

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

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2014 AND 2013

INDEPENDENT AUDITORS' REPORT

Board of Regents
College of Micronesia-FSM:

Report on the Financial Statements

We have audited the accompanying financial statements of College of Micronesia-FSM (the College) and its discretely presented component unit, collectively a component unit of the FSM National Government, which comprise the statements of net position as of September 30, 2014 and 2013, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of the discretely presented component unit were not audited in accordance with *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respectively, financial position of College of Micronesia-FSM and its discretely presented component unit as of September 30, 2014 and 2013, and the respective changes in financial position and cash flows, where applicable, for the years then ended in accordance with accounting principles generally accepted in the United States of America.

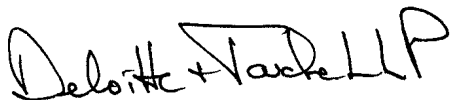
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 to 12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 18, 2015, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

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

June 18, 2015

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

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

The Management's Discussion and Analysis report is designed to provide a general overview of the College's finances. It should also demonstrate the College's stewardship and accountability of monies that it receives and spends.

Management's Discussion and Analysis for the years ended September 30, 2013 is set forth in the College's report on the audit of financial statements which is dated June 20, 2014. That Discussion and Analysis explains in more detail major factors impacting the 2013 financial statements.

If you have any questions about this report, please contact Office of the President, P.O. 159, Kolonia, Pohnpei, FSM 96941.

Financial Statements Analysis

The College implemented the 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 Position (SNP)

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

Comparative Statements of Net Position at September 30, 2014, 2013 and 2012 are summarized below:

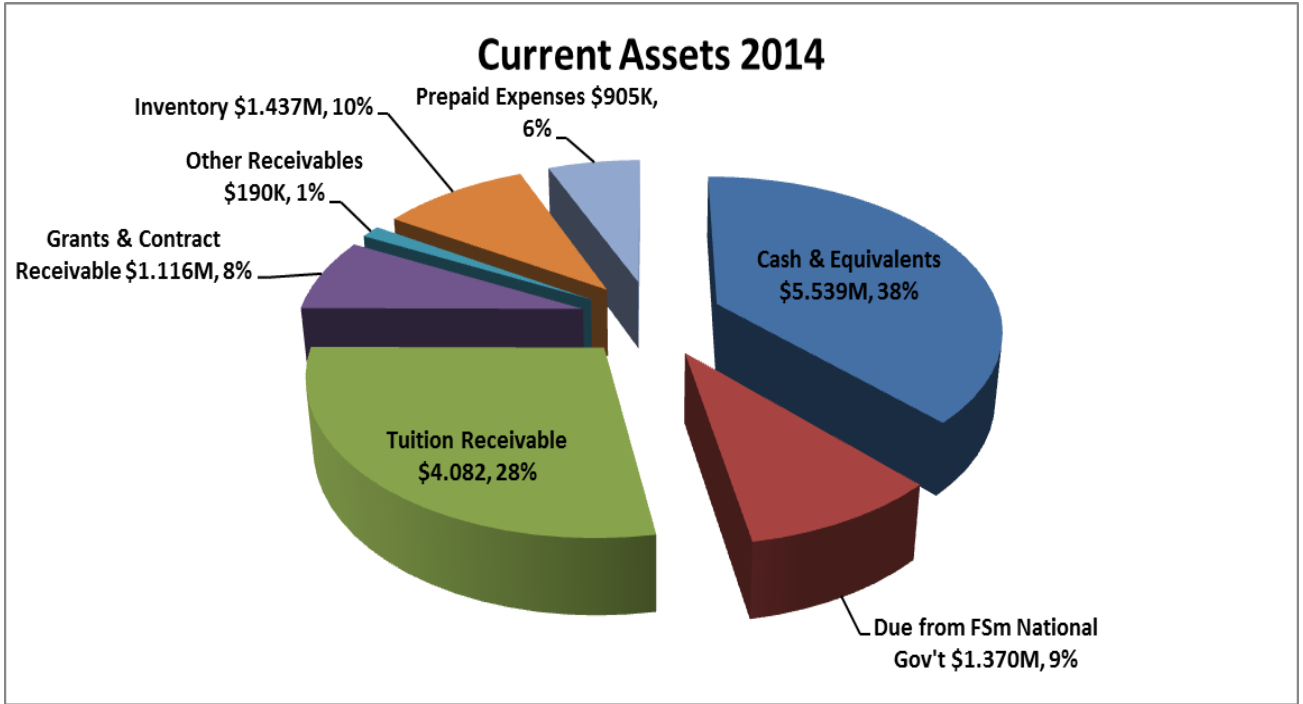
	FY 2014 <u>(In 000's)</u>	FY 2013 <u>(In 000's)</u>	Difference <u>(In 000's)</u>	FY 2012 <u>(In 000's)</u>
Assets:				
Current assets	\$ 14,638	\$ 14,789	\$ (151)	\$ 13,780
Noncurrent assets	<u>13,263</u>	<u>13,432</u>	<u>(169)</u>	<u>13,566</u>
Total assets	\$ <u>27,901</u>	\$ <u>28,221</u>	\$ <u>(320)</u>	\$ <u>27,346</u>
Liabilities:				
Current liabilities	\$ 4,627	\$ 4,837	\$ (210)	\$ 4,289
Noncurrent liabilities	<u>336</u>	<u>302</u>	<u>34</u>	<u>304</u>
Total liabilities	<u>4,963</u>	<u>5,139</u>	<u>(176)</u>	<u>4,593</u>
Net position	<u>22,938</u>	<u>23,082</u>	<u>(144)</u>	<u>22,753</u>
Total liabilities and net position	\$ <u>27,901</u>	\$ <u>28,221</u>	\$ <u>(320)</u>	\$ <u>27,346</u>

The comparison of the statement of net position for fiscal year 2014 with prior year indicates a decline in net position by \$144k or 0.6%.

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Years Ended September 30, 2014 and 2013

Current assets: Total current assets decreased by \$151k or 1%, from \$14.789 Million in fiscal year 2013 to \$14.638 Million in current fiscal year 2014. Below is the composition of current assets for fiscal year 2014:



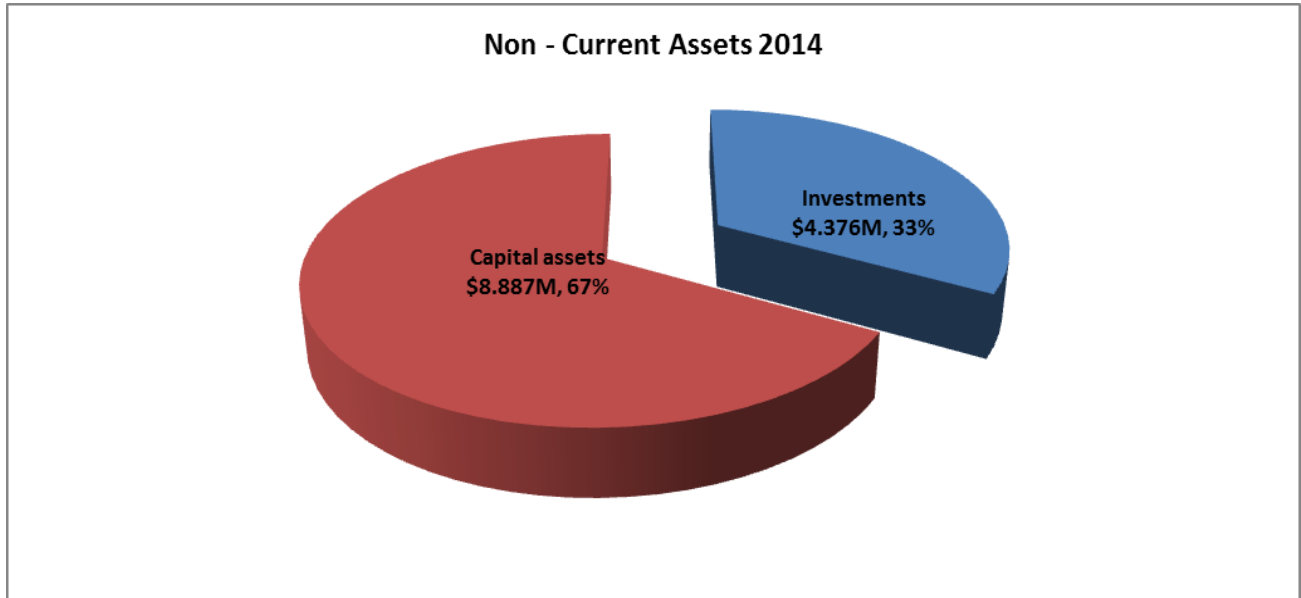
The net decrease of \$151k in current assets consists of the following changes:

- Decrease in cash and equivalents of \$1.034 Million or -16%, from \$6.573 Million to \$5.539 Million;
- Increase in due from FSM National government by \$856k or 166%, from \$514k to \$1.370 Million;
- Increase in tuition receivable of \$195k or 5%, from \$3.886 Million to \$4.082 Million;
- Decrease in grants and contract receivable of \$181k or -14%, from \$1.297 Million to \$1.116 Million;
- Increase in other receivables of \$16k or 9%, from \$174k to \$190k;
- Decrease in inventory of \$312k or -18%, from \$1.748 Million to \$1.437 Million;
- Increase in prepaid expenses of \$309k or 52%, from \$596k to \$905k;

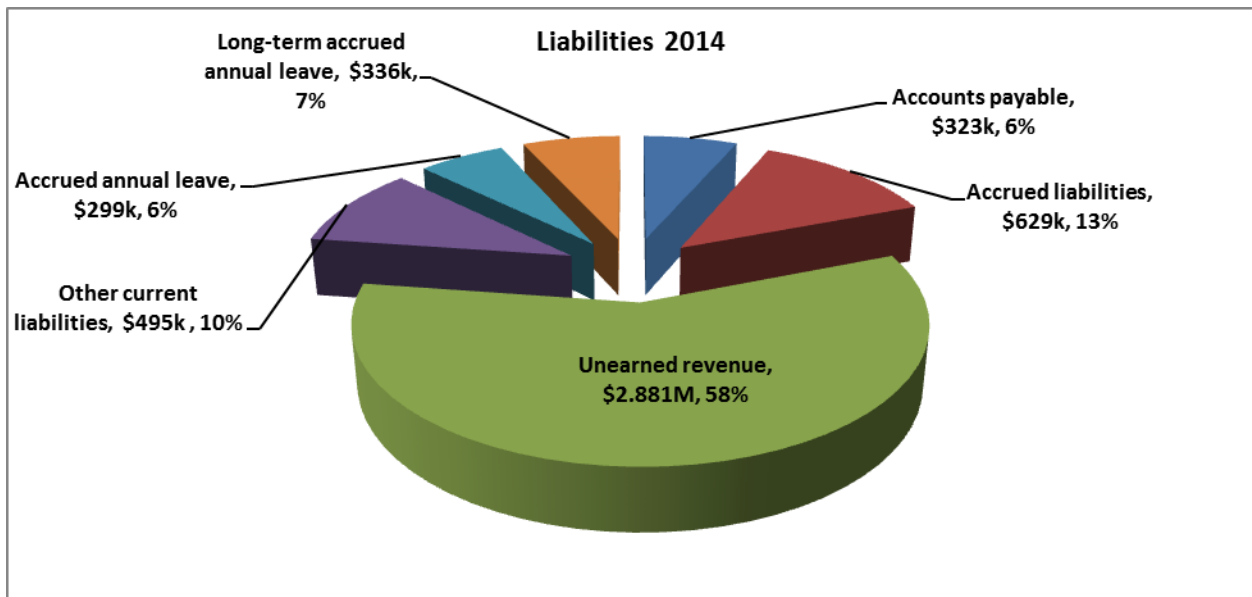
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Noncurrent assets: Total noncurrent assets decreased by \$169k or 1% from \$13.432 Million in fiscal year 2013 to \$13.263 Million in current fiscal year 2014. Investments increased by \$441k or 11% but capital assets decreased by \$610k or 6%. Below is the graph for the breakdown of noncurrent assets:



Liabilities: Liabilities decreased by \$176k or -3%, from \$5.139 Million to \$4.963 Million. About 93% of liabilities are current and 7% is non – current from long – term accrued annual leave. The details of the current liabilities and long – term liability are presented in the following graph:



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

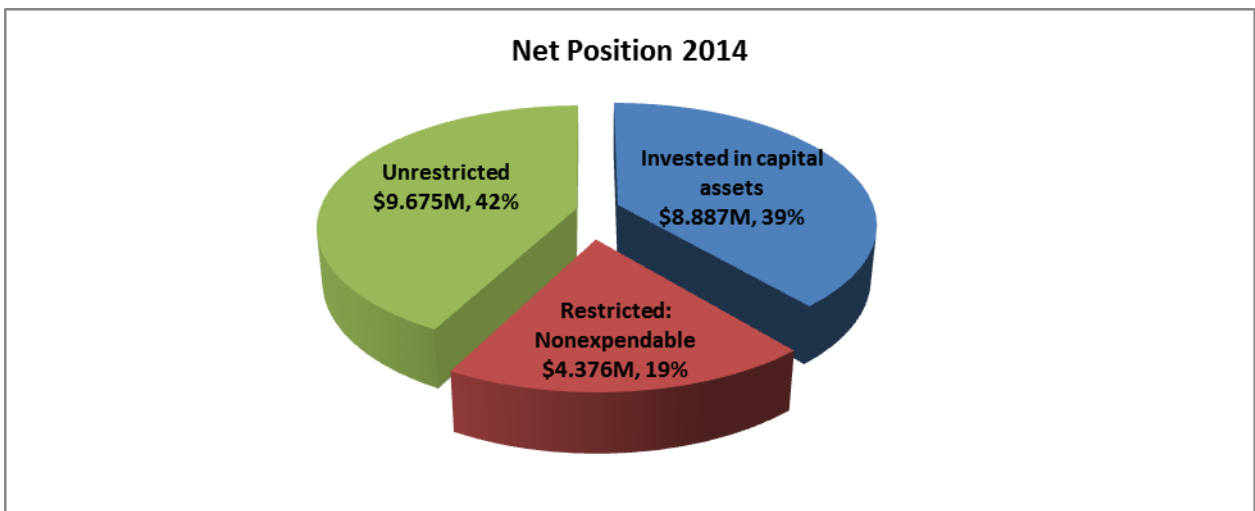
The net decrease in liabilities consists of the following:

- Decrease in accounts payable of \$202k or -39%, from \$525k to \$323k;
- Increase in accrued liabilities of \$17k or 3%, from \$611k to \$628k;
- Increase in accrued annual leave of \$20k or 7%, from \$278k to \$298k;
- Increase in unearned revenue of \$16k or 1%, from \$2.865 Million to \$2.881 Million;
- Decrease in other current liabilities of \$61k or -11%, from \$556k to \$495k;
- Increase in non – current liability of \$34k or 11%, from \$302k to \$336k.

Net Position: Net position represents the residual interest in the College's assets after liabilities are deducted. The College's net position for fiscal year 2014 is \$22.938 Million, which is lower by \$144k or 1% compared with \$23.082 Million in fiscal year 2013. Below is the breakdown of the College's net position categorized according to the reporting model of GASB:

	FY 2014 (In 000's)	FY 2013 (In 000's)	Difference (In 000's)	FY 2012 (In 000's)
Net investment in capital assets	\$ 8,887	\$ 9,497	\$ (610)	\$ 10,128
Restricted:				
Nonexpendable	4,376	3,935	441	3,439
Unrestricted	<u>9,675</u>	<u>9,650</u>	<u>25</u>	<u>9,186</u>
Total	\$ <u>22,938</u>	\$ <u>23,082</u>	\$ <u>(144)</u>	\$ <u>22,753</u>

The graph for the breakdown of net position for fiscal year 2014 is illustrated below:



**COLLEGE OF MICRONESIA-FSM
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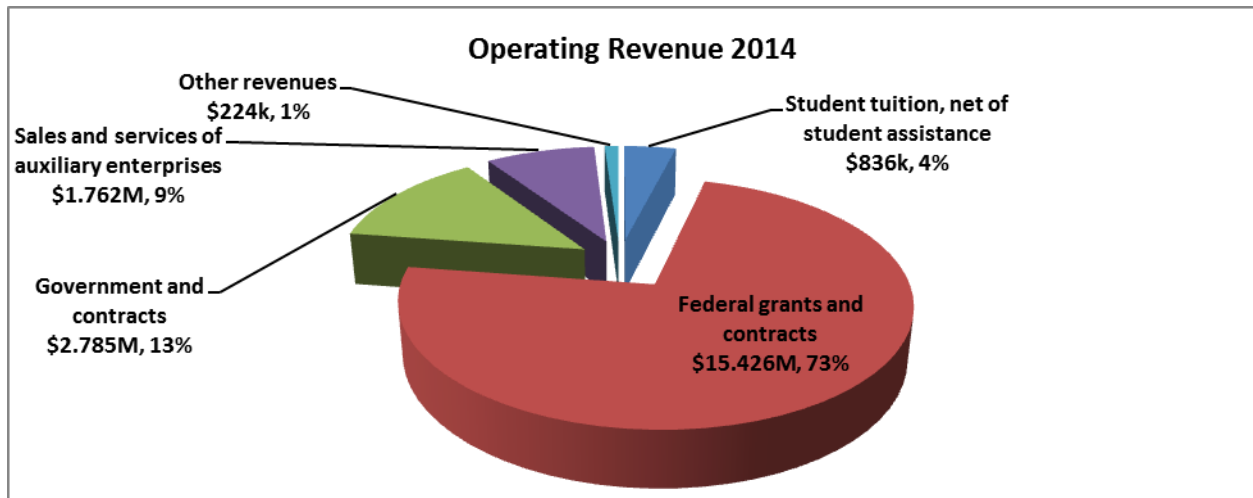
Management's Discussion and Analysis
Years Ended September 30, 2014 and 2013

2. Statement of Revenues, Expenses and Changes in Net Position (SRECNP)

The SRECNP 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 position. Below is the comparative summary of SRECNP for fiscal years ended September 30, 2014, 2013 and 2012:

	FY 2014 (In 000's)	FY 2013 (In 000's)	Difference (In 000's)	FY 2012 (In 000's)
Net operating revenues	\$ 20,674	\$ 21,490	\$ (816)	\$ 22,029
Operating expenses	<u>20,544</u>	<u>21,624</u>	<u>1,080</u>	<u>22,580</u>
Operating loss	130	(134)	(264)	(551)
Nonoperating revenue	<u>(274)</u>	<u>463</u>	<u>(737)</u>	<u>409</u>
Net (decrease) increase in net position	(144)	329	(473)	(142)
Net position at beginning of year	<u>23,082</u>	<u>22,753</u>	<u>329</u>	<u>22,895</u>
Net position at end of year	\$ <u>22,938</u>	\$ <u>23,082</u>	\$ <u>(144)</u>	\$ <u>22,753</u>

Operating revenues: The composition of operating revenue of \$20.674 Million for fiscal year 2014 is presented in the following graph:



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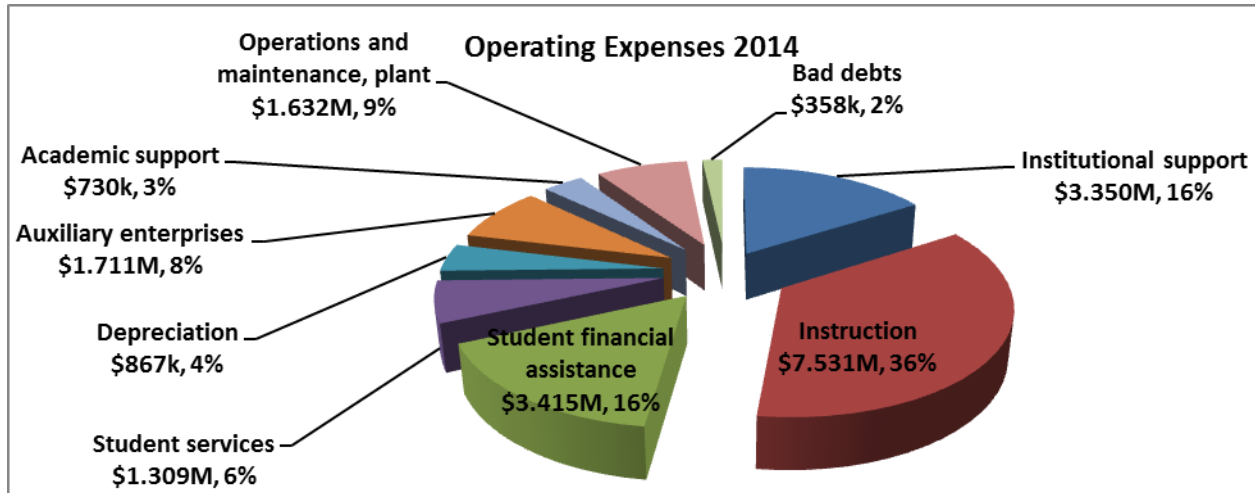
Management's Discussion and Analysis
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Below are the details of the changes for each classification of operating revenue:

- Increase in other revenues of 40k or 22%, from \$184k to \$224k;
- Increase in sales and services of auxiliary enterprises of \$2k or less than 1%, from \$1.760 Million to \$1.762 Million;
- Increase in government and contracts of \$919k or 49%, from \$1.866 Million to \$2.785 Million;
- Increase in student tuition of \$170k or 25%, from \$667k to 836k; and
- Decrease in federal grants and contracts of \$1.825 Million or -11%, from \$17.251 Million to \$15.426 Million;

Operating expenses: The College's operating expenses including bad debts for fiscal year 2014 indicated a decrease of \$959k or -4%, from \$21.862 Million to \$20.903 Million. The operating expenses are presented in both functional and natural classifications.

The College's functional classification of operating expenses is presented below:



Total operating expenses indicated a net decrease of \$959k consisting of the net decrease from cash items of \$1.015k, and the total increase in non – cash items from depreciation and provision for bad debts of \$56k. The details of the increases and decreases of cash items are as follows:

On Cash Items:

- Increase in institutional support of \$101k or 3%, from \$3.249 Million to \$3.350 Million;
- Decrease in instruction of \$52k or -1%, from \$7.583 Million to \$7.531 Million.
- Decrease in student financial assistance of \$1.066 Million or -24%, from \$4.481 Million to \$3.415 Million;
- Decrease in student services of \$123k or -9%, from \$1.431 Million to \$1.309 Million;
- Decrease in auxiliary enterprises of \$223k or -12%, from \$1.934 Million to \$1.711 Million;
- Increase in academic support of \$49k or 7%, from 681k to \$730k;
- Increase in operations and maintenance of \$299k or 22%, from \$1.333 Million to \$1.632 Million;

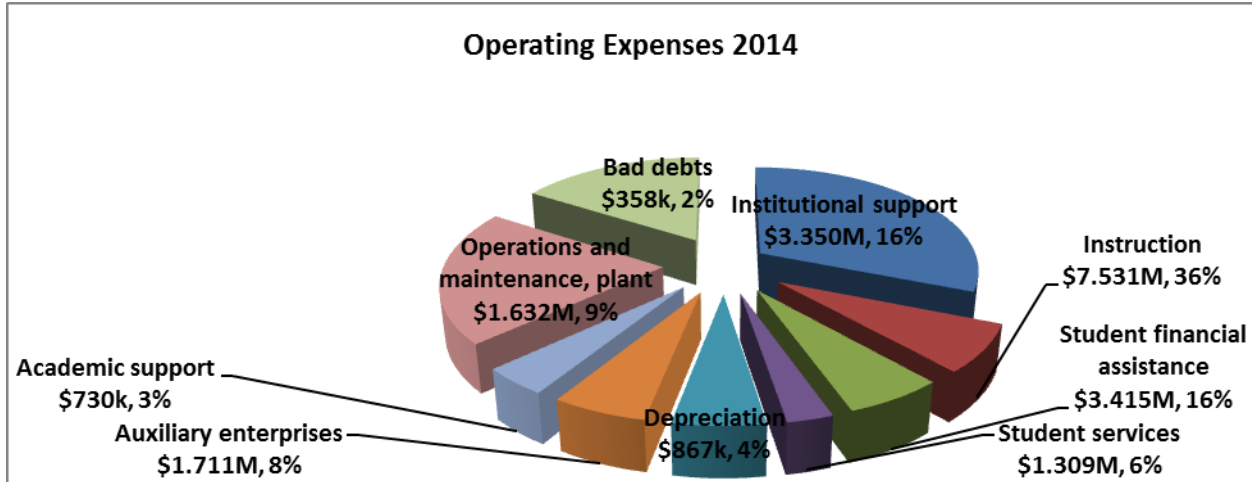
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On Non-cash Items:

- Increase in the provision for bad debts of \$121k or 51%, from \$238k to \$358k;
- Decrease in depreciation of \$65k or -7%, from \$932k to \$867k.

The college natural classification of operating expenses is presented below:



The increases and decreases of operating expenses on natural classifications are as follows:

On Cash Items:

- Increase in benefits of \$8k or 1%, from \$1.493 Million to \$1.502 Million;
- Increase in services of \$432k or 51%, from \$840k to \$1.272 Million;
- Increase in supplies of \$354k or 43%, from \$817k to \$1.171 Million;
- Increase in miscellaneous of \$659k or 25%, from \$2.634 Million to \$3.293 Million;
- Decrease in salaries of \$828k or -11%, from \$7.204 Million to \$6.376 Million;
- Decrease in travel of \$175k or -23%, from \$763k to \$587k;
- Decrease in insurance, utilities & rent of \$364k or -23%, from \$1.571 Million to \$1.207 Million;
- Decrease in student assistance of \$1.101 Million or -20%, from 5.371 Million to \$4.270 Million.

On non-cash items, the decreases and increases are similar to functional classifications.

Nonoperating loss: The College endowment fund performance for the current fiscal year showed an unrealized market gain of \$351k. Nonoperation expense consists of the \$625k contribution to the College's Foundation.

Net change in net position: The result of the College's financial performance for fiscal year 2014 is a net decrease in net position of \$144k.

**COLLEGE OF MICRONESIA-FSM
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Management's Discussion and Analysis
Years Ended September 30, 2014 and 2013

3. Statement of Cash Flows (SCF)

The SCF presents information about changes in the College' 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 \$5.539 Million at end of fiscal year 2014. The fiscal year - end balance is lower by \$1.034 Million or -16% compared with fiscal year 2013 balance of \$6.573 Million.

Below is the summary Statements of Cash Flows:

	FY 2014 <u>(In 000's)</u>	FY 2013 <u>(In 000's)</u>	Difference <u>(In 000's)</u>	FY 2012 <u>(In 000's)</u>
Provided by operating activities	\$ (62)	\$ 662	\$ (724)	\$ 256
Used in capital and related financing activities	(257)	(442)	185	(990)
Used in investing activities	<u>(715)</u>	<u>(33)</u>	<u>(682)</u>	<u>(47)</u>
Net decrease in cash and equivalents	(1,034)	187	(1,221)	(781)
Cash and cash equivalents at beginning of year	<u>6,573</u>	<u>6,386</u>	<u>187</u>	<u>7,167</u>
Cash and cash equivalents at end of year	\$ <u>5,539</u>	\$ <u>6,573</u>	\$ <u>(1,034)</u>	\$ <u>6,386</u>

Budget Information

Budgets are developed by departments, campuses and offices and are approved by the Board of Regents. The budgets of the College for fiscal year 2014 include the following:

1. \$13.457 Million – for the administration and management of the College wherein the sources of revenue are from tuition and fees of \$9.657 Million, and \$2.400 Million from the appropriation from FSM National Government from the Education Sector Grant of the Compact of Free Association II and \$1.400 Million from the General Fund of FSM National Government.
2. \$755k – for the administration and management of the FSM – FMI at Yap State which is 100% 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 the FSM National Government.
4. \$105k – for the operations of the Board of Regents funded by the FSM National Government.
5. \$298k – for the operating expenditures of auxiliary enterprises funded from service charges.

**COLLEGE OF MICRONESIA-FSM
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Management's Discussion and Analysis
Years Ended September 30, 2014 and 2013

Capital Assets and Long-term Debt Activity

At September 30, 2014, the College's net investment in capital assets is \$8.887 Million, with a gross amount of \$19.987 Million for depreciable and non – depreciable assets, less accumulated depreciation of \$11.100 Million. Depreciation for the current year totaled \$867k. For additional information concerning capital assets, please refer to the note 6 to the financial statements.

The College's long-term obligation is \$336k representing the long – term portion of accrued annual leave. The College provides an accumulation of annual leave balances, wherein accumulated leave 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 2014.

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 (ESG) 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 September 30, 2017. In school year 2013 – 2014, about 91% 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 remain at the range of 85% to 95% in the next couple of years

The College is accredited by the Accrediting Commission for Community and Junior Colleges (ACCJC), Western Association of Schools and Colleges (WASC). Accreditation was reaffirmed in an action letter on July 3, 2013, with the next comprehensive Self Evaluation due spring 2016. Though reaffirmed, the Commission asked for a March 15, 2014. Follow-Up Report on Standard III.B.2.a. July 3, 2014, a Commission action letter avers the College has completely addressed recommendations, resolved deficiencies, and meets Accreditation Standard III.B.2.a.

The College is expected to receive continued support of funding assistance in succeeding years from the FSM National Government through the ESG and FSM local revenue. The level of support from ESG was reduced by \$700k in fiscal year 2013, and will be reduced by \$700k for each year up to fiscal year 2016. Accordingly, the funding support from ESG was reduced from \$3.800 Million to \$3.100 Million in fiscal year 2013. For the next three years, the ESG level of \$3.800 Million was reduced by \$1.400 Million in fiscal year 2014, by \$2.100 Million in fiscal year 2015 and by \$2.800 Million in fiscal year 2016 and beyond. The FSM Government provided its commitment to absorb the funding decrements from ESG fund through the local revenue of the FSM. On May 30th Congress Resolution, the FSM Congress provided the funding assistance of \$1.400 Million to cover the decrement from ESG for fiscal year 2014. FSM President letter dated February 27, 2014 communicated the government support to continue to fund the decrement from its domestic revenues in the future.

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

The College Five – Year Financial Plan (5YFP) provided a structured tuition fee increases for three consecutive fiscal years from 2014 to 2016. The College Board of Regents approved the fiscal year 2014 budget that provides additional revenues from tuition and fee increase by \$10 per credit, from \$115 to \$125, and facility fee of \$150 to \$175 per student effective fall 2015. For the next fiscal year 2016, tuition will likewise increase by an additional \$10 per credit and fee will be at the level of \$200 per student.

The College is implementing its Integrated Educational Master Plan which has taken into consideration program prioritization and cost savings measures. The College's Five-Year Integrated Educational Master Plan is linked to its Five-Year Financial Plan. These plans have given the college a clear picture of its financial outlook for the next five years.

With the completion of this *Facilities Study*, COM-FSM intends to move forward with a prioritized program of selected capital investment in new buildings and existing building reconfigurations plus capacity enhancement in facilities maintenance and project management. The project proposed in the *Concept Framework Paper* is structured in three, five-year tranches of \$21.5 million USD (years 1-5), \$24.2 million USD (years 6-10), and \$19.9 million USD (years 10-15). COM-FSM is seeking agreement in principle for the implementation plan and continuation of sub-grantee status for COM-FSM under the FSM/USA Compact Infrastructure Development Fund to carry out the various projects. The total cost of physical projects is \$74 million USD, and the difference from the sum of the five tranches will be funded by alternative sources. COM-FSM has requested Beca continue providing professional engineering support to maintenance personnel for effective implementation of college projects through a subcontract agreement from the FSM.

In August of 2014, JEMCO lifted the freeze on compact IDP funds which was frozen earlier. The College is following its new plan for facilities construction based on the *College of Micronesia-FSM Space Utilization and Facilities Master Plan Study*. On May 23, 2014, State and National Leadership Council adopted a communique expressing support for the outcome of the study and requested COM-FSM to provide plans to address the funding of the infrastructure projects to the government. In line with this request, formal support is being sought the Infrastructure Planning and Implementation Council (IPIC) to support requests, as outlined, in the Concept Framework Paper sent to OIA. Another formal request has been submitted to the FSM Budget Review Committee (EBRC) for transmittal to JEMCO.

The College implemented a reorganizational 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 new structure. The College continues to review and assess the new structure for improvement and efficiency.

The College's endowment fund which 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, private individuals and governments to generate the annual fund raising target of the endowment fund. Fundraising efforts through college alumni, annual founding day activities, on campuses student fundraising events contribute to the growth of the endowment fund. The College organized the COM-FSM Foundation along with a new Board of Directors to serve as a fundraising vehicle for the College to secure future long term funding. The College foundation is up and running for three years. This new initiative is expected to boost fund raising activities of the endowment fund.

COLLEGE OF MICRONESIA-FSM
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Statements of Net Position - College Only
September 30, 2014 and 2013

<u>ASSETS</u>	<u>2014</u>	<u>2013</u>
Current assets:		
Cash and cash equivalents	\$ 5,538,735	\$ 6,572,749
Due from FSM National Government	1,370,034	514,217
Tuition receivable, net	4,081,671	3,886,250
Grants and contracts receivable, net	1,116,286	1,297,101
Other receivables, net	189,668	173,915
Inventories	1,436,842	1,748,451
Prepaid expenses	904,796	595,793
Total current assets	<u>14,638,032</u>	<u>14,788,476</u>
Noncurrent assets:		
Investments	4,375,829	3,934,929
Capital assets:		
Nondepreciable capital assets	1,455,685	1,455,685
Capital assets, net of accumulated depreciation	<u>7,431,652</u>	<u>8,041,710</u>
Total noncurrent assets	<u>13,263,166</u>	<u>13,432,324</u>
Total assets	<u>\$ 27,901,198</u>	<u>\$ 28,220,800</u>
<u>LIABILITIES AND NET POSITION</u>		
Current liabilities:		
Accounts payable	\$ 323,290	\$ 525,762
Accrued liabilities	628,573	611,489
Accrued annual leave, current portion	298,614	278,346
Unearned revenue	2,881,149	2,864,662
Other current liabilities	<u>495,278</u>	<u>556,581</u>
Total current liabilities	4,626,904	4,836,840
Noncurrent liabilities:		
Long-term portion of accrued annual leave	<u>336,315</u>	<u>302,115</u>
Total liabilities	<u>4,963,219</u>	<u>5,138,955</u>
Commitments and contingencies		
Net position:		
Net investment in capital assets	8,887,337	9,497,395
Restricted:		
Nonexpendable	4,375,829	3,934,929
Unrestricted	<u>9,674,813</u>	<u>9,649,521</u>
Total net position	<u>22,937,979</u>	<u>23,081,845</u>
Total liabilities and net position	<u>\$ 27,901,198</u>	<u>\$ 28,220,800</u>

See accompanying notes to financial statements.

FRIENDS OF THE COLLEGE OF MICRONESIA-FSM, INC.

Statement of Financial Position
December 31, 2014

ASSETS

Cash and cash equivalents	\$	68,885
Investments		<u>526,293</u>
	\$	<u><u>595,178</u></u>

NET ASSETS

Net assets:		
Unrestricted	\$	495,733
Temporarily restricted		<u>99,445</u>
Total net assets		<u>595,178</u>
	\$	<u><u>595,178</u></u>

See accompanying notes to financial statements.

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

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

	2014	2013
Operating revenues:		
Student tuition and fees	\$ 7,953,868	\$ 7,965,660
Less: Scholarship discounts and allowances	(7,117,413)	(7,299,133)
	836,455	666,527
Federal grants and contracts	15,425,720	17,250,714
Government grants and contracts	2,784,800	1,866,269
Sales and services of auxiliary enterprises	1,761,930	1,759,771
Other revenues	223,902	184,162
Total operating revenues	21,032,807	21,727,443
Less bad debts	(358,417)	(237,595)
Net operating revenues	20,674,390	21,489,848
Operating expenses:		
Institutional support	3,349,599	3,249,009
Instruction	7,530,851	7,582,631
Student financial assistance	3,414,711	4,481,190
Student services	1,308,537	1,431,440
Depreciation	866,792	931,807
Auxiliary enterprises	1,711,351	1,933,972
Academic support	730,084	681,285
Operations and maintenance, plant	1,632,431	1,333,017
Total operating expenses	20,544,356	21,624,351
Operating income (loss)	130,034	(134,503)
Nonoperating revenues (expense):		
Contributions to the Foundation	(625,000)	-
Net investment income	351,100	463,018
Total nonoperating (expense) revenues:	(273,900)	463,018
Change in net position	(143,866)	328,515
Net position:		
Net position at beginning of year	23,081,845	22,753,330
Net position at end of year	\$ 22,937,979	\$ 23,081,845

See accompanying notes to financial statements.

FRIENDS OF THE COLLEGE OF MICRONESIA-FSM, INC.

Statement of Activities
Year Ended December 31, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues, gains and other income (losses):			
Net investment losses	\$ (3,152)	\$ (555)	\$ (3,707)
Contributions	500,000	100,000	600,000
Other income	266	-	266
Total revenues	<u>497,114</u>	<u>99,445</u>	<u>596,559</u>
Expenses:			
Support services:			
Management and other fees	24,433	-	24,433
Total expenses	<u>24,433</u>	<u>-</u>	<u>24,433</u>
Change in net assets	472,681	99,445	572,126
Net assets at beginning of year	<u>23,052</u>	<u>-</u>	<u>23,052</u>
Net assets at end of year	<u>\$ 495,733</u>	<u>\$ 99,445</u>	<u>\$ 595,178</u>

See accompanying notes to financial statements.

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

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

	2014	2013
Cash flows from operating activities:		
Grants and contracts	\$ 17,818,135	\$ 19,209,169
Auxiliary services	1,761,931	1,759,771
Other receipts	208,148	236,049
Payments to employees for salaries and benefits	(8,009,943)	(8,061,604)
Payments to suppliers and others	(11,840,751)	(12,481,377)
Net cash (used in) provided by operating activities	(62,480)	662,008
Cash flows from capital and related financing activities:		
Purchases of capital assets	(256,734)	(441,876)
Cash flows from investing activities:		
Contributions to the Foundation	(625,000)	-
Purchase of investments	(89,800)	(32,950)
Net cash used in investing activities	(714,800)	(32,950)
Net change in cash and cash equivalents	(1,034,014)	187,182
Cash and cash equivalents at beginning of year	6,572,749	6,385,567
Cash and cash equivalents at end of year	\$ 5,538,735	\$ 6,572,749
Reconciliation of operating income (loss) to net cash (used in) provided by operating activities:		
Operating income (loss)	\$ 130,034	\$ (134,503)
Adjustments to reconcile operating income (loss) to net cash (used in) provided by operating activities:		
Depreciation	866,792	931,807
Bad debts	358,417	237,595
Loss on disposal	-	140,383
Provision for inventory obsolescence	14,502	59,651
Changes in assets and liabilities:		
Due from FSM National Government	(855,817)	(331,224)
Tuition receivable	(553,838)	(680,465)
Grants and contracts receivable	180,816	437,348
Other receivables	(15,753)	51,886
Inventories	297,107	(419,910)
Prepaid expenses	(309,003)	(176,225)
Accounts payable	(202,472)	149,869
Accrued liabilities	71,551	32,545
Unearned revenue	16,487	307,760
Other current liabilities	(61,303)	55,491
Net cash (used in) provided by operating activities	\$ (62,480)	\$ 662,008

See accompanying notes to financial statements.

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

Notes to Financial Statements
September 30, 2014 and 2013

(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 FSM National Government.

The Friends of the College of Micronesia-FSM, Inc. (the Foundation) was incorporated on April 19, 2013 as non-profit, public benefit corporation, which operates under separate Board of Directors' from that of the College. The accompanying financial statements include the accounts of the Foundation.

(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 position, revenues, expenses, changes in net position, and cash flows, and replaces the fund-group perspective previously required.

Other GASB Statements are required to be implemented in conjunction with GASB Statements 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*.

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

Notes to Financial Statements
September 30, 2014 and 2013

(2) Basis of Presentation, Continued

The College has adopted GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, and presents the Foundation, legally separate, tax-exempt entities, as discretely presented component units. The Foundation provides financial support for the objectives, purposes and programs of the College. Although the College does not control the timing, purpose, or amount of receipts from the Foundation, the resources (and income thereon) which the Foundation holds and invests are restricted to the activities of the College. Because the resources held by the Foundation can only be used by, or for the benefit of, the College, the Foundation is considered as a component unit of the College and its Statement of Financial Position and Statement of Activities are separately presented in the College's financial statements. In addition, significant notes are summarized under Foundation Investments note 3.Q below.

The Foundation is a private organization that reports under accounting standards established by the Financial Statement Accounting Standards Board (FASB), which is the source of generally accepted accounting principles for not-for-profit entities. The financial statement presentation follows the recommendations of the Accounting Standards Codification (ASC) 958, *Not-for-Profit Entities*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation financial information in the College's financial reporting entity for these differences.

- 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.

(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.

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, 2014 and 2013, COM-FSM has recorded cash balances of \$5,538,735 and \$6,572,749, respectively, with corresponding bank balances of \$6,043,315 and \$6,892,846, respectively. Of these amounts, \$500,000 in 2014 and 2013 are insured by the Federal Deposit Insurance Corporation (FDIC) and \$250,000 in each year 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.

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

Notes to Financial Statements
September 30, 2014 and 2013

(3) Summary of Significant Accounting Policies, Continued

A. Cash and Cash Equivalents., Continued

No losses as a result of this practice were incurred during the years ended September 30, 2014 and 2013.

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 Statements of Revenues, Expenses and Changes in Net Position.

C. Accounts Receivable. Accounts receivable tuition and fees and accounts receivable employees, net of an allowance for uncollectible accounts as of September 30, 2014, follows:

	<u>National Campus</u>	<u>State Campuses</u>	<u>Totals</u>
Accounts receivable, gross	\$ 4,423,612	\$ 2,255,608	\$ 6,679,220
Allowance for uncollectible accounts	<u>(1,556,010)</u>	<u>(1,041,539)</u>	<u>(2,597,549)</u>
Accounts receivable, net	\$ <u>2,867,602</u>	\$ <u>1,214,069</u>	\$ <u>4,081,671</u>

Accounts receivable tuition and fees and accounts receivable employees net of an allowance for uncollectible accounts as of September 30, 2013, follows:

	<u>National Campus</u>	<u>State Campuses</u>	<u>Totals</u>
Accounts receivable, gross	\$ 4,171,141	\$ 1,954,240	\$ 6,125,381
Allowance for uncollectible accounts	<u>(1,494,290)</u>	<u>(744,841)</u>	<u>(2,239,131)</u>
Accounts receivable, net	\$ <u>2,676,851</u>	\$ <u>1,209,399</u>	\$ <u>3,886,250</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 collectability and prior loss experience.

Other receivables are net of an allowance for doubtful accounts of \$153,778 as of September 30, 2014 and 2013.

D. Inventory. Inventory is stated at the lower of cost (first-in, first-out) or market (net realizable value). At September 30, 2014 and 2013, inventory is net of an allowance for obsolescence of \$74,153 and \$59,651, respectively.

E. Prepaid Expenses. Payments made to vendors for goods and services that will benefit periods beyond September 30, 2014 and 2013, are recorded as prepaid expenses. Prepaid expenses represent prepayments for office supplies, textbooks and computers.

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

Notes to Financial Statements
September 30, 2014 and 2013

(3) Summary of Significant Accounting Policies, Continued

- 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 not been recorded as in-kind contributions or expenses.

- G. Deferred Outflows of Resources. In addition to assets, the statements of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (deduction of net position) until then. The College has no items that qualify for reporting in this category.
- H. Unearned Revenue. Unearned revenue includes amounts received for tuition and fees and certain grants prior to the end of the fiscal year but relate to the subsequent accounting period. Unearned revenue also includes amounts received from grant and contract sponsors that have not yet been earned.
- I. 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.
- J. 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 2014 and 2013 is as follows:

Balance, Oct. 1, 2013	<u>Addition</u>	<u>Reduction</u>	Balance, Sept. 30, 2014	<u>Current</u>
\$ <u>580,461</u>	\$ <u>255,430</u>	\$ <u>(200,962)</u>	\$ <u>634,929</u>	\$ <u>298,614</u>
Balance, Oct. 1, 2012	<u>Addition</u>	<u>Reduction</u>	Balance, Sept. 30, 2013	<u>Current</u>
\$ <u>589,400</u>	\$ <u>282,325</u>	\$ <u>(291,264)</u>	\$ <u>580,461</u>	\$ <u>278,346</u>

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

Notes to Financial Statements
September 30, 2014 and 2013

(3) Summary of Significant Accounting Policies, Continued

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

L. Net Position. COM-FSM's net position is classified as follows:

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

Unrestricted Net Position – Unrestricted net position represents 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.

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

Operating – Operating revenues and expenses include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, 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.

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

Notes to Financial Statements
September 30, 2014 and 2013

(3) Summary of Significant Accounting Policies, Continued

- N. 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 Statements of Revenues, Expenses and Changes in Net Position. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by 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.
- O. 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.
- P. 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.
- Q. Foundation Investments. Investments are carried at fair market values based on quoted market prices. Gains and losses on investments are reported in the statements of activities as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or by law. The composition of investments as of December 31, 2014 is as follows:

Cash, money funds and bank deposits	\$ 16,653
Mutual funds	39,947
Exchange-traded products	<u>469,693</u>
	\$ <u>526,293</u>

The composition of net gains (losses) on investments for the year ended December 31, 2014 is as follows:

Net change in value	\$ 9,039
Interest and dividends	(3,563)
Fees	<u>(9,183)</u>
	\$ <u>(3,707)</u>

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

Notes to Financial Statements
September 30, 2014 and 2013

(3) Summary of Significant Accounting Policies, Continued

R. New Accounting Standards.

During fiscal year 2014, the College implemented the following pronouncements:

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

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

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

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

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

Notes to Financial Statements
September 30, 2014 and 2013

(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.

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 position invested with the above Endowment funds. Therefore, the College is of the opinion that such investments and related investments income are appropriately classified as nonexpendable restricted net position.

In December 1997, COM-FSM adopted an investment policy, which guides current investment decisions. The policy provides that investment earnings may not be obligated until the principal has aggregated to a market value of \$20 million. The Investment Consultant revised the Investment Policy on December 2013 to incorporate the amendments adopted by the Board during the March and September 2013 meetings. The investments are classified as restricted nonexpendable net position in the accompanying Statements of Net Position.

The composition of investments as of September 30, 2014 and 2013, by funding source, is as follows:

<u>Donor</u>	<u>2014</u>	<u>2013</u>
FSM Telecommunications Corporation (FSMTC)	\$ 165,000	\$ 165,000
U.S. Department of Education and local match (Challenge)	<u>4,210,829</u>	<u>3,769,929</u>
	\$ <u>4,375,829</u>	\$ <u>3,934,929</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.

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

Notes to Financial Statements
September 30, 2014 and 2013

(4) Investments, Continued

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

	<u>2014</u>	<u>2013</u>
Fixed income securities:		
Domestic fixed income	\$ 729,213	\$ 609,028
International fixed income	<u>281,883</u>	<u>-</u>
	1,011,096	609,028
Other investments:		
Common equities	3,014,326	2,717,074
Exchange traded funds	209,788	194,271
Money market funds	<u>140,619</u>	<u>414,556</u>
	<u>3,364,733</u>	<u>3,325,901</u>
	\$ <u>4,375,829</u>	\$ <u>3,934,929</u>

As of September 30, 2014, 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>
Corporate bond	\$ 162,574	\$ 7,103	\$ 34,966	\$ 46,619	\$ 73,886
International bond	281,883	281,883	-	-	-
Government bond	<u>566,639</u>	<u>-</u>	<u>427,735</u>	<u>81,420</u>	<u>57,484</u>
	\$ <u>1,011,096</u>	\$ <u>288,986</u>	\$ <u>462,701</u>	\$ <u>128,039</u>	\$ <u>131,370</u>

As of September 30, 2013, 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>
Corporate bond	\$ 151,777	\$ -	\$ 41,104	\$ 67,182	\$ 43,491
Government bond	<u>457,251</u>	<u>39,095</u>	<u>278,530</u>	<u>59,625</u>	<u>80,001</u>
	\$ <u>609,028</u>	\$ <u>39,095</u>	\$ <u>319,634</u>	\$ <u>126,807</u>	\$ <u>123,492</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
(A COMPONENT UNIT OF THE FSM NATIONAL GOVERNMENT)

Notes to Financial Statements
September 30, 2014 and 2013

(4) Investments, Continued

The College's exposure to credit risk at September 30, 2014, was as follows:

<u>Moody's Rating</u>	<u>Domestic</u>	<u>International</u>	<u>Total</u>
AAA/AAA	\$ 566,639	\$ -	\$ 566,639
AA2/AA	7,103	-	7,103
A1/AA+	7,111	-	7,111
A1/A-	7,170	-	7,170
A3/A	12,551	-	12,551
A3/A-	13,762	-	13,762
BA1/BBB	6,369	-	6,369
BAA1/A-	10,694	-	10,694
BAA1/BBB+	20,184	-	20,184
BAA2/A-	11,411	-	11,411
BAA2/BBB+	6,114	-	6,114
BAA2/BBB	19,902	-	19,902
BAA3/BBB	13,042	-	13,042
BAA3/BBB-	27,161	-	27,161
Not Rated	<u>-</u>	<u>281,883</u>	<u>281,883</u>
Total credit risk debt securities	\$ <u>729,213</u>	\$ <u>281,883</u>	\$ <u>1,011,096</u>

The College's exposure to credit risk at September 30, 2013, was as follows:

<u>Moody's Rating</u>	<u>Domestic</u>	<u>International</u>	<u>Total</u>
AAA/AAA	\$ 419,367	\$ -	\$ 419,367
AA1/AA	6,143	-	6,143
AA2/AA	7,287	-	7,287
AA3/AA-	8,936	-	8,936
A1/A+	18,575	-	18,575
A2/A	17,020	-	17,020
A3/A	5,992	-	5,992
A3/A-	13,884	-	13,884
BAA1/BBB+	19,893	-	19,893
BAA2/A-	6,137	-	6,137
BAA2/BBB	26,661	-	26,661
BAA3/BBB	6,319	-	6,319
BAA3/BBB-	7,166	-	7,166
BA2/BBB	7,764	-	7,764
Not Rated	<u>37,884</u>	<u>-</u>	<u>37,884</u>
Total credit risk debt securities	\$ <u>609,028</u>	\$ <u>-</u>	\$ <u>609,028</u>

**COLLEGE OF MICRONESIA-FSM
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Notes to Financial Statements
September 30, 2014 and 2013

(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, 2014 and 2013.

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, 2014 and 2013.

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, Talent Search Program, Upward Bound Program, and Student Support Services (TRIO program), Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP). COM-FSM also administers Land Grant Programs on behalf of COM Land Grant College. Grants and contracts receivable – U.S. Government comprised the following uncollected grants as of September 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Due from U.S. Department of Education	\$ 711,296	\$ 790,791
Due from COM-Land Grant	142,911	83,431
Due from University of Guam	187,453	145,347
Due from other grantor agencies	<u>95,716</u>	<u>298,622</u>
	1,137,376	1,318,191
Less allowance for doubtful accounts	<u>(21,090)</u>	<u>(21,090)</u>
	<u>\$ 1,116,286</u>	<u>\$ 1,297,101</u>

COLLEGE OF MICRONESIA-FSM
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Notes to Financial Statements
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(6) Capital Assets

Capital assets at September 30, 2014 and 2013 consist of the following:

	Balance October 1, <u>2013</u>	<u>Additions</u>	<u>Retirements</u>	Balance September 30, <u>2014</u>
Depreciable assets:				
Buildings	\$ 14,704,659	\$ -	\$ -	\$ 14,704,659
Furniture and equipment	2,523,575	212,539	-	2,736,114
Vehicles/boats	<u>1,046,893</u>	<u>44,195</u>	<u>-</u>	<u>1,091,088</u>
	18,275,127	256,734	-	18,531,861
Less accumulated depreciation	<u>(10,233,417)</u>	<u>(866,792)</u>	<u>-</u>	<u>(11,100,209)</u>
	8,041,710	(610,058)	-	7,431,652
Non-depreciable assets:				
Land	<u>1,455,685</u>	<u>-</u>	<u>-</u>	<u>1,455,685</u>
Capital assets, net	\$ <u>9,497,395</u>	\$ <u>(610,057)</u>	\$ <u>-</u>	\$ <u>8,887,337</u>
	Balance October 1, <u>2012</u>	<u>Additions</u>	<u>Retirements</u>	Balance September 30, <u>2013</u>
Depreciable assets:				
Buildings	\$ 14,704,659	\$ -	\$ -	\$ 14,704,659
Furniture and equipment	9,092,318	383,746	(6,952,489)	2,523,575
Vehicles/boats	1,268,360	58,130	(279,597)	1,046,893
Library books	<u>706,402</u>	<u>-</u>	<u>(706,402)</u>	<u>-</u>
	25,771,739	441,876	(7,938,488)	18,275,127
Less accumulated depreciation	<u>(17,099,715)</u>	<u>(931,807)</u>	<u>7,798,105</u>	<u>(10,233,417)</u>
	8,672,024	(489,931)	(140,383)	8,041,710
Non-depreciable assets:				
Land	<u>1,455,685</u>	<u>-</u>	<u>-</u>	<u>1,455,685</u>
Capital assets, net	\$ <u>10,127,709</u>	\$ <u>(489,931)</u>	\$ <u>(140,383)</u>	\$ <u>9,497,395</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, 2014 and 2013, receivables from the FSM National Government amounted to \$1,370,034 and \$514,217, respectively. The College received \$2,784,800 and \$1,866,269 in appropriations for the years ended September 30, 2014 and 2013, respectively.

(8) Contingencies

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 during the past three years.

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Notes to Financial Statements
September 30, 2014 and 2013

(8) Contingencies, Continued

Federal Grants

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

Accreditation

The College is accredited by the Accrediting Commission for Community and Junior Colleges (ACCJC), Western Association of Schools and Colleges (WASC). On June 30, 2011, the College was placed on "probation" and an action letter was issued on July 2, 2012, which continued the probation status of the College. On July 3, 2013, an action letter was issued that removed the College from probation and re-affirmed its accreditation. As required by the July 3, 2013 action letter, the College fully complied with the submission of the Follow-up Report on March 7, 2014 and will undergo the next comprehensive review in Spring 2016.

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, 2014 and 2013 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 President, Vice - President for Administrative Services and Comptroller are the designated plan administrators. During the years ended September 30, 2014, 2013 and 2012, the College incurred an expense of \$113,951, \$113,309, and \$112,474, respectively, for matching contributions. As of September 30, 2014, 2013 and 2012, plan assets were \$3,031,688, \$2,667,308, and \$2,572,211, respectively. Management is of the opinion that the retirement plan assets do not constitute as assets of the College.

**COLLEGE OF MICRONESIA-FSM
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Notes to Financial Statements
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(10) Leases

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 September 30,</u>	<u>Total</u>
2015	\$ 78,650
2016	78,650
2017	78,650
2018	84,549
2019	86,515
2020-2023	<u>281,174</u>
	<u>\$ 688,188</u>

(11) Functional Classifications with Natural Classifications

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

	<u>2014</u>									
	<u>Salaries</u>	<u>Benefits</u>	<u>Services</u>	<u>Travel</u>	<u>Supplies</u>	<u>Insurance, Utilities and Rent</u>	<u>Depreciation</u>	<u>Student Assistance</u>	<u>Miscellaneous</u>	<u>Total</u>
Institutional Support	\$ 1,451,473	\$ 284,304	\$ 187,720	\$ 238,931	\$ 158,865	\$ 551,920	\$ -	\$ 27,960	\$ 448,426	\$ 3,349,599
Instruction	3,312,514	937,553	894,287	227,420	441,441	45,873	-	753,597	918,166	7,530,851
Student Financial										
Assistance	-	-	-	-	-	-	-	3,414,711	-	3,414,711
Student Services	780,264	129,045	109,204	90,311	97,484	-	-	73,461	28,768	1,308,537
Depreciation	-	-	-	-	-	-	866,792	-	-	866,792
Auxiliary Enterprises	167,199	30,597	309	3,258	57,135	-	-	-	1,452,853	1,711,351
Academic Support	287,997	71,462	10,000	16,488	334,312	-	-	-	9,825	730,084
Operations and										
Maintenance	<u>376,707</u>	<u>48,937</u>	<u>70,399</u>	<u>10,719</u>	<u>81,665</u>	<u>609,427</u>	<u>-</u>	<u>-</u>	<u>434,577</u>	<u>1,632,431</u>
	<u>\$ 6,376,154</u>	<u>\$ 1,501,898</u>	<u>\$ 1,271,919</u>	<u>\$ 587,127</u>	<u>\$ 1,170,902</u>	<u>\$ 1,207,220</u>	<u>\$ 866,792</u>	<u>\$ 4,269,729</u>	<u>\$ 3,292,615</u>	<u>\$ 20,544,356</u>

	<u>2013</u>									
	<u>Salaries</u>	<u>Benefits</u>	<u>Services</u>	<u>Travel</u>	<u>Supplies</u>	<u>Insurance, Utilities and Rent</u>	<u>Depreciation</u>	<u>Student Assistance</u>	<u>Miscellaneous</u>	<u>Total</u>
Institutional Support	\$ 1,592,431	\$ 254,828	\$ 69,692	\$ 345,701	\$ 150,230	\$ 608,763	\$ -	\$ 66,928	\$ 160,436	\$ 3,249,009
Instruction	3,949,805	942,942	504,821	266,236	406,001	116,234	-	756,235	640,357	7,582,631
Student Financial										
Assistance	-	-	-	-	-	-	-	4,481,190	-	4,481,190
Student Services	881,606	148,644	38,013	121,992	121,161	1,723	-	65,610	52,691	1,431,440
Depreciation	-	-	-	-	-	-	931,807	-	-	931,807
Auxiliary Enterprises	169,877	32,800	-	13,906	40,863	25,285	-	650	1,650,591	1,933,972
Academic Support	289,696	72,995	-	10,856	38,191	265,084	-	-	4,463	681,285
Operations and										
Maintenance	<u>320,703</u>	<u>41,269</u>	<u>227,136</u>	<u>4,419</u>	<u>60,455</u>	<u>553,913</u>	<u>-</u>	<u>-</u>	<u>125,122</u>	<u>1,333,017</u>
	<u>\$ 7,204,118</u>	<u>\$ 1,493,478</u>	<u>\$ 839,662</u>	<u>\$ 763,110</u>	<u>\$ 816,901</u>	<u>\$ 1,571,002</u>	<u>\$ 931,807</u>	<u>\$ 5,370,613</u>	<u>\$ 2,633,660</u>	<u>\$ 21,624,351</u>