>373</u>	<u>4,183</u>
Net assets	\$ <u>22,819</u>	\$ <u>21,092</u>	\$ <u>1,727</u>	\$ <u>20,027</u>

COLLEGE OF MICRONESIA-FSM

Management's Discussion and Analysis September 30, 2010 and 2009

The comparison of the statement of net assets for fiscal year 2010 with prior year shows an increase in net assets of \$1.727 million.

Current assets: Total current assets has increased by \$2.400 million, from \$11.539 million in fiscal year 2009 to \$13.939 million in current fiscal year 2010. Below is the composition of current assets for fiscal year 2010:



The increase by \$2.400 million in current assets consists of the following changes:

- Increase in cash and equivalents by \$707k or 10%;
- Increase in due from FSM National Government by \$351k or 77%;
- Increase in grants and contract receivable by \$1.527 million or 313%;
- Increase in prepaid expenses by \$121k or 57%;
- Decrease in tuition receivable by \$205k or -8%;
- Decrease in other receivables by \$4k or -3%;
- Decrease in inventory by \$97k or -13%

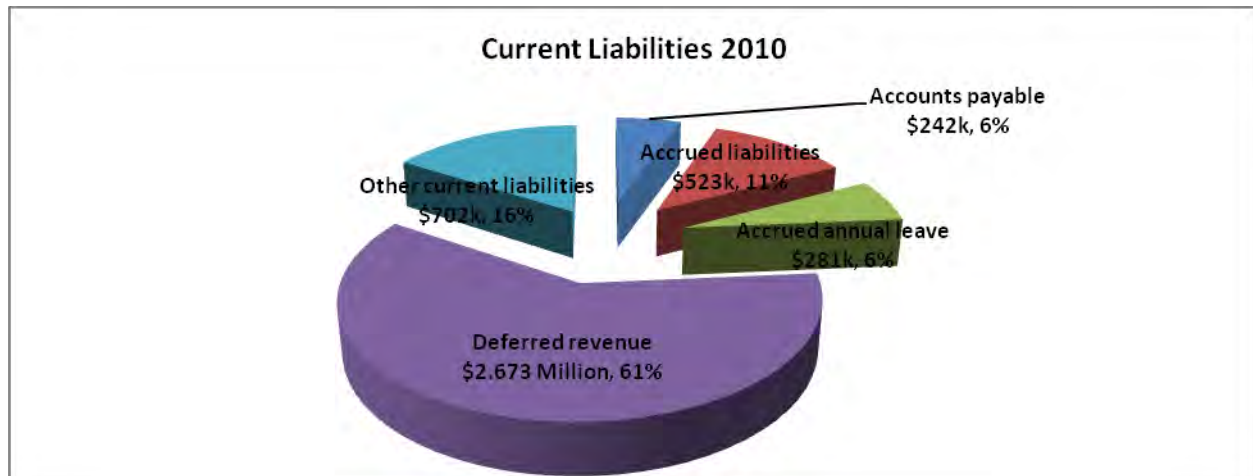
Noncurrent assets: Noncurrent assets decreased by \$299k from \$13.862 million in fiscal year 2009 to \$13.563 million in current fiscal year 2010. The reduction is the net effect of the increase in investments by \$226k and a decrease in capital assets by \$525k. Below is the graph for the breakdown of noncurrent assets:



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Management's Discussion and Analysis
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Current liabilities: Current liabilities increased by \$368k or 9%, from \$4.052 million to \$4.420 million. The composition of current liabilities is presented in the following graph:



The net increase in current liabilities by \$368k consists of the following:

- Increase in other current liabilities by \$449k or 177%;
- Increase in accrued liabilities and accrued annual leave by \$38k or 5%;
- Decrease in deferred revenue by \$108k or -4%;
- Decrease in accounts payable by \$11k or -4%.

Noncurrent liability: The noncurrent liability of \$263k represents the long – term portion of accrued annual leave which indicates a slight increase of \$5k or 2%.

Net Assets: Net assets represent the residual interest in the College's assets after liabilities are deducted. The College's net assets for fiscal year 2010 are \$22.819 million which is higher by \$1.728 million compared with \$21.091 million in fiscal year 2009. Below is the breakdown of the College's net assets categorized according to the reporting model of GASB:

	FY 2010 (In 000's)	FY 2009 (In 000's)	Difference (In 000's)	FY 2008 (In 000's)
Invested in capital assets	\$ 10,463	\$10,988	(\$ 525)	\$11,674
Restricted:				
Nonexpendable	3,100	2,874	226	2,778
Unrestricted	<u>9,256</u>	<u>7,229</u>	<u>2,027</u>	<u>5,575</u>
Total	<u>\$ 22,819</u>	<u>\$21,091</u>	<u>\$ 1,728</u>	<u>\$20,027</u>

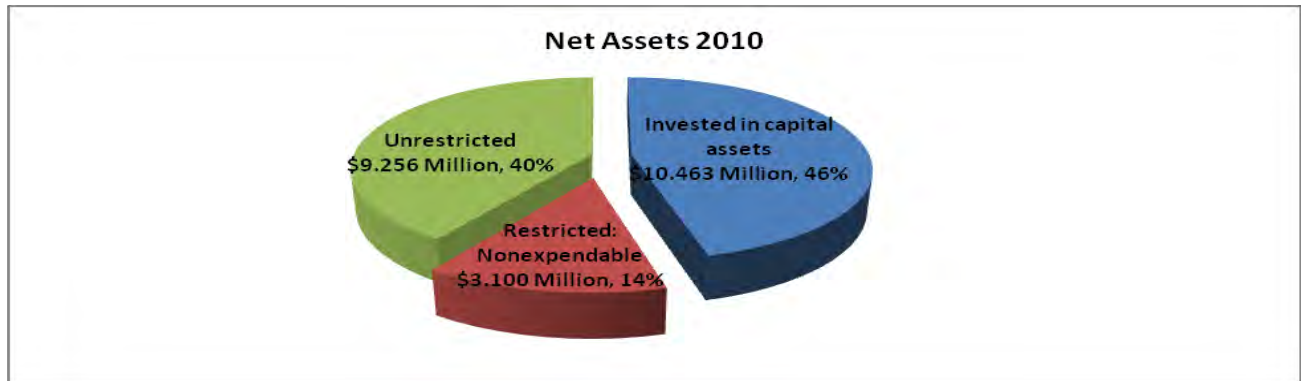
The net change in net assets of \$1.728 Million consists of the following:

1. The decrease in invested in capital assets of \$525k or 5% represents wear and tear of physical assets for fiscal year 2010;
2. The increase by \$226k or 8% in restricted – nonexpendable net assets represents unrealized market gains from the endowment fund;
3. The increase in unrestricted net assets of \$2.027 million or 28% represents the positive fund balance change from the operations of the College for fiscal year 2010

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Management's Discussion and Analysis September 30, 2010 and 2009

The graph for the breakdown of the \$22.819 million net assets for fiscal year 2010 is illustrated below:

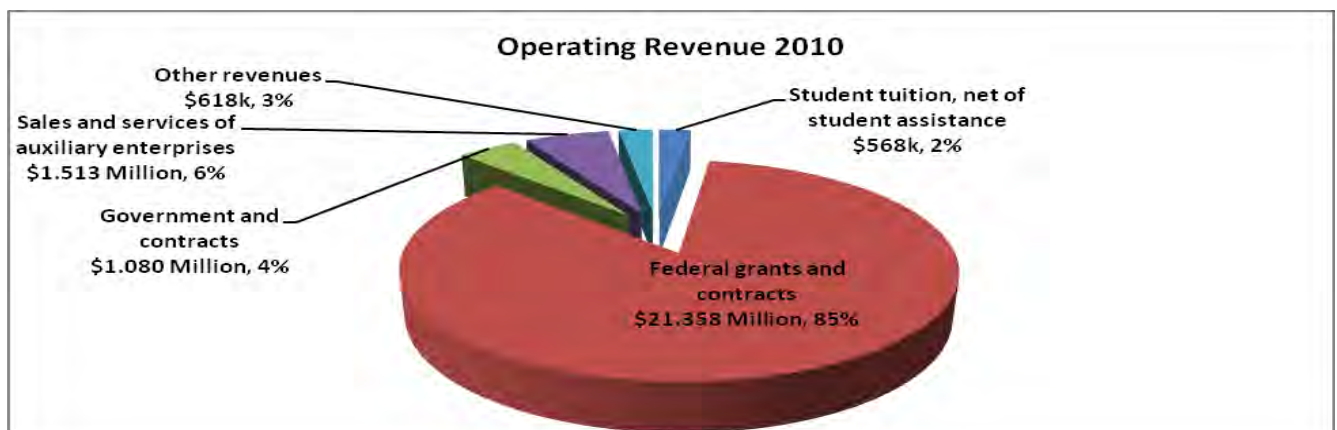


2. Statement of Revenues, Expenses and Changes in Net Assets (SRECNA)

The SRECNA provides information on the College's financial performance for the current fiscal year in terms of revenues and expenses. It presents the operating revenues and expenses and the corresponding net operating results, as well as non-operating revenues and expenses and net change in net assets. Below is the comparative summary of SRECNA for fiscal years ended September 30, 2010, 2009 and 2008:

	FY 2009 (In 000's)	FY 2009 (In 000's)	Difference (In 000's)	FY 2008 (In 000's)
Operating revenues	\$ 25,137	\$ 23,299	\$ 1,838	\$ 19,481
Operating expenses	<u>23,635</u>	<u>22,311</u>	<u>1,324</u>	<u>20,634</u>
Operating earnings (loss)	1,502	988	514	(1,153)
Nonoperating revenue (expense)	<u>226</u>	<u>76</u>	<u>150</u>	<u>(421)</u>
Net increase (decrease) in net assets	1,728	1,064	664	(1,574)
Net assets at beginning of year	<u>21,091</u>	<u>20,027</u>	<u>1,064</u>	<u>21,601</u>
Net assets at end of year	\$ <u><u>22,819</u></u>	\$ <u><u>21,091</u></u>	\$ <u><u>1,728</u></u>	\$ <u><u>20,027</u></u>

Operating revenues: The composition of operating revenue of \$25.137 million for fiscal year 2010 is presented in the following graph:



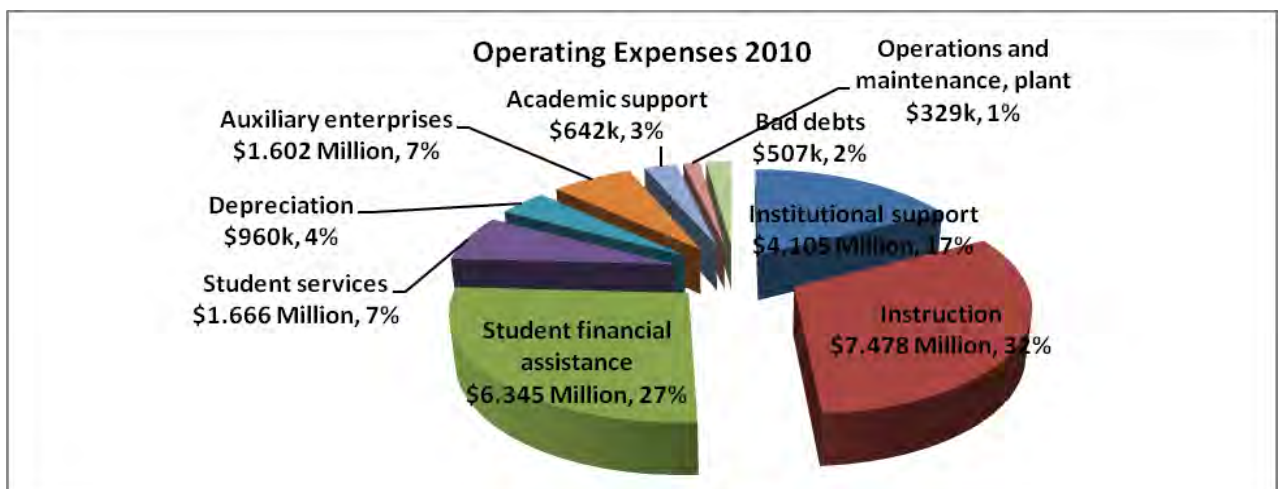
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Compared with fiscal year 2009, the operating revenue for fiscal year 2010 indicated an increase \$1.838 million or 8% consisting of the following changes:

- Increase in federal grants and contracts by \$3.147 million or 17%;
- Increase in sales and services of auxiliary enterprises by \$32k or 2%;
- Increase in other revenues by \$295k or 92%.
- Decrease in government and contracts by \$1.295 million or -55%; and
- Decrease in student tuition by \$342k or -38%.

Operating expenses: The College's operating expenses for fiscal year 2010 is \$23.636 million. Below is graph for the breakdown of operating expenditures:



The total operating expenses of \$23.636 million indicates a net increase by \$1.324 million compared with prior fiscal year. The net increase consists of the following changes:

- Increase in student financial assistance by \$988k or 18%;
- Increase in instruction by \$361k or 5%;
- Increase in bad debts by \$355k or 232%;
- Increase in operations and maintenance by \$218k or 196%;
- Increase in student services by \$84k or 5%;
- Decrease in institution support by \$405k or -9%;
- Decrease in auxiliary enterprises by \$102k or -6%;
- Decrease in depreciation by \$101k or -10%;
- Decrease in academic support by \$75k or -10%.

Nonoperating loss: The College endowment fund generated an unrealized market gain of \$226k or an increase of \$150k or 197% compared with prior year.

Net change in net assets: The result of the College's financial performance for fiscal year 2010 is a net increase in net assets by \$1.728 million. The net increase is primarily from the increase in the number of students as a result of the increase in federal grants and contracts due to the one – year round Pell Grant policy.

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Management's Discussion and Analysis
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3. Statement of Cash Flows (SCF)

The SCF presents information about changes in the College's cash position using the direct method of reporting sources and uses of cash. The direct method reports all major cash inflows and outflows at gross amounts, differentiating these activities into cash flows arising from operating activities, noncapital financing, capital and related financing, and investing.

The SCF indicates a balance in cash and equivalents of \$7.648 million at end of fiscal year 2010. The fiscal year - end balance reflects an increase by \$707k or 10% compared with fiscal year 2009 balance of \$6.941 million.

Below is the summary Statement of Cash Flows:

	FY 2010 (In 000's)	FY 2009 (In 000's)	Difference (In 000's)	FY 2008 (In 000's)
Provided by (used in) operating activities	\$ 1,141	\$ 2,762	(\$ 1,621)	(\$ 516)
Provided by noncapital financing activities	-	-	-	-
Used in capital and related financing activities	(434)	(374)	(60)	(1,057)
Provided by (used in) investing activities	<u>-</u>	<u>(21)</u>	<u>21</u>	<u>54</u>
Net change in cash and cash equivalents	707	2,367	(1,660)	(1,519)
Cash and cash equivalents at beginning of year	<u>6,941</u>	<u>4,574</u>	<u>2,367</u>	<u>6,093</u>
Cash and cash equivalents at end of year	<u>\$ 7,648</u>	<u>\$ 6,941</u>	<u>\$ 707</u>	<u>\$ 4,574</u>

The increase in cash and equivalents was from the positive results of operations and reduction of non - cash assets.

BUDGET INFORMATION

Planning and Resources Committee is responsible in the development of the College's budgets in coordination with campuses and offices. Budgets that are funded by FSM government are transmitted to FSM Executive Budget Review Committee and FSM Congress for approval and appropriation.

The budgets of the College include the following:

1. \$10.940 million – for the administration and management of the College wherein \$3.800 million is appropriation from FSM National Government funded by Compact of Free Association II.
2. \$655k – for the administration and management of the FSM – FMI at Yap State funded by FSM National Government.
3. \$684k – for work study, supplemental education opportunity grant and teacher corps programs funded by Compact of Free Association II through FSM National Government.
4. \$65k – for the operations of the Board of Regents of the College funded by FSM National Government.
5. \$285k – for the operating expenditures of cafeteria and bookstore funded by the operations' service charges.

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CAPITAL ASSETS AND LONG-TERM DEBT ACTIVITY

At September 30, 2010, the College's net investment in capital assets is \$10.463 million, net of accumulated depreciation. Depreciation for the current year totaled \$960k, and capital additions for furniture, equipment and vehicles totaled \$434k. For additional information regarding capital assets, please refer to Note 6 to the financial statements.

The long-term debt of the College represents accrued annual leave of \$263k. The College provides accumulation of annual leave balance, wherein accumulated leave of not exceeding 240 hours shall be paid to the employee upon resignation/termination of employment.

The College has no other long-term debt as of the end of fiscal year 2010.

Management's Discussion and Analysis for the years ended September 30, 2009 and 2008, is set forth in the College's report on the audit of the financial statements, which is dated June 28, 2010, and that Discussion and Analysis explains the major factors impacting 2009 and 2008. To learn more about the College or to clarify matters in the Management's Discussion and Analysis, please contact Ringlen Ringlen, Interim President or Danilo V. Dumantay, Comptroller at email addresses rringlen@comfsm.fm or comptroller@comfsm.fm, respectively or please write us at P.O. Box 159, Kolonia, Pohnpei, FSM 96941.

ECONOMIC OUTLOOK

The College's sources of revenue are tuition and other fees from students receiving financial assistance from U.S. Federal Student Aid programs, and from the annual subsidy from FSM National Government. The subsidy is under the Education Sector Grant of the Compact of Free Association between the Government of the United States of America and the Government of the FSM (Compact of Free Association II).

The U.S. Federal Student Aid programs are from the U.S. Department of Education under the U.S. Public Law 99 – 239. The U.S. Department of Education, Federal Student Aid renewed the Program Participation Agreement for the College through March 31, 2014. In school year 2009 – 2010, about 85% of the students at the College received financial assistance from U.S. Federal Student Aid programs. The College's projection of the percentage of students receiving financial assistance from U.S. Federal Student Aid programs will be at the range of 80% to 90% in the next couple of years.

The College's accreditation was reaffirmed until June 2010 by the Accrediting Commission for Community and Junior Colleges (ACCJC) of the Western Association of Schools and Colleges (WASC). On April, 2010, the ACCJC conducted the accreditation visit and placed the College on warning status. A follow – up visit by the ACCJC team occurred on April, 2011 and results of the follow – up will be received in the next few months. The College is continuously addressing the recommendations of the accrediting commission. Nevertheless, the College remains accredited and continues to receive and administer U.S. Federal Student Aid programs for eligible students.

The College is expected to receive continued support at the same level of funding assistance in succeeding years from the FSM National Government through Compact of Free Association II. The continued funding support of at least \$3.8 Million per year, and the continued U.S. Federal Student Aid programs to FSM students will enable the administration to plan for the future of the College.

COLLEGE OF MICRONESIA-FSM

Management's Discussion and Analysis September 30, 2010 and 2009

The College's endowment fund started in 1997, has the goal of growing in size to provide the long-term financial stability of the College. The board and administration started soliciting assistance from businesses in Guam to generate the annual fund raising target of the endowment fund. The College is in the process of creating a foundation for the College's endowment.

The College is continuously assessing the recruitment and retention plan to increase enrollment and retention rate. The current fiscal year indicated an increase in the enrollment compared with prior year, and with the current year projection. The year – round U.S. Federal Student Aid program was the primary factor for the increase in enrollment.

The College implemented a streamlined structure with a new compensation model. The new structure and compensation model is expected to address the challenges of the College. The administration is in the process of reviewing the reporting system of the streamlined structure.

The College is continuously assessing all possible opportunities on the military build up in Guam for the next ten years. Partnerships with employers of private and public corporations, employer associations and governments of Guam and U.S. are still an ongoing process to explore opportunities that can be beneficial to the College and to the community.

COLLEGE OF MICRONESIA-FSM
(A COMPONENT UNIT OF THE FSM NATIONAL GOVERNMENT)

Statements of Net Assets
September 30, 2010 and 2009

<u>ASSETS</u>	<u>2010</u>	<u>2009</u>
Current assets:		
Cash and cash equivalents	\$ 7,648,568	\$ 6,941,437
Due from FSM National Government	808,546	457,249
Tuition receivable, net	2,321,790	2,526,713
Grants and contracts receivable - U.S. Government (net of allowance for doubtful accounts of \$21,090 and \$66,539 for 2010 and 2009, respectively)	2,013,761	487,098
Other receivables (net of allowance for doubtful accounts of \$278,393 and \$156,472 for 2010 and 2009, respectively)	157,674	162,121
Inventory	656,662	753,306
Prepaid expenses	331,917	211,303
Total current assets	<u>13,938,918</u>	<u>11,539,227</u>
Noncurrent assets:		
Investments	3,100,271	2,874,388
Capital assets, net of accumulated depreciation	10,462,881	10,988,131
Total noncurrent assets	<u>13,563,152</u>	<u>13,862,519</u>
Total assets	<u>\$ 27,502,070</u>	<u>\$ 25,401,746</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Accounts payable	\$ 241,841	\$ 252,790
Accrued liabilities	522,550	497,228
Accrued annual leave	280,917	267,843
Deferred revenue	2,672,736	2,780,640
Other current liabilities	702,052	253,246
Total current liabilities	<u>4,420,096</u>	<u>4,051,747</u>
Noncurrent liabilities:		
Long-term portion of accrued annual leave	<u>263,249</u>	<u>258,652</u>
Total liabilities	<u>4,683,345</u>	<u>4,310,399</u>
Commitments and contingencies		
Net assets:		
Invested in capital assets	10,462,881	10,988,131
Restricted:		
Nonexpendable	3,100,271	2,874,388
Unrestricted	9,255,573	7,228,828
Total net assets	<u>22,818,725</u>	<u>21,091,347</u>
Total liabilities and net assets	<u>\$ 27,502,070</u>	<u>\$ 25,401,746</u>

See accompanying notes to financial statements.

COLLEGE OF MICRONESIA-FSM
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Statements of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2010 and 2009

	2010	2009
Operating revenues:		
Student tuition and fees	\$ 8,787,074	\$ 7,411,172
Less: Scholarship discounts and allowances	(8,219,499)	(6,502,060)
	567,575	909,112
Federal grants and contracts	21,358,231	18,211,514
Government grants and contracts	1,079,808	2,374,825
Sales and services of auxiliary enterprises	1,513,480	1,481,226
Other revenues	618,029	322,664
	25,137,123	23,299,341
Total operating revenues		
Less bad debts	(507,473)	(152,958)
	24,629,650	23,146,383
Net operating revenues		
Operating expenses:		
Institutional support	4,104,975	4,509,999
Instruction	7,478,232	7,116,884
Student financial assistance	6,345,270	5,356,752
Student services	1,666,403	1,582,537
Depreciation	959,521	1,060,758
Auxiliary enterprises	1,601,957	1,703,459
Academic support	641,995	716,689
Operations and maintenance, plant	329,802	111,406
	23,128,155	22,158,484
Total operating expenses		
Operating earnings	1,501,495	987,899
Nonoperating revenues:		
Net investment income	225,883	76,043
	225,883	76,043
Net nonoperating revenues		
Net change in net assets	1,727,378	1,063,942
Net assets:		
Net assets at beginning of year	21,091,347	20,027,405
Net assets at end of year	\$ 22,818,725	\$ 21,091,347

See accompanying notes to financial statements.

COLLEGE OF MICRONESIA-FSM
(A COMPONENT UNIT OF THE FSM NATIONAL GOVERNMENT)

Statements of Cash Flows
Years Ended September 30, 2010 and 2009

	2010	2009
Cash flows from operating activities:		
Student tuition and fees, net	\$ 1,279,971	\$ 1,262,246
Grants and contracts	20,560,079	21,242,215
Auxiliary services	1,517,927	1,510,063
Other receipts	674,978	322,664
Payments to employees for salaries and benefits	(7,875,157)	(7,642,575)
Payments to suppliers and others	(15,016,396)	(13,933,063)
Net cash provided by operating activities	1,141,402	2,761,550
Cash flows from capital and related financing activities:		
Purchases of capital assets	(434,271)	(374,305)
Net cash used in capital and related financing activities	(434,271)	(374,305)
Cash flows from investing activities:		
Purchase of investments	-	(20,500)
Net cash provided by (used in) investing activities	-	(20,500)
Net change in cash and cash equivalents	707,131	2,366,745
Cash and cash equivalents at beginning of year	6,941,437	4,574,692
Cash and cash equivalents at end of year	\$ 7,648,568	\$ 6,941,437
Reconciliation of operating earnings to net cash provided by operating activities:		
Operating earnings	\$ 1,501,495	\$ 987,899
Adjustments to reconcile operating earnings to net cash provided by operating activities:		
Depreciation	959,521	1,060,758
Bad debts	507,473	152,958
Due from FSM	(351,297)	122,359
Tuition receivable	(302,550)	(98,838)
Grants and contracts receivable	(1,526,663)	533,517
Other receivables	4,447	28,837
Inventories	96,644	(77,993)
Prepaid expenses	(120,614)	(75,359)
Accounts payable	(10,949)	(265,302)
Accrued liabilities	42,993	86,003
Deferred revenue	(107,904)	451,972
Other current liabilities	448,806	(145,261)
Net cash provided by operating activities	\$ 1,141,402	\$ 2,761,550

See accompanying notes to financial statements.

COLLEGE OF MICRONESIA-FSM
(A COMPONENT UNIT OF THE FSM NATIONAL GOVERNMENT)

Notes to Financial Statements
September 30, 2010 and 2009

(1) Organization

The College of Micronesia-FSM (COM-FSM or the College), formerly Community College of Micronesia or CCM, was one of the three component campuses of the College of Micronesia (COM) prior to April 1, 1993. The COM was established on March 29, 1977, by the treaty among the governments of the Republic of the Marshall Islands, the Federated States of Micronesia (FSM), and the Republic of Palau. The treaty ended on March 31, 1993, and the COM was restructured to render autonomy to each of the three nations.

CCM and the centers for continuing education (CE) in Pohnpei, Chuuk, Yap and Kosrae were merged to form COM-FSM, a FSM public corporation established by Public Law 7-79 on September 25, 1992, under the general management and control of a seven-member Board of Regents, appointed by the FSM President with the advice and consent of the FSM Congress. This law was subsequently amended to reduce the number of Board members to five. The term of all board members is 3 years and limited to 2 consecutive terms. However, a member may serve beyond the expiration date of his/her term until a successor has been appointed. The purpose of COM-FSM is to serve the varied post-secondary and adult educational needs of the FSM.

COM-FSM is considered a component unit of the FSM National Government for the following reasons: (1) the governing body, the Board of Regents, is appointed by the FSM President with the advice and consent of FSM Congress, and (2) COM-FSM has the potential to impose financial burdens on the National Government.

(2) Basis of Presentation

A. Financial Statement Presentation. In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. This was followed in November 1999 by GASB Statement No. 35, *Basic Financial Statements – and Management’s Discussion and Analysis – for Public Colleges and Universities*. The financial statement presentation required by GASB No. 34 and No. 35 provides a comprehensive, entity-wide perspective of the COM-FSM assets, liabilities, net assets, revenues, expenses, changes in net assets, and cash flows, and replaces the fund-group perspective previously required.

Other GASB Statements are required to be implemented in conjunction with GASB Statements No. 34 and No. 35. Therefore, the FSM National Government and COM-FSM have also implemented Statement No. 36, *Recipient Reporting for Certain Shared Nonexchange Revenues*, Statement No. 37, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Omnibus*, and Statement No. 38, *Certain Financial Statement Note Disclosures*.

B. Basis of Accounting. For financial statement purposes, COM-FSM is considered a special-purpose government engaged only in business-type activities. Accordingly, COM-FSM’s financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All significant intra-college transactions have been eliminated. COM-FSM reports as a business-type activity, as defined by GASB Statement No. 35. Business-type activities are those that are financed in whole or in part by fees charged to external parties for goods and services.

COLLEGE OF MICRONESIA-FSM
(A COMPONENT UNIT OF THE FSM NATIONAL GOVERNMENT)

Notes to Financial Statements
September 30, 2010 and 2009

(2) Basis of Presentation, Continued

B. Basis of Accounting, Continued.

COM-FSM has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. COM-FSM has elected to not apply FASB pronouncements issued after the applicable date.

(3) Summary of Significant Accounting Policies

- A. Cash and Cash Equivalents. Cash and cash equivalents are defined as cash on hand, cash in bank and time certificates of deposit with initial maturities of three months or less. Time certificates of deposit with initial maturities in excess of three months are classified as investments.

GASB Statement No. 3 previously required government entities to present deposit risks in terms of whether the deposits fell into the following categories:

- Category 1 Deposits that are federally insured or collateralized with securities held by the College or its agent in the College's name;
- Category 2 Deposits that are uninsured but fully collateralized with securities held by the pledging financial institution's trust department or agent in the College's name;
or
- Category 3 Deposits that are collateralized with securities held by the pledging financial institution's trust department or agent but not in the College's name and non-collateralized deposits.

GASB Statement No. 40 amended GASB Statement No. 3 to in effect eliminate disclosure for deposits falling into categories 1 and 2 but retained disclosures for deposits falling under category 3. Category 3 deposits are those deposits that have exposure to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the College's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized, or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name. The College does not have a deposit policy for custodial credit risk.

At September 30, 2010 and 2009, COM-FSM has recorded cash balances of \$7,648,568 and \$6,941,437, respectively, with corresponding bank balances of \$8,713,844 and \$7,976,770, respectively. Of these amounts, \$500,000 in each year is insured by the Federal Deposit Insurance Corporation (FDIC) and \$250,000 is subject to coverage by the Securities Investor Protection Corporation. The remaining balances are not insured or collateralized by securities held by a trustee in the name of the financial institution. Management elected not to require insurance or collateralization on the remaining balances based on confidence in the financial health of the banking institutions. No losses as a result of this practice were incurred during the years ended September 30, 2010 and 2009.

COLLEGE OF MICRONESIA-FSM
(A COMPONENT UNIT OF THE FSM NATIONAL GOVERNMENT)

Notes to Financial Statements
September 30, 2010 and 2009

(3) Summary of Significant Accounting Policies, Continued

B. Investments. COM-FSM accounts for its investments at fair value in accordance with GASB Statement No. 31, *Accounting for Financial Reporting for Certain Investments and for External Investment Pools*. Unrealized gains and losses on the carrying value of investments are reported as a component of net investment income in the Statement of Revenues, Expenses and Changes in Net Assets.

C. Accounts Receivable. Accounts receivable tuition and fees and accounts receivable employees, are net of an allowance for uncollectible accounts as of September 30, 2010, are as follows:

	National Campus	State Campuses	Totals
Accounts receivable, gross	\$ 3,708,949	\$ 2,828,088	\$ 6,537,037
Allowance for uncollectible accounts	(2,347,256)	(1,867,991)	(4,215,247)
Accounts receivable, net	\$ <u>1,361,693</u>	\$ <u>960,097</u>	\$ <u>2,321,790</u>

Accounts receivable tuition and fees and accounts receivable employees net of an allowance for uncollectible accounts as of September 30, 2009, are as follows:

	National Campus	State Campuses	Totals
Accounts receivable, gross	\$ 3,409,587	\$ 3,219,048	\$ 6,628,635
Allowance for uncollectible accounts	(2,048,213)	(2,053,709)	(4,101,922)
Accounts receivable, net	\$ <u>1,361,374</u>	\$ <u>1,165,339</u>	\$ <u>2,526,713</u>

The allowance for uncollectible accounts is established through a provision charged to expense. Accounts are charged against the allowance when management believes that the collection of the balance is unlikely. The allowance is an amount that management believes will be adequate to absorb possible losses on existing balances that may be uncollectible, based on evaluations of collectibility and prior loss experience.

D. Inventory. Inventory is stated at the lower of cost (first-in, first-out) or market (net realizable value).

E. Prepaid Expenses. Payments made to vendors for goods and services that will benefit periods beyond September 30, 2010 and 2009, are recorded as prepaid expenses. Prepaid expenses represent prepayments for office supplies, textbooks and computers.

F. Capital Assets and Depreciation. All buildings and equipment transferred to COM-FSM were recorded at management's estimate of fair market value at the date of transfer. Subsequent additions have been recorded at cost and/or realizable value, as estimated and provided by COM-FSM. Depreciation is calculated using the straight-line method over estimated useful lives of three to thirty years. COM-FSM has adopted a capitalization policy of \$500. Purchases less than this threshold are expensed.

Certain real property and buildings being used by COM-FSM were contributed to COM-FSM by the FSM National Government. No user fee or allowance has been computed or charged to COM-FSM by the FSM National Government. Therefore, such costs have been recorded neither as in-kind contributions nor expenses.

COLLEGE OF MICRONESIA-FSM
(A COMPONENT UNIT OF THE FSM NATIONAL GOVERNMENT)

Notes to Financial Statements
September 30, 2010 and 2009

(3) Summary of Significant Accounting Policies, Continued

- G. Deferred Revenue. Deferred revenues include amounts received for tuition and fees and certain grants prior to the end of the fiscal year but relate to the subsequent accounting period. Deferred revenues also include amounts received from grant and contract sponsors that have not yet been earned.
- H. Compensated Absences. COM-FSM recognizes as a liability all vested vacation leave benefits accrued by its employees at the time such leave is earned. It is the policy of COM-FSM to record the cost of sick leave when leave is actually taken and an expense is actually incurred. Accordingly, no liability is recorded for nonvesting accumulating rights to receive sick pay benefits.
- I. Noncurrent Liabilities. Noncurrent liabilities include estimated amounts for accrued compensated absences that will not be paid within the next fiscal year.

The change in accrued compensated absences during fiscal years 2010 and 2009 is as follows:

Balance, Oct. 1, 2009	<u>Addition</u>	<u>Reduction</u>	Balance, Sept. 30, 2010	<u>Current</u>
\$ 526,495	\$ 275,169	\$ (257,498)	\$ 544,166	\$ 280,917
Balance, Oct. 1, 2008	<u>Addition</u>	<u>Reduction</u>	Balance, Sept. 30, 2009	<u>Current</u>
\$ 504,393	\$ 282,826	\$ (260,724)	\$ 526,495	\$ 267,843

- J. Net Assets. COM-FSM net assets are classified as follows:

Invested in Capital Assets – This represents COM-FSM’s total investment in capital assets, net of outstanding debt obligations related to those capital assets.

Restricted Net Assets – Nonexpendable – Nonexpendable restricted net assets consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

Unrestricted Net Assets –Unrestricted net assets represent resources derived from student tuition and fees, governmental appropriations and contracts, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the COM-FSM, and may be used at the discretion of the governing board to meet current expenses for any purpose. These resources are to also be used for auxiliary enterprises, which are substantially self-supporting activities that provide services for student, faculty and staff.

- K. Classification of Revenues and Expenses. COM-FSM has classified its revenues and expenses as either operating or nonoperating according to the following criteria:

COLLEGE OF MICRONESIA-FSM
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Notes to Financial Statements
September 30, 2010 and 2009

(3) Summary of Significant Accounting Policies, Continued

K. Classification of Revenues and Expenses, Continued

Operating – Operating revenues and expenses include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, and (3) most federal, state and local grants and contracts and federal appropriations.

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

- L. Scholarship Discounts and Allowances. Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the Statement of Revenues, Expenses and Changes in Net Assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by COM-FSM, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other federal, state or nongovernmental programs, are recorded as either operating or nonoperating revenues in COM-FSM's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, COM-FSM has recorded a scholarship discount and allowance.
- M. Risk Management. COM-FSM purchases insurance to cover its risk of losses due to fire, lightning, and other risks normal to operating an institution of higher learning. Refer also to note 8.
- N. Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.
- O. New Accounting Standards. During fiscal year 2010, COM-FSM implemented the following pronouncements:
- GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which addresses whether and when intangible assets should be considered capital assets for financial reporting purposes.
 - GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which is intended to improve how state and local governments report information about derivative instruments - financial arrangements used by governments to manage specific risks or make investments - in their financial statements.

COLLEGE OF MICRONESIA-FSM
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Notes to Financial Statements
September 30, 2010 and 2009

(3) Summary of Significant Accounting Policies, Continued

O. New Accounting Standards, Continued

- GASB Technical Bulletin No. 2008-1, *Determining the Annual Required Contribution Adjustment for Postemployment Benefits*, which clarifies the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for calculating the annual required contribution (ARC) adjustment.
- GASB Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*, which provides guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code, and establishes requirements for recognizing and measuring the effects of the bankruptcy process on assets and liabilities, and for classifying changes in those items and related costs.

The implementation of these pronouncements did not have a material effect on the accompanying financial statements.

In March 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The provisions of this statement are effective for periods beginning after June 15, 2010. Management has not evaluated the effect that the implementation of this statement will have on the financial statements of the College.

In December 2009, GASB issued Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which amends Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and addresses issues related to measurement of OPEB obligations by certain employers participating in agent multiple-employer OPEB plans. The provisions of Statement 57 related to the use and reporting of the alternative measurement method are effective immediately. The provisions related to the frequency and timing of measurements are effective for actuarial valuations first used to report funded status information in OPEB plan financial statements for periods beginning after June 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the College.

In June 2010, GASB issued Statement No. 59, *Financial Instruments Omnibus*, which updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools. The provisions of this statement are effective for periods beginning after June 15, 2010. Management has not evaluated the effect that the implementation of this statement will have on the financial statements of the College.

(4) Investments

In January 1994, COM-FSM received an endowment contribution in the amount of \$150,000 from FSM Telecommunications Corporation. The principal is to be maintained inviolate and in perpetuity.

In November 1995, notification was received from the U.S. Department Education that COM-FSM had been selected for a grant under the Endowment Challenge Grant Program authorized by Title III of the Higher Education Act of 1965, as amended. Non-government funds raised for this endowment fund were matched by the U.S. Department of Education on a two-to-one basis.

**COLLEGE OF MICRONESIA-FSM
(A COMPONENT UNIT OF THE FSM NATIONAL GOVERNMENT)**

Notes to Financial Statements
September 30, 2010 and 2009

(4) Investments, Continued

The Secretary of Education awarded an amount to COM-FSM equal to two times the amount of the funds raised. The College of Micronesia-FSM raised \$250,000 and the U.S. Department of Education awarded \$500,000, bringing the total of this endowment fund to \$750,000. The Endowment Challenge grant covers a period of twenty years.

The College has engaged in specific fund raising for the purpose of increasing net assets invested with the above Endowment funds. Therefore, the College is of the opinion that such investments and related investments income are appropriately classified as non expendable restricted net assets.

In December 1997, COM-FSM adopted an investment policy, which guides current investment decisions. This policy is to be reviewed after 10 years. The policy provides that investment earnings may not be obligated until the principal has aggregated to a market value of \$20 million. During the Board of Regents meeting on March 2005, an updated investment policy recommended by the Investment Consultant and reviewed by the Administration was approved by the Board. The investments are classified as restricted nonexpendable net assets in the accompanying Statement of Net Assets.

The composition of investments as of September 30, 2010 and 2009, by funding source, is as follows:

<u>Donor</u>	<u>2010</u>	<u>2009</u>
FSM Telecommunications Corporation (FSMTC)	\$ 165,000	\$ 165,000
U.S. Department of Education and local match (Challenge)	<u>2,935,271</u>	<u>2,709,388</u>
	<u>\$ 3,100,271</u>	<u>\$ 2,874,388</u>

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

GASB Statement No. 3 previously required government entities to present investment risks in terms of whether the investments fell into the following categories:

- Category 1 Investments that are insured or registered, or securities held by the College or its agent in the College's name;
- Category 2 Investments that are uninsured and unregistered for which the securities are held by the counterparty's trust department or agent in the College's name; or
- Category 3 Investments that are uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the College's name.

GASB Statement No. 40 amended GASB Statement No. 3 to in effect eliminate disclosure for investments falling into categories 1 and 2, and provided for disclosure requirements addressing other common risks of investments such as credit risk, interest rate risk, concentration of credit risk, and foreign currency risk. GASB Statement No. 40 did retain and expand the element of custodial credit risk in GASB Statement No. 3.

COLLEGE OF MICRONESIA-FSM
(A COMPONENT UNIT OF THE FSM NATIONAL GOVERNMENT)

Notes to Financial Statements
September 30, 2010 and 2009

(4) Investments, Continued

As of September 30, 2010 and 2009, investments at fair value are as follows:

	<u>2010</u>	<u>2009</u>
Fixed income securities:		
Domestic fixed income	\$ 704,028	\$ 651,544
International fixed income	<u>36,767</u>	<u>66,295</u>
	<u>740,795</u>	<u>717,839</u>
Other investments:		
Common equities	2,285,412	2,041,944
Money market funds	<u>74,064</u>	<u>114,605</u>
	<u>2,359,476</u>	<u>2,156,549</u>
	<u>\$ 3,100,271</u>	<u>\$ 2,874,388</u>

As of September 30, 2010, the College's fixed income securities had the following maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in years)</u>			
		<u>Less than 1</u>	<u>1-5</u>	<u>5-10</u>	<u>more than 10</u>
International bond	\$ 36,767	\$ 8,397	\$ 28,370	\$ -	\$ -
Corporate bond	284,764	-	111,957	95,989	76,818
Government bond	<u>419,264</u>	<u>116,762</u>	<u>122,728</u>	<u>138,746</u>	<u>41,028</u>
	<u>\$ 740,795</u>	<u>\$ 125,159</u>	<u>\$ 263,055</u>	<u>\$ 234,735</u>	<u>\$ 117,846</u>

As of September 30, 2009, the College's fixed income securities had the following maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in years)</u>			
		<u>Less than 1</u>	<u>1-5</u>	<u>5-10</u>	<u>more than 10</u>
Mortgage and asset backed securities	\$ 181,214	\$ -	\$ 15,563	\$ 34,074	\$ 131,577
International bond	66,295	-	25,841	14,249	26,205
Corporate bond	342,553	-	134,208	101,716	106,629
Government bond	<u>127,777</u>	<u>34,522</u>	<u>33,745</u>	<u>59,510</u>	<u>-</u>
	<u>\$ 717,839</u>	<u>\$ 34,522</u>	<u>\$ 209,357</u>	<u>\$ 209,549</u>	<u>\$ 264,411</u>

Credit risk for investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

COLLEGE OF MICRONESIA-FSM
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Notes to Financial Statements
September 30, 2010 and 2009

(4) Investments, Continued

The College's exposure to credit risk at September 30, 2010, was as follows:

<u>Moody's Rating</u>	<u>Total</u>	<u>Domestic</u>	<u>International</u>
AAA/AAA	\$ 419,264	\$ 419,264	\$ -
AA2/A-	9,972	9,972	-
AA2/AA	45,435	45,435	-
AA3/A+	18,512	18,512	-
AA3/A-	8,996	8,996	-
AA3/AA-	9,067	9,067	-
A1/A+	19,023	19,023	-
A2/A	48,061	48,061	-
A3/A-	46,205	28,282	17,923
BAA1/A-	18,844	-	18,844
BAA1/BBB+	30,161	30,161	-
BAA2/BBB	19,013	19,013	-
BAA2/BBB-	19,714	19,714	-
BAA3/BBB	9,527	9,527	-
BAA3/BBB-	<u>19,001</u>	<u>19,001</u>	<u>-</u>
Total credit risk debt securities	\$ <u>740,795</u>	\$ <u>704,028</u>	\$ <u>36,767</u>

The College's exposure to credit risk at September 30, 2009, was as follows:

<u>Moody's Rating</u>	<u>Total</u>	<u>Domestic</u>	<u>International</u>
AAA/AAA	\$ 308,991	\$ 308,991	\$ -
AA2/A-	12,956	12,956	-
AA2/AA	38,734	38,734	-
AA3/A+	13,080	13,080	-
A1/A+	34,202	34,202	-
A1/AA1-	12,974	-	12,974
A2/A	52,286	52,286	-
A2/A+	13,033	13,033	-
A3/A-	52,298	25,149	27,149
BAA1/A-	40,764	14,592	26,172
BAA1/BBB+	26,236	26,236	-
BAA2/BBB	45,260	45,260	-
BAA2/BBB-	13,480	13,480	-
BAA2/BBB+	13,487	13,487	-
BAA3/BBB	11,654	11,654	-
BAA3/BBB-	<u>28,404</u>	<u>28,404</u>	<u>-</u>
Total credit risk debt securities	\$ <u>717,839</u>	\$ <u>651,544</u>	\$ <u>66,295</u>

**COLLEGE OF MICRONESIA-FSM
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Notes to Financial Statements
September 30, 2010 and 2009

(4) Investments, Continued

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, the College will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The College's investments are held and administered by trustees. Based on negotiated trust and custody contracts, all of these investments were held in the College's name by the College's custodial financial institutions at September 30, 2010 and 2009.

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. GASB Statement No. 40 requires disclosure by issuer and amount of investments in any one issuer that represents five percent (5%) or more of total investments for the College. There was no concentration of credit risk for investments as of September 30, 2010 and 2009.

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

(5) Due from Grantor Agencies

COM-FSM administers student financial aid (SFA) for the U.S. Department of Education SFA funds related to Pell Grants, College Work-Study and Supplemental Educational Opportunity Grants, Talent Search Program, Upward Bound Program, and Strengthening Institution Program. In addition, COM-FSM also administers Land Grant Programs on behalf of COM Land Grant College. The net grants and contracts receivable – U.S. Government are comprised of the following uncollected grants as of September 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Due from U.S. Department of Education	\$ 1,455,704	\$ 265,628
Due from COM-Land Grant, net	243,330	221,470
Due from University of Guam	211,773	-
Due from COM-Land Grant, net	<u>102,954</u>	<u>-</u>
	<u>\$ 2,013,761</u>	<u>\$ 487,098</u>

(6) Capital Assets

Capital assets at September 30, 2010 and 2009 consist of the following:

	Balance October 1, <u>2009</u>	<u>Additions</u>	<u>Retirements</u>	Balance September 30, <u>2010</u>
Depreciable assets:				
Buildings	\$ 14,209,215	\$ -	\$ -	\$ 14,209,215
Furniture and equipment	7,894,415	280,804	-	8,175,219
Vehicles/boats	932,280	153,467	-	1,085,747
Library books	<u>706,402</u>	<u>-</u>	<u>-</u>	<u>706,402</u>
	23,742,312	434,271	-	24,176,583

COLLEGE OF MICRONESIA-FSM
(A COMPONENT UNIT OF THE FSM NATIONAL GOVERNMENT)

Notes to Financial Statements
September 30, 2010 and 2009

(6) Capital Assets, Continued

Less accumulated depreciation	(14,209,866)	(959,521)	-	(15,169,387)
	<u>9,532,446</u>	<u>(525,250)</u>	<u>-</u>	<u>9,007,196</u>
Non-depreciable assets:				
Land	<u>1,455,685</u>	<u>-</u>	<u>-</u>	<u>1,455,685</u>
	<u>1,455,685</u>	<u>-</u>	<u>-</u>	<u>1,455,685</u>
Net investment in capital assets	\$ <u>10,988,131</u>	\$ <u>(525,250)</u>	\$ <u>-</u>	\$ <u>10,462,881</u>
	Balance October 1, <u>2008</u>	<u>Additions</u>	<u>Retirements</u>	Balance September 30, <u>2009</u>
Depreciable assets:				
Buildings	\$ 13,978,340	\$ 230,875	\$ -	\$ 14,209,215
Furniture and equipment	7,574,240	320,175	-	7,894,415
Vehicles/boats	889,666	42,614	-	932,280
Library books	<u>706,402</u>	<u>-</u>	<u>-</u>	<u>706,402</u>
	23,148,648	593,664	-	23,742,312
Less accumulated depreciation	<u>(13,149,108)</u>	<u>(1,060,758)</u>	<u>-</u>	<u>(14,209,866)</u>
	<u>9,999,540</u>	<u>(467,094)</u>	<u>-</u>	<u>9,532,446</u>
Non-depreciable assets:				
Land	1,455,685	-	-	1,455,685
Construction in progress	<u>219,359</u>	<u>-</u>	<u>(219,359)</u>	<u>-</u>
	<u>1,675,044</u>	<u>-</u>	<u>(219,359)</u>	<u>1,455,685</u>
Net investment in capital assets	\$ <u>11,674,584</u>	\$ <u>(467,094)</u>	\$ <u>(219,359)</u>	\$ <u>10,988,131</u>

(7) Related Party Transactions

COM-FSM receives annual appropriations from the FSM National Government for its operational needs, student financial assistance and other programs. At September 30, 2010 and 2009, receivables from the FSM National Government amounted to \$808,546 and \$457,249, respectively.

(8) Contingencies

Self Insurance

COM-FSM purchases commercial insurance to cover its potential risks from fire and property damage on some of its buildings and contents (\$19,164,373 of coverage) and vehicles (up to \$300,000 of coverage per vehicle per accident). Additionally, COM-FSM purchases fidelity insurance coverage for selected employees (total coverage of \$97,500) and workmen's compensation insurance (coverage of up to \$100,000 per employee). COM-FSM also purchases student personal insurance (\$5,000 per student). There have been no settlements in excess of insurance coverage for the past three years.

COLLEGE OF MICRONESIA-FSM
(A COMPONENT UNIT OF THE FSM NATIONAL GOVERNMENT)

Notes to Financial Statements
September 30, 2010 and 2009

(8) Contingencies, Continued

Accreditation

The Accrediting Commission for Community and Junior College (ACCJC) of the Western Association of Schools and Colleges (WASC) at its meeting on June 9-11, 2010, continued the College on “warning status.” Warning is issued when the Commission finds that an institution has pursued a course of action which deviates from the Commission’s eligibility requirements, standards of accreditation, or policy to an extent that raises a concern regarding the ability of the institution to meet accreditation standards. The accredited status of COM-FSM continues during the warning period. However, COM-FSM’s accreditation will not be reaffirmed until the conditions which warranted the warning are resolved. COM-FSM submitted a Follow-Up Report dated March 15, 2011 to ACCJC. This report will be followed by a visit of Commission representatives. The accredited status of COM-FSM continues during the warning period and this condition does not impact the College’s ability to obtain federal program grants.

Litigation

COM-FSM is periodically a defendant in legal actions inherent to the nature of its operations. COM-FSM management is of the opinion that resolution of any matters existing as of September 30, 2010 and 2009 will not have a material effect on the accompanying financial statements.

(9) Retirement Plan

The College has a retirement plan, administered by a private corporation. All employees with at least one year of service are eligible for the plan. Employee contributions can be made up to 100% of earnings with a 50% match by the College up to 3% of employee compensation. The College’s comptroller is the designated Plan administrator. During the years ended September 30, 2010, 2009 and 2008, the College incurred an expense of \$101,194, \$100,101 and \$87,364, respectively, for matching contributions. For the years ended September 30, 2010, 2009 and 2008, plan assets were \$1,943,134, \$1,555,941 and \$1,242,782, respectively.

(10) Lease

The College leases land in the State of Chuuk, where the Chuuk Campus is located. The future minimum lease payments are as follows:

<u>Year Ending</u> <u>September 30,</u>	<u>Total</u>
2011	\$ 78,731
2012	78,731
2013	84,636
2014	86,604
2015	86,604
2016-2020	456,835
2021-2022	<u>214,344</u>
	\$ <u>1,086,485</u>

**COLLEGE OF MICRONESIA-FSM
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Notes to Financial Statements
September 30, 2010 and 2009

(11) Subsequent Events

No subsequent events have occurred subsequent to September 30, 2010, through June 14, 2011, the date the financial statements were available to be issued, that required consideration as adjustments to, or disclosures in, the financial statements.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Regents
College of Micronesia-FSM:

We have audited the financial statements of the College of Micronesia-FSM as of and for the year ended September 30, 2010, and have issued our report thereon dated June 14, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over financial reporting.

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

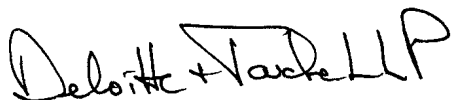
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

We noted certain matters that we reported to management of the College of Micronesia-FSM in a separate letter dated June 14, 2011.

This report is intended solely for the information and use of College of Micronesia-FSM Board of Regents and management, others within the entity, federal awarding agencies, pass-through entities, and the cognizant audit and other federal agencies, and is not intended to be and should not be used by anyone other than these specified parties.

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

June 14, 2011

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 AND ON THE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Board of Regents
College of Micronesia-FSM:

Compliance

We have audited the compliance of College of Micronesia-FSM with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the College's major federal programs for the year ended September 30, 2010. College of Micronesia-FSM's major federal programs are identified in the Summary of Auditors' Results Section of the accompanying Schedule of Findings and Questioned Costs (page 32). Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of College of Micronesia-FSM's management. Our responsibility is to express an opinion on College of Micronesia-FSM's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the College of Micronesia-FSM's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the College of Micronesia-FSM's compliance with those requirements.

In our opinion, the College complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2010.

Internal Control Over Compliance

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

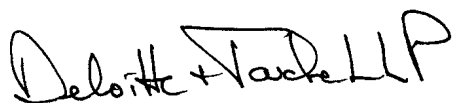
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of College of Micronesia-FSM as of and for the year ended September 30, 2010, and have issued our report thereon dated June 14, 2011. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards (page 31) is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. This schedule is the responsibility of the management of College of Micronesia-FSM. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, when considered in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of College of Micronesia-FSM Board of Regents and management, others within the entity, federal awarding agencies, pass-through entities, and the cognizant audit and other federal agencies, and is not intended to be and should not be used by anyone other than these specified parties.



June 14, 2011

**COLLEGE OF MICRONESIA-FSM
(A COMPONENT UNIT OF THE FSM NATIONAL GOVERNMENT)**

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2010

<u>Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Expenditures</u>
<u>U.S. Department of Education:</u>		
Federal Pell Grant Program	84.063	\$ 14,564,770
TRIO: Upward Bound	84.047	1,113,196
TRIO: Talent Search	84.044	257,554
TRIO: Student Support Services	84.042	<u>236,915</u>
Total U.S. Department of Education		<u>16,172,435</u>
<u>U.S. Department of the Interior:</u>		
Compact of Free Association II, Amended	15.875	3,800,000
Compact of Free Association II, Amended (SEG)	15.875	694,981
Operation and Maintenance Technical Assistance	15.875	107,471
Infrastructure Maintenance Fund	15.875	<u>300,640</u>
Total U.S. Department of the Interior		<u>4,903,092</u>
<u>U.S. Department of Health and Human Services:</u>		
Area Health Education Centers Point of Service		
Maintenance and Enhancement Awards	93.107	<u>178,485</u>
Total U.S. Department of Health and Human Services		<u>178,485</u>
<u>U.S. Department of Agriculture:</u>		
Resident Instruction Grants for Insular Area Activities	10.308	83,269
Cooperative Extension Service	10.500	<u>21,884</u>
Total U.S. Department of Agriculture		<u>105,153</u>
Total Federal Awards		\$ <u>21,359,165</u>

Notes: The above grants are received in a subrecipient capacity through the FSM National Government and the University of Guam with the exception of Federal Pell Grant Program and TRIO, which are received in a direct capacity from the U.S. Department of Education. The Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting.

Reconciliation to financial statements:

Total federal awards expenditures:	\$ 21,359,165
Depreciation	959,521
Non-federal awards	<u>809,469</u>
Total expenditures per financial statements	\$ <u>23,128,155</u>

**COLLEGE OF MICRONESIA-FSM
(A COMPONENT UNIT OF THE FSM NATIONAL GOVERNMENT)**

Schedule of Findings and Responses
Year Ended September 30, 2010

Part I - Summary of Auditors' Results

Financial Statements

- | | |
|---|---------------|
| 1. Type of auditors' report issued: | Unqualified |
| Internal control over financial reporting: | |
| 2. Material weakness(es) identified? | No |
| 3. Significant deficiency(ies) identified that is not considered to be a material weakness? | None reported |
| 4. Noncompliance material to the financial statements noted? | No |

Federal Awards

- | | |
|---|---------------|
| Internal control over major programs: | |
| 5. Material weakness(es) identified? | No |
| 6. Significant deficiency(ies) identified that is not considered to be a material weakness? | None reported |
| 7. Type of auditors' report issued on compliance for major programs: | Unqualified |
| 8. Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? | No |
| 9. COM-FSM's major programs were as follows: | |

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
84.063	Federal Student Aid Cluster: Federal Pell Grant Program
84.047	TRIO Cluster: TRIO: Upward Bound
84.044	TRIO: Talent Search
84.042	TRIO: Student Support Services
15.875	Economic, Social and Political Development of the Territories: Compact of Free Association II, Amended

- | | |
|--|-----------|
| 10. Dollar threshold used to distinguish between Type A and Type B Programs, as those terms are defined in OMB Circular A-133: | \$640,747 |
| 11. The College qualified as a low-risk auditee, as that term is defined in OMB Circular A-133? | Yes |

Part II – Financial Statement Findings Section

No matters are reported.

Part III - Federal Award Findings and Questioned Cost Section

No matters are reported.

**COLLEGE OF MICRONESIA-FSM
(A COMPONENT UNIT OF THE FSM NATIONAL GOVERNMENT)**

Schedule of Unresolved Prior Year Findings
Year Ended September 30, 2010

There are no unresolved prior year internal control findings.