

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

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

SEPTEMBER 30, 2007 AND 2006

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:

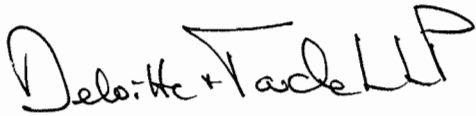
We have audited the accompanying statements of net assets of the College of Micronesia-FSM, a component unit of the FSM National Government, as of September 30, 2007 and 2006, and the related statements of revenues, expenses and changes in net assets and of cash flows for the years then ended. These 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, 2007 and 2006, 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 3 through 12 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 15, 2008, 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.

A handwritten signature in black ink, appearing to read "Deloitte + Tatchell". The signature is stylized and cursive, with the letters "D", "T", and "P" being particularly prominent.

June 15, 2008

COLLEGE OF MICRONESIA-FSM

Management's Discussion and Analysis September 30, 2007 and 2006

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 (Kolonias 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 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 next review by the Commission on the accreditation of the College is on 2010.

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 to 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”.

During the President retreat held on May 12 to 15, 2008, the mission statement of the College was revisited and reviewed by the college community. The review provided no changes to the current mission statement.

COLLEGE OF MICRONESIA-FSM

Management's Discussion and Analysis September 30, 2007 and 2006

Overview of Fiscal Year 2007

COM – FSM offered thirty-nine degree and certificate programs: six Associate of Arts degrees, seven Associate of Science degrees, three Associate of Applied Science degrees, five Third-year Certificates of Achievement and eighteen other Certificates of Achievement. In addition, FSM – Fisheries and Maritime Institute offered four modular-based Certificates of Achievement. There were 5,975 students enrolled in degree and certificate programs across all campuses for fall 06, spring 07 and summer 07. National campus enrolled 2,085 students or 35%, Pohnpei campus enrolled 1,321 students or 22%, Chuuk campus enrolled 1,324 students or 22%, Kosrae campus enrolled 574 students or 10%, Yap campus enrolled 579 students or 10% and FSM – FMI enrolled 92 students or 2%. The total enrollment for fiscal year 2007 showed a net increase by 7% or 394 students compared with fiscal year 2006 enrollment of 5,581. Chuuk campus showed an increase in enrollment by 554 students. Pohnpei and Kosrae campuses indicated reduction in enrollment by 94 and 95 students, respectively.

The College completed the facility improvements at Chuuk campus in summer 2006. In consultation with the accrediting commission, the “teach out” was lifted and Chuuk campus returned to regular operations by accepting new students beginning fall 2006. Accordingly, the enrollment at Chuuk campus has increased by 554 students for fiscal year 2007.

FSM National Government continues to provide financial support to the College. The total financial support from the FSM for fiscal year 2007 of \$6.330 Million is 4% or \$221K less than the appropriation for fiscal year 2006 of \$6.551 Million.

The College continues to administer three U.S. Federal Student Aid Programs (Pell Grant, FSEOG and Work Study). The U.S. Federal Student Aid Programs awarded to students provided about 97% of students' tuition and fees. In FY 2007, the Federal Pell Grant has increased by \$973K, from \$7.052 Million to \$8.025 Million. The increase in the Federal Pell Grant was primarily due to the increase in enrollment at Chuuk campus.

The College continues to receive other competitive grants from the U.S. Department of Education and the Department of the Interior. For fiscal year 2007, the College received from the U.S. Department of Education \$1.176 Million for Upward Bound grants at all campuses, \$236K for Education Talent Search Program and \$262K for English Language Acquisition. The College likewise received \$100K matching grant funding for the Vocational Education Program at the Pohnpei campus.

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 in the accounting model prior to fiscal year 2003. The adoption of the GASB principles provides financial reporting of the following three basic financial statements:

COLLEGE OF MICRONESIA-FSM

Management's Discussion and Analysis
September 30, 2007 and 2006

1. Statement of Net Assets (SNA)

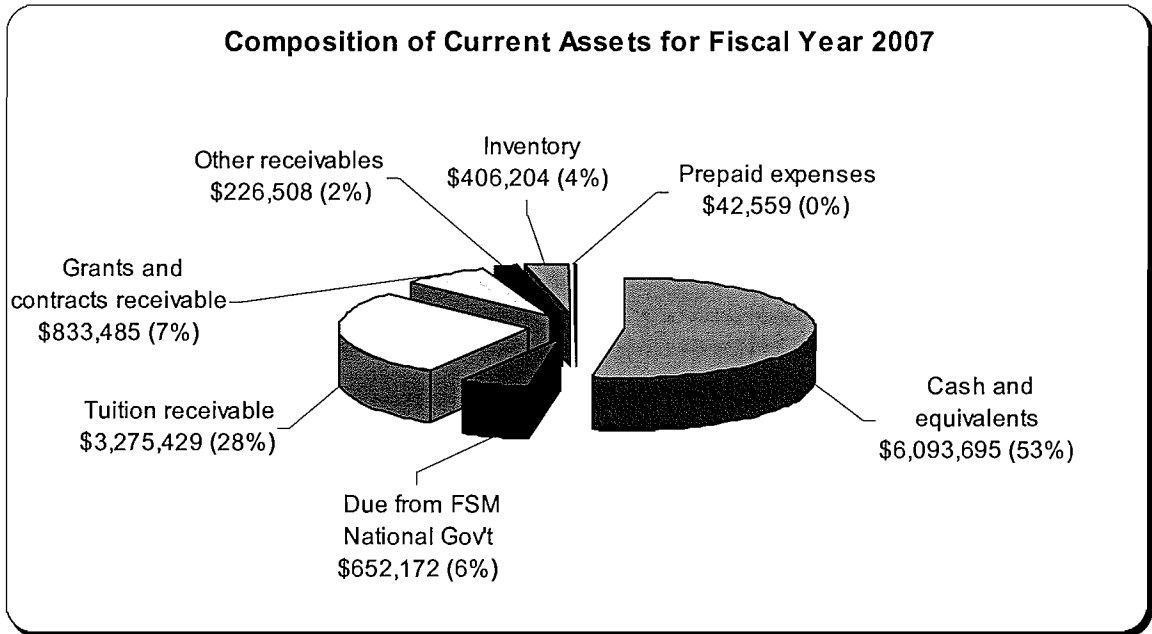
The SNA presents what the College owns (assets), owes (liabilities) and the net assets (the difference between total assets and total liabilities) at the end of the fiscal year. The "net assets" is one indicator of the current financial condition of the College, while the change in net assets is an indicator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

A Comparative Statement of Net Assets at September 30, 2007 and 2006 is summarized below:

	FY 2007 <u>(In 000's)</u>	FY 2006 <u>(In 000's)</u>	Difference <u>(In 000's)</u>	FY 2005 <u>(In 000's)</u>
Assets:				
Current assets	\$11,530	\$12,237	(\$ 707)	\$12,589
Noncurrent asset	<u>14,870</u>	<u>15,047</u>	<u>(177)</u>	<u>15,191</u>
Total assets	<u>26,400</u>	<u>27,284</u>	<u>(884)</u>	<u>27,780</u>
Liabilities:				
Current liabilities	4,581	4,568	13	4,892
Noncurrent liabilities	<u>218</u>	<u>231</u>	<u>(13)</u>	<u>214</u>
Total liabilities	<u>4,799</u>	<u>4,799</u>	<u>0</u>	<u>5,106</u>
 Net assets	 <u>\$21,601</u>	 <u>\$22,485</u>	 <u>(\$ 884)</u>	 <u>\$22,674</u>

The comparison of the statement of net assets for fiscal year 2007 with fiscal year 2006 presents a reduction in net assets of \$884K. The primary causes of the reduction of net assets are depreciation expense and expenditures funded from fund balance.

Current assets: The total current assets dropped by \$707K, from \$12.237 Million in fiscal year 2006 to \$11.530 Million in fiscal year 2007. The composition of current assets for fiscal year 2007 is presented in the following pie graph:



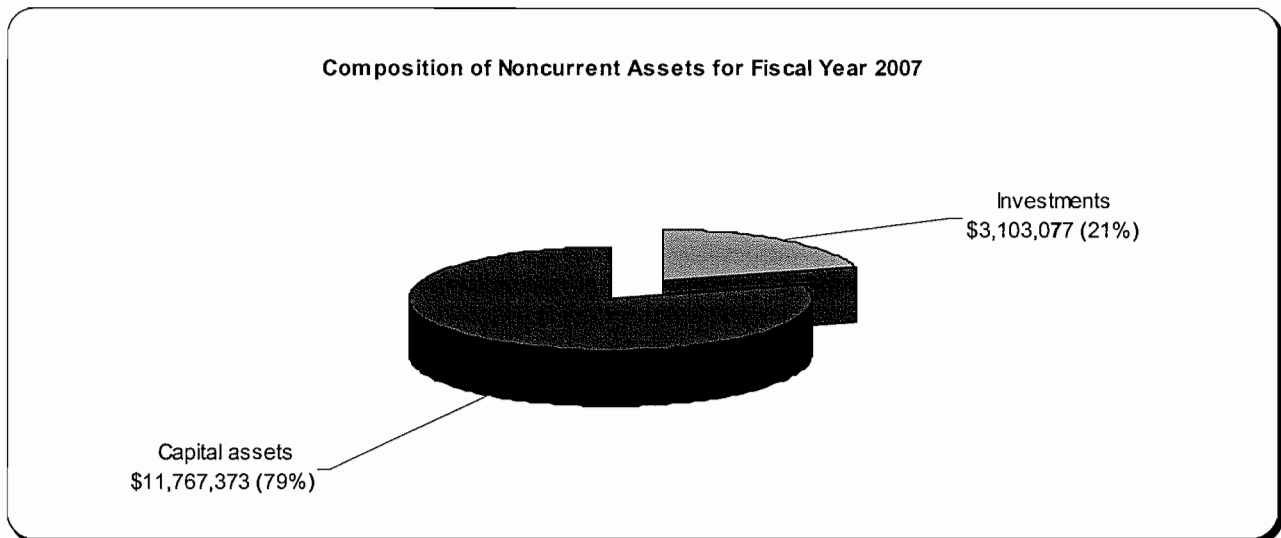
COLLEGE OF MICRONESIA-FSM

Management's Discussion and Analysis September 30, 2007 and 2006

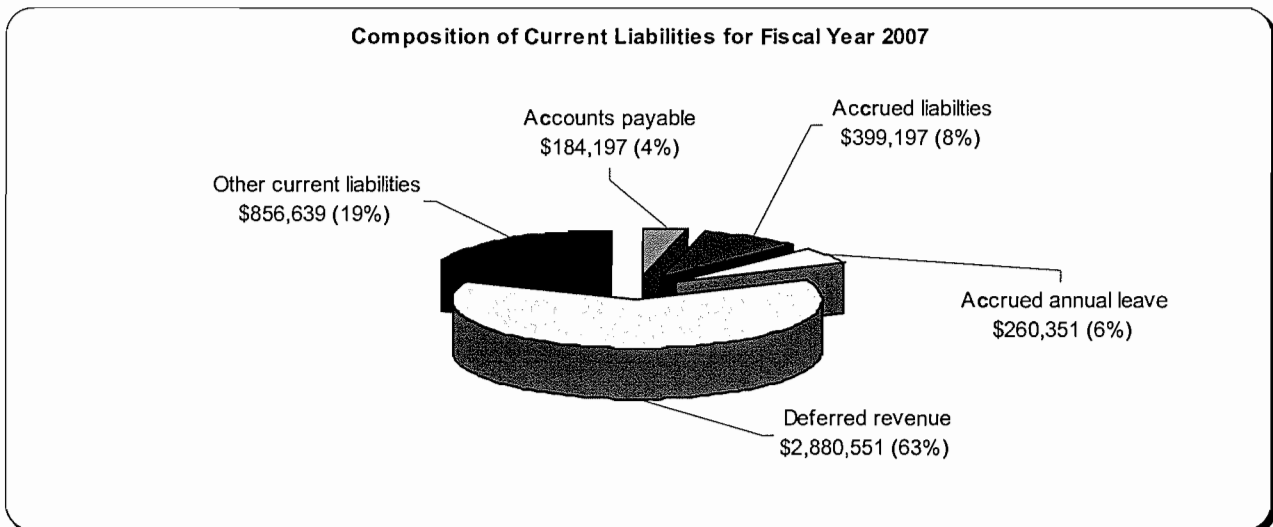
The \$707K reduction in current assets is the net of the following changes:

- Decrease in Due from FSM Government of \$968K;
- Decrease in Prepayments of \$150K;
- Increase in Inventory of \$172K;
- Increase in Cash and equivalents of \$124K; and
- Net increase in receivables of \$115K.

Noncurrent assets: The total noncurrent assets decreased by \$176K from \$15.046 Million in fiscal year 2006 to \$14.870 Million in fiscal year 2007. The reduction is net of the increase in investments of \$448K and the decrease in capital assets of \$624K. Below is the pie graph for the breakdown of noncurrent assets:



Current liabilities: Current liabilities for fiscal year 2007 remained at the same level as fiscal year 2006 with a minor increase of \$13K. The composition of current liabilities is presented in the following pie graph:



COLLEGE OF MICRONESIA-FSM

Management's Discussion and Analysis
September 30, 2007 and 2006

The deferred revenue represents the majority of current liabilities at 63% consisting of unearned tuition and fees for fall 2007 from October 1, 2007 to the end of the semester.

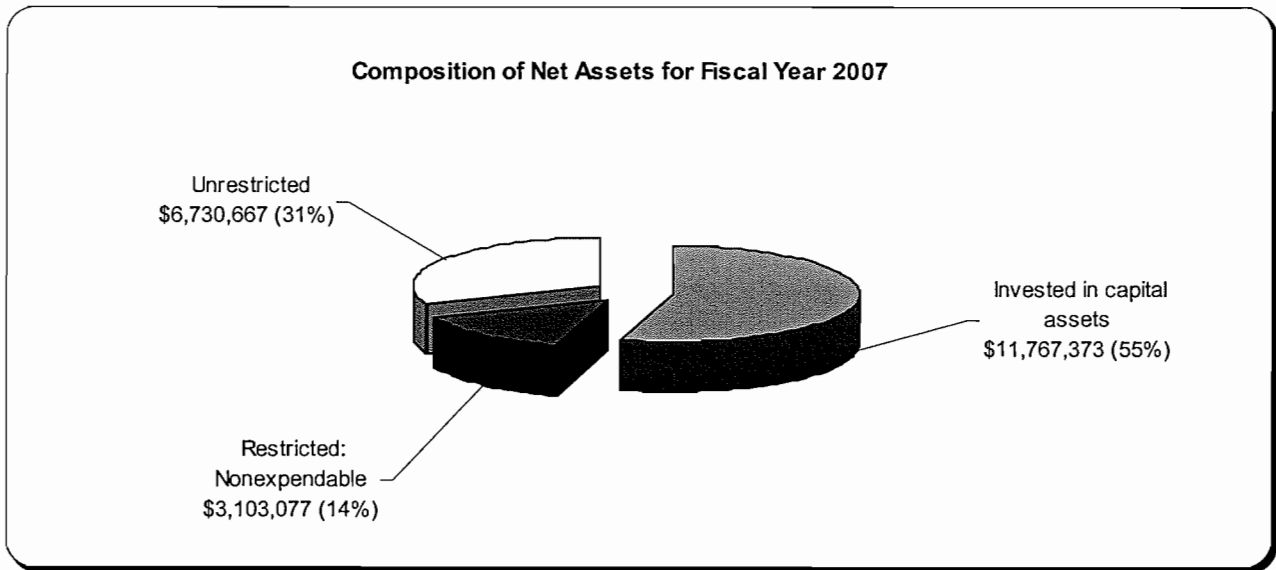
Noncurrent liability: The noncurrent liability of \$218K represents the long-term portion of accrued annual leave which showed a slight decrease of \$13K or 6% compared with the previous year.

Net Assets: Net assets present the residual interest in the College's assets after liabilities are deducted. The College's net assets for fiscal year 2007 is \$21.601 Million, which is lower by \$884K compared with \$22.485 Million in fiscal year 2006. Below is the breakdown of the College's net assets categorized according to the reporting model of GASB:

	FY 2007 <u>(In 000's)</u>	FY 2006 <u>(In 000's)</u>	Difference <u>(In 000's)</u>	FY 2005 <u>(In 000's)</u>
Invested in capital assets	\$11,767	\$12,392	(\$ 625)	\$12,824
Restricted:				
Nonexpendable	3,103	2,655	448	2,400
Unrestricted	<u>6,731</u>	<u>7,438</u>	<u>(707)</u>	<u>7,450</u>
Total	<u>\$21,601</u>	<u>\$22,485</u>	<u>(\$ 884)</u>	<u>\$22,674</u>

The reduction of \$625K in invested capital assets is net of depreciation expense and costs of additional assets for fiscal year 2007. The increase of \$448K in restricted – nonexpendable, an endowment investment required to be retained in perpetuity, is from unrealized market gain and investment contributions of \$80K. The unrestricted net assets, which represent all remaining assets that can be committed or designated by the COM-FSM Board of Regents to support specific academic programs, capital construction projects, and others, decreased by \$707K.

Below is the pie graph for the breakdown of net assets for fiscal year 2007:



COLLEGE OF MICRONESIA-FSM

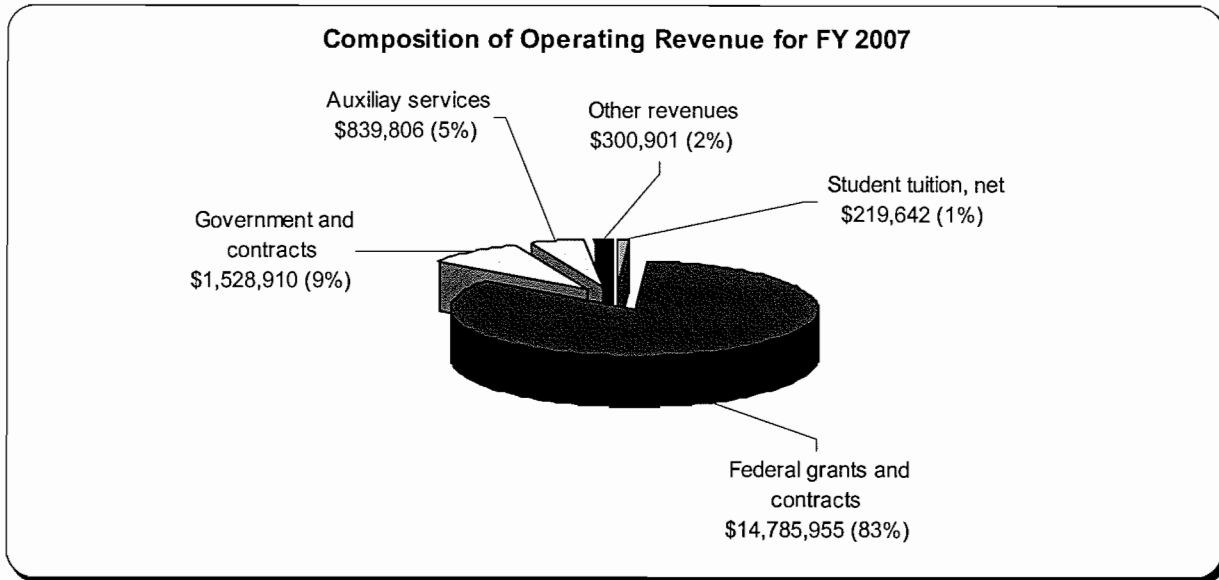
Management's Discussion and Analysis
September 30, 2007 and 2006

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, 2007 and 2006:

	FY 2007 <u>(In 000's)</u>	FY 2006 <u>(In 000's)</u>	Difference <u>(In 000's)</u>	FY 2005 <u>(In 000's)</u>
Operating revenues	\$ 17,675	\$17,841	(\$ 166)	\$ 17,220
Operating expenses	<u>18,967</u>	<u>18,268</u>	<u>699</u>	<u>17,745</u>
Operating loss	(1,292)	(427)	(\$ 865)	(525)
Nonoperating revenue	<u>408</u>	<u>238</u>	<u>170</u>	<u>693</u>
Net increase (decrease) in net assets	(884)	(189)	(\$ 695)	168
Net assets at beginning of year	<u>22,485</u>	<u>22,674</u>	<u>(189)</u>	<u>22,506</u>
Net assets at end of year	<u>\$ 21,601</u>	<u>\$ 22,485</u>	<u>(\$ 884)</u>	<u>\$ 22,674</u>

Operating revenues: The composition of the operating revenue for fiscal year 2007 of \$17.675 Million is presented by the following pie graph:



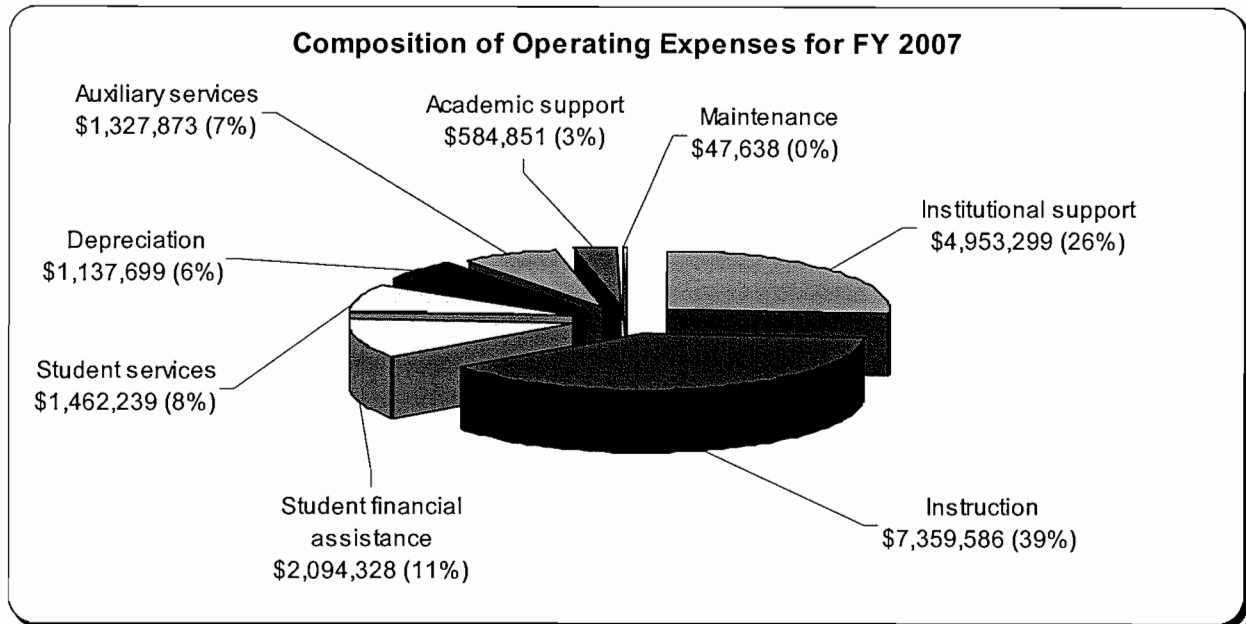
The decrease in operating revenue of \$166K is the net result of the following:

- Decrease in sales of auxiliary services of \$369K;
- Decrease in student tuition of \$203K;
- Decrease in other revenues of \$180K;
- Increase in government contracts of \$328K; and
- Increase in federal grants and contracts of \$259K.

COLLEGE OF MICRONESIA-FSM

Management's Discussion and Analysis September 30, 2007 and 2006

Operating expenses: The College's operating expenses for fiscal year 2007 are \$18.967 Million. Below is the breakdown of operating expenses presented in pie graph:



Total operating expenses increased by \$699K, from \$18.268 Million in fiscal year 2006 to \$18.967 Million in fiscal year 2007. The increase in operating expenses represents expenses from projects funded by fund balance at state campuses of \$186K and at national campus amounting to \$152K.

Nonoperating revenues: The nonoperating revenue for fiscal year 2007 is \$408K. In comparison with fiscal year 2006 of \$238K, it increased by 72% or \$170K. The nonoperating revenue consists of unrealized gains from endowment fund investments.

Net change in net assets: The result of the College's financial performance for fiscal year 2007 is a net decrease in net assets of \$884K. As discussed in the Statement of Net Assets, the causes of the reduction in net assets are depreciation expense and expenses funded by fund balance.

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 \$6.093 Million at end of fiscal year 2007. The fiscal year end balance reflects a slight increase by \$124K or 2% from fiscal year 2006 balance of \$5.969 Million.

COLLEGE OF MICRONESIA-FSM

Management's Discussion and Analysis September 30, 2007 and 2006

Below is the summary Statement of Cash Flows:

	FY 2007 (In 000's)	FY 2006 (In 000's)	Difference (In 000's)	FY 2005 (In 000's)
Cash provided by operating activities	\$ 409	\$ 97	\$ 312	\$ 2,588
Cash used in noncapital financing activities 156)		-	-	-
Cash used in capital and related financing activities	(513)	(741)	228	(838)
Cash provided by (used in) investing activities	<u>188</u>	<u>(289)</u>	<u>476</u>	<u>(100)</u>
Net increase in cash and equivalents	124	(932)	1,056	1,494
Cash and cash equivalents at beginning of year	<u>5,969</u>	<u>6,902</u>	<u>(932)</u>	<u>5,408</u>
Cash and cash equivalents at end of year	<u>\$ 6,093</u>	<u>\$ 5,969</u>	<u>\$ 124</u>	<u>\$ 6,902</u>

The slight increase in cash and equivalents is from the reduction of receivables from FSM National Government. The FSM National government is making a quarterly upfront payment of the appropriated operating funds to the college from the Compact II – Education Sector Grant starting fiscal year 2007.

The \$409K net cash inflow in operating activities for fiscal year 2007 consists of the following:

- Cash inflow from student tuition and fees of \$216K;
- Cash inflow from grants and contracts of \$17.294 Million;
- Cash inflow from auxiliary services of \$810K;
- Cash inflow from other revenues of \$301K;
- Cash outflow from payments of salaries of \$7.681 Million; and
- Cash outflow from payments to suppliers of \$10.531 Million

Budget Information

The College undertakes a yearly budget process as an integral part of financial planning that is linked with the Strategic Plan. The budget process includes the formulation and approval of budget guidelines, preparation of revenue and expenditure budgets by campus directors and budget heads in consultation with faculty and staff. Budgets are reviewed by Vice-Presidents, Finance and Planning Council Committees and Cabinet, and approved by the Board of Regents. The operating budget for Compact's Education Sector Grant (ESG), FSM – FMI budget, Board of Regents budget, Infrastructure Development Project (IDP) budget and Supplemental Education Grant (SEG) budget are transmitted to the FSM National Government Executive Budget Review Committee (EBRC) who in turn transmits it to the FSM Congress for review and appropriation.

The FSM appropriation bill Public Law No. 14 – 104 provided the College \$6.272 Million for fiscal year 2007, consisting of the following:

- \$3.852 Million to support the operations of the College;
- \$650K for the full subsidy of the operations of FSM – FMI;
- \$1.5 Million for improvements of state campus facilities;
- \$270K for work study program; and
- \$58K for the College's board of regents' activities.

The appropriation of \$3.852 Million from FSM National Government is funded by the U.S. Department of the Interior Education Sector Grant of Compact II. In addition, the College was awarded a \$570K Supplemental Education Grant (SEG) for work study and student financial assistance programs.

COLLEGE OF MICRONESIA-FSM

Management's Discussion and Analysis September 30, 2007 and 2006

The College has a total expenditure budget for operations of \$9.961 Million for fiscal year 2007. The appropriation of \$3.852 Million from the FSM National Government through the ESG of Compact II represents 39% funding. The remaining 61% is sourced from tuition and fees charged by the College to students.

Capital Assets and Long-term Debt Activity

At September 30, 2007, the College's net investment in capital assets is \$11.767 Million, net of accumulated depreciation. Depreciation for the current year totaled \$1.138 Million, and capital additions for furniture and equipment, vehicles and library books totaled \$514K. For additional information concerning fixed assets, please refer to the notes to the financial statements, primarily note 6.

The long-term debt of the College only consists of accrued annual leave. The Personnel Policy and Procedure Manual of the College provides an accumulation of annual leave balances in the employees' records. The accumulated annual leave shall be paid to the employee upon resignation/termination of employment. In a December 2006 board meeting, the Board of Regents adopted a directive increasing the hours to be paid by the College from 180 to 240.

The College did not incur any long-term debt in fiscal year 2007 or in prior years.

Management's Discussion and Analysis for the year ended September 30, 2006, is set forth in the report on the audit of the College's financial statements, which is dated May 22, 2007. That Discussion and Analysis explains the major factors impacting the 2006 financial statements and can be obtained via the Office of the Public Auditor's website at www.fsmpublicauditor.fm.

Economic Outlook

The economic position of the College is dependent on tuition fees from students receiving financial assistance from U.S. Federal Student Aid programs, and on the annual subsidy from FSM National Government through the Education Sector Grant as provided in the Compact of Free Association between the Government of the United States of America and the Government of the FSM (Compact 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 approved the Program Participation Agreement for the College through June 30, 2008, and the College has submitted all documents and requirements for the renewal of the College's Program Participation Agreement for another three or six years. About 97% of students received financial assistance from U.S. Federal Student Aid programs.

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). The reaffirmation of accreditation allows the College to continue to receive and administer U.S. Federal Student Aid programs for the College's eligible students.

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

COLLEGE OF MICRONESIA-FSM

Management's Discussion and Analysis September 30, 2007 and 2006

In order to tap alternative sources of funding and reduce reliance by the College on financial assistance from the U.S. and FSM governments in the long-run, the Office of "Development and Community Relations" (DCR) was created. The DCR Office is in-charge in the development of fund raising activities for the College which will include proposals targeted at corporate donors, foundations, and governments. This is an effort aimed at the long-term financial stability of the College through the College's endowment fund. A grant writer position is being considered to further develop new sources of grant funding for the College.

The College is developing a recruitment and retention plan to increase enrollment and retention rate. In the past two school years, the College experienced declining trend of enrollment. The management acknowledged this challenge and is seriously undertaking necessary actions to address this issue. In addition, management will implement the assessment of programs and services. The results of assessments will be used in reviewing costs and benefits of programs and services at the College, and in the allocation of resources.

The College is open to 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 planned to be undertaken to explore opportunities that will provide significant financial benefits to the College.

Contacting the College's Management

To learn more about the College or to clarify matters in the Management's Discussion and Analysis, please contact Spensin James, President or Danilo V. Dumantay, Comptroller at email addresses sjames@comfsm.fm or comptroller@comfsm.fm, respectively or please write us at P.O. Box 159, Kolonia, Pohnpei, FSM 96941.

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

Statements of Net Assets
September 30, 2007 and 2006

<u>ASSETS</u>	<u>2007</u>	<u>2006</u>
Current assets:		
Cash and cash equivalents	\$ 6,093,695	\$ 5,969,278
Due from FSM National Government, net	652,172	1,620,451
Tuition receivable, net	3,275,429	3,179,666
Grants and contracts receivable - U.S. Government (net of allowance for doubtful accounts of \$224,895 and \$93,890 for 2007 and 2006, respectively)	833,485	844,493
Other receivables (net of allowance for doubtful accounts of \$77,807 and \$69,576 for 2007 and 2006, respectively)	226,508	196,837
Inventory	406,204	233,795
Prepaid expenses	42,559	192,809
Total current assets	<u>11,530,052</u>	<u>12,237,329</u>
Noncurrent assets:		
Investments	3,103,077	2,655,010
Capital assets, net of accumulated depreciation	<u>11,767,373</u>	<u>12,391,481</u>
Total noncurrent assets	<u>14,870,450</u>	<u>15,046,491</u>
Total assets	<u>\$ 26,400,502</u>	<u>\$ 27,283,820</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Accounts payable	\$ 184,197	\$ 316,325
Payable to affiliates	-	8,481
Accrued liabilities	399,197	553,886
Accrued annual leave	260,351	197,863
Deferred revenue	2,880,551	2,634,829
Other current liabilities	856,639	857,055
Total current liabilities	<u>4,580,935</u>	<u>4,568,439</u>
Noncurrent liabilities:		
Long-term portion of accrued annual leave	<u>218,450</u>	<u>230,639</u>
Total liabilities	<u>4,799,385</u>	<u>4,799,078</u>
Contingencies		
Net assets:		
Invested in capital assets	11,767,373	12,391,481
Restricted:		
Nonexpendable	3,103,077	2,655,010
Unrestricted	<u>6,730,667</u>	<u>7,438,251</u>
Total net assets	<u>21,601,117</u>	<u>22,484,742</u>
Total liabilities and net assets	<u>\$ 26,400,502</u>	<u>\$ 27,283,820</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 Assets
Years Ended September 30, 2007 and 2006

	2007	2006
Operating revenues:		
Student tuition and fees	\$ 6,266,372	\$ 5,688,827
Less: Scholarship discounts and allowances	(6,046,730)	(5,265,877)
	219,642	422,950
Federal grants and contracts	14,785,955	14,526,358
Government grants and contracts	1,528,910	1,201,335
Sales and services of auxiliary enterprises	839,806	1,209,258
Other revenues	300,901	480,954
	17,675,214	17,840,855
Total operating revenues		
Less bad debts	(186,810)	(109,869)
	17,488,404	17,730,986
Net operating revenues		
Operating expenses:		
Institutional support	4,766,489	5,828,452
Instruction	7,359,586	5,760,024
Student financial assistance	2,094,328	2,227,766
Student services	1,462,239	1,278,973
Depreciation	1,137,699	1,173,401
Auxiliary enterprises	1,327,873	1,082,250
Academic support	584,851	637,634
Operations and maintenance, plant	47,638	169,840
	18,780,703	18,158,340
Total operating expenses		
Operating loss	(1,292,299)	(427,354)
Nonoperating revenues:		
Net investment income	408,674	238,555
	408,674	238,555
Net nonoperating revenues		
Net change in net assets	(883,625)	(188,799)
Net assets:		
Net assets at beginning of year	22,484,742	22,673,541
	21,601,117	22,484,742
Net assets at end of year	\$ 21,601,117	\$ 22,484,742

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, 2007 and 2006

	2007	2006
Cash flows from operating activities:		
Student tuition and fees, net	\$ 216,276	\$ 767,949
Grants and contracts	17,294,152	16,347,805
Auxiliary services	810,135	1,159,097
Other receipts	300,901	480,954
Payments to employees for salaries and benefits	(7,681,152)	(6,935,170)
Payments to suppliers and others	<u>(10,530,978)</u>	<u>(11,723,936)</u>
Net cash provided by operating activities	<u>409,334</u>	<u>96,699</u>
Cash flows from capital and related financing activities:		
Purchases of capital assets	<u>(513,591)</u>	<u>(740,975)</u>
Net cash used in capital and related financing activities	<u>(513,591)</u>	<u>(740,975)</u>
Cash flows from investing activities:		
Investment income	228,674	238,555
Purchase of investments	<u>-</u>	<u>(527,110)</u>
Net cash provided by (used in) investing activities	<u>228,674</u>	<u>(288,555)</u>
Net change in cash and cash equivalents	124,417	(932,831)
Cash and cash equivalents at beginning of year	<u>5,969,278</u>	<u>6,902,109</u>
Cash and cash equivalents at end of year	<u>\$ 6,093,695</u>	<u>\$ 5,969,278</u>
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (1,292,299)	\$ (427,354)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	1,137,699	1,173,401
Bad debts	186,810	109,869
Change in assets and liabilities:		
Tuition receivable	(550,639)	(863,875)
Grants and contracts receivable	1,029,287	620,112
Other receivables	(29,671)	(50,161)
Inventories	(172,409)	180
Prepaid expenses	150,250	(158,177)
Accounts payable	(132,128)	(75,708)
Payable to affiliates	(8,481)	(3,205)
Accrued liabilities	(104,390)	(22,858)
Deferred revenue	195,722	(488,610)
Other liabilities	<u>(417)</u>	<u>283,085</u>
Net cash provided by operating activities	<u>\$ 409,334</u>	<u>\$ 96,699</u>

See accompanying notes to financial statements.

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

Notes to Financial Statements
September 30, 2007 and 2006

(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, 2007 and 2006

(2) Basis of Presentation

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, 2007 and 2006, COM-FSM has recorded cash balances of \$6,093,695 and \$5,969,278, respectively, with corresponding bank balances of \$6,703,382 and \$6,429,091, respectively. Of these amounts, \$200,000 in each year is insured by the Federal Deposit Insurance Corporation (FDIC) and \$500,000 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, 2007 and 2006.

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

Notes to Financial Statements
September 30, 2007 and 2006

(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, 2007, are as follows:

	National Campus	State Campuses	Totals
Accounts receivable, gross	\$ 3,898,374	\$ 2,709,366	\$ 6,607,740
Allowance for uncollectible accounts	(1,679,334)	(1,652,977)	(3,332,311)
Accounts receivable, net	\$ <u>2,219,040</u>	\$ <u>1,056,389</u>	\$ <u>3,275,429</u>

Accounts receivable tuition and fees and accounts receivable employees net of an allowance for uncollectible accounts as of September 30, 2006, are as follows:

	National Campus	State Campuses	Totals
Accounts receivable, gross	\$ 3,770,006	\$ 2,588,647	\$ 6,358,653
Allowance for uncollectible accounts	(1,526,010)	(1,652,977)	(3,178,987)
Accounts receivable, net	\$ <u>2,243,996</u>	\$ <u>935,670</u>	\$ <u>3,179,666</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, 2007 and 2006, are recorded as prepaid expenses. Prepaid expenses represent prepayments for laboratory 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, 2007 and 2006

(3) Summary of Significant Accounting Policies, Continued

- G. Deferred Revenue. Deferred revenues include amounts received for tuition and fees and certain auxiliary activities 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. Accrued Leave. COM-FSM recognizes as a liability all vested leave benefits accrued by its employees at the time such leave is earned.
- 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 2007 and 2006 is as follows:

<u>Balance,</u> <u>Oct. 1, 2006</u>	<u>Addition</u>	<u>Reduction</u>	<u>Balance,</u> <u>Sept. 30, 2007</u>	<u>Current</u>
\$428,502	\$260,720	\$(210,421)	\$478,801	\$260,351

<u>Balance,</u> <u>Oct. 1, 2005</u>	<u>Addition</u>	<u>Reduction</u>	<u>Balance,</u> <u>Sept. 30, 2006</u>	<u>Current</u>
\$413,843	\$256,448	\$(241,789)	\$428,502	\$197,863

- 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:

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.

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

Notes to Financial Statements
September 30, 2007 and 2006

(3) Summary of Significant Accounting Policies, Continued

K. Classification of Revenues and Expenses, Continued

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 FSM National Government appropriations and 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. Reclassifications. Certain reclassifications have been made to the 2006 financial statements in order to conform with the 2007 presentation.

P. New Accounting Standards. In April 2004, GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. GASB Statement No. 43 establishes uniform financial reporting for other postemployment benefit plans by state and local governments. The provisions of this statement are effective for periods beginning after December 15, 2006. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the College.

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. GASB Statement No. 45 establishes standards for the measurement, recognition, and display of other post employment benefits expense/expenditures and related liabilities, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The provisions of this statement are effective for periods beginning after December 15, 2007. Management does not believe that the implementation of this statement will have a material effect 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, 2007 and 2006

(3) Summary of Significant Accounting Policies, Continued

P. New Accounting Standards, Continued

In September 2006, GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfer of Assets and Future Revenues*. GASB Statement No. 48 establishes criteria that governments will use to ascertain whether certain transactions should be regarded as a sale or a collateralized borrowing. The statement also includes a provision that stipulates that governments should not revalue assets that are transferred between financial reporting entity components. The provisions of this statement are effective for periods beginning after December 15, 2006. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the College.

In December 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. GASB Statement No. 49 provides guidance and consistency under which a governmental entity would be required to report a liability related to pollution remediation. The provisions of this statement are effective for periods beginning after December 15, 2007. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the College.

In May 2007, GASB issued Statement No. 50, *Pension Disclosures an amendment of GASB Statements No. 25 and 27*. GASB Statement No. 50 more closely aligns the financial reporting requirements for pensions with those for other post-employment benefits. The provisions of this statement are effective for periods beginning after June 15, 2007. Management does not believe the implementation of this statement will have a material effect on the financial statements of the College.

In June 2007, GASB issued statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. GASB Statement No. 51 addresses whether and when intangible assets should be considered capital assets for financial reporting purposes. The provisions of this statement are effective for periods beginning after June 15, 2009. Management does not believe that the implementation of this statement will have a material effect 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. 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.

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

Notes to Financial Statements
September 30, 2007 and 2006

(4) Investments, Continued

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, 2007 and 2006, by funding source, is as follows:

	<u>2007</u>	<u>2006</u>
<u>Donor</u>		
FSM Telecommunications Corporation (FSMTC)	\$ 165,000	\$ 165,000
U.S. Department of Education and local match (Challenge)	<u>2,938,077</u>	<u>2,490,010</u>
	<u>\$ 3,103,077</u>	<u>\$ 2,655,010</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.

As of September 30, 2007 and 2006, investments at fair value are as follows:

	<u>2007</u>	<u>2006</u>
Fixed income securities:		
Domestic fixed income	\$ 775,515	\$ 582,443
International fixed income	<u>33,545</u>	<u>13,800</u>
	<u>809,060</u>	<u>596,243</u>

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

Notes to Financial Statements
September 30, 2007 and 2006

(4) Investments, Continued

Other investments:		
Common equities	2,236,039	2,006,517
Money market funds	<u>57,978</u>	<u>52,250</u>
	<u>2,294,017</u>	<u>2,058,767</u>
	<u>\$ 3,103,077</u>	<u>\$ 2,655,010</u>

As of September 30, 2007, 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	\$ 33,545	\$ -	\$ 9,068	\$ -	\$ 24,477
Corporate bond	217,034	-	9,260	109,335	98,439
Government bond	<u>558,481</u>	<u>-</u>	<u>463,791</u>	<u>73,981</u>	<u>20,709</u>
	<u>\$ 809,060</u>	<u>\$ -</u>	<u>\$ 482,119</u>	<u>\$ 183,316</u>	<u>\$ 143,625</u>

As of September 30, 2006, 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	\$ 13,800	\$ -	\$ 7,000	\$ 6,800	\$ -
Corporate bond	103,721	-	5,411	86,486	11,824
Government bond	<u>478,722</u>	<u>15,874</u>	<u>244,185</u>	<u>152,965</u>	<u>65,698</u>
	<u>\$ 596,243</u>	<u>\$ 15,874</u>	<u>\$ 256,596</u>	<u>\$ 246,251</u>	<u>\$ 77,522</u>

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

The College's exposure to credit risk at September 30, 2007, was as follows:

<u>Moody's Rating</u>	<u>Total</u>	<u>Domestic</u>	<u>International</u>
AAA/AAA	\$ 587,498	\$ 587,498	\$ -
AA2/A-	6,401	6,401	-
AA2/AA	9,290	9,290	-
AA3/A+	7,330	7,330	-
AA3/A-	9,260	9,260	-
AA3/AA-	15,647	15,647	-
A1/A+	9,137	9,137	-
A1/AA-	18,105	8,801	9,304
A2/A	17,094	17,094	-
A2/A+	9,304	9,304	-
A3/A-	8,832	8,832	-
BAA1/A-	27,035	9,181	17,854
BAA1/BBB +	23,903	17,516	6,387

COLLEGE OF MICRONESIA-FSM
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Notes to Financial Statements
September 30, 2007 and 2006

(4) Investments, Continued

<u>Moody's Rating</u>	<u>Total</u>	<u>Domestic</u>	<u>International</u>
BAA2/BBB	15,645	15,645	-
BAA2/BBB-	9,023	9,023	-
BAA2/BBB+	17,934	17,934	-
BAA3/BBB	8,740	8,740	-
BAA3/BBB-	<u>8,882</u>	<u>8,882</u>	<u>-</u>
Total credit risk debt securities	\$ <u>809,060</u>	\$ <u>775,515</u>	\$ <u>33,545</u>

The College's exposure to credit risk at September 30, 2006, was as follows:

<u>Moody's Rating</u>	<u>Total</u>	<u>Domestic</u>	<u>International</u>
AAA/AAA	\$ 487,620	\$ 487,620	\$ -
AA3/A +	11,402	11,402	-
A1/A	5,303	5,303	-
A1/AA-	6,947	6,947	-
A2/A	11,646	11,646	-
A3/A-	13,800	-	13,800
A3/A	6,907	6,907	-
BAA1/BBB +	6,768	6,768	-
BAA2/BBB	24,628	24,628	-
BAA2/BBB-	7,084	7,084	-
BAA2/BBB+	7,459	7,459	-
BAA3/BBB	<u>6,679</u>	<u>6,679</u>	<u>-</u>
Total credit risk debt securities	\$ <u>596,243</u>	\$ <u>582,443</u>	\$ <u>13,800</u>

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, 2007 and 2006.

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, 2007. As of September 30, 2006, the College's investment in agency obligations of Federal National Mortgage Association constituted 17% of its total investments.

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.

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Notes to Financial Statements
September 30, 2007 and 2006

(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 grants and contracts receivable – U.S. Government are comprised of the following uncollected grants as of September 30, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Due from U.S. Department of Education	\$ 292,241	\$ 461,961
Due from COM-Land Grant, net	<u>541,244</u>	<u>382,532</u>
	\$ <u>833,485</u>	\$ <u>844,493</u>

(6) Capital Assets

Capital assets at September 30, 2007 and 2006 consist of the following:

	Balance October 1, <u>2006</u>	<u>Additions</u>	<u>Retirements</u>	Balance September 30, <u>2007</u>
Non-depreciable assets:				
Land	\$ 1,455,685	\$ -	\$ -	\$ 1,455,685
Depreciable assets:				
Building	13,661,263	-	-	13,661,263
Furniture and equipment	6,706,156	399,137	-	7,105,293
Vehicles/boats	724,183	113,873	-	838,056
Library books	<u>705,821</u>	<u>581</u>	-	<u>706,402</u>
	21,797,423	513,591	-	22,311,014
Less accumulated depreciation	<u>(10,861,627)</u>	<u>(1,137,699)</u>	-	<u>(11,999,326)</u>
	<u>10,935,796</u>	<u>(624,108)</u>	-	<u>10,311,688</u>
Net investment in capital assets	\$ <u>12,391,481</u>	\$ <u>(624,108)</u>	\$ -	\$ <u>11,767,373</u>
	Balance October 1, <u>2005</u>	<u>Additions</u>	<u>Retirements</u>	Balance September 30, <u>2006</u>
Non-depreciable assets:				
Land	\$ 1,455,685	\$ -	\$ -	\$ 1,455,685
Depreciable assets:				
Building	13,661,263	-	-	13,661,263
Furniture and equipment	6,145,138	561,018	-	6,706,156
Vehicles/boats	667,863	56,320	-	724,183
Library books	<u>582,184</u>	<u>123,637</u>	-	<u>705,821</u>
	21,056,448	740,975	-	21,797,423
Less accumulated depreciation	<u>(9,688,226)</u>	<u>(1,173,401)</u>	-	<u>(10,861,627)</u>
	<u>11,368,222</u>	<u>(432,426)</u>	-	<u>10,935,796</u>
Net investment in capital assets	\$ <u>12,823,907</u>	\$ <u>(432,426)</u>	\$ -	\$ <u>12,391,481</u>

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

Notes to Financial Statements
September 30, 2007 and 2006

(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, 2007 and 2006, receivables from the FSM National Government amounted to \$652,172 and \$1,620,451, respectively.

Payable to affiliates is comprised of the following at September 30, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
FSM National Government	\$ -	\$ 460
FSM Telecommunications Corporation	<u>-</u>	<u>8,021</u>
	\$ <u>-</u>	\$ <u>8,481</u>

(8) Contingencies

COM-FSM purchases commercial insurance to cover its potential risks from fire and property damage on some of its building and contents. COM-FSM is substantially self-insured for all other risks. In the event of a catastrophe, COM-FSM may be self-insured to a material extent. Settlements have not exceeded insurance coverage in the past three years.

COM-FSM is party to various legal proceedings. Legal counsel is of the opinion that the probable outcome of these proceedings is not predictable but will have no material impact on the accompanying financial statements.

During fiscal years ended September 30, 2007 and 2006, immaterial unreconciled differences exist between the College's and COM Land Grant's financial records. The College is resolving this matter with its counterpart and such reconciliation is not expected to have a material impact on the accompanying financial statements.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT 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, 2007, and have issued our report thereon dated June 15, 2008. 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 of Micronesia-FSM'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 of Micronesia-FSM's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the College of Micronesia-FSM's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the College of Micronesia-FSM's financial statements that is more than inconsequential will not be prevented or detected by the College of Micronesia-FSM's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

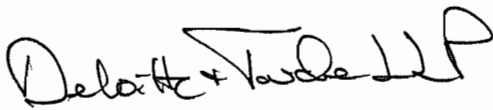
Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be 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 grants, 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 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's in a separate letter dated June 15, 2008.

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

A handwritten signature in black ink, appearing to read "Deloitte + Touche LLP". The signature is stylized and written in a cursive-like font.

June 15, 2008

**PENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

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 are applicable to each of its major federal programs for the year ended September 30, 2007. 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 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 of Micronesia-FSM complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended September 30, 2007.

Internal Control Over Compliance

The management of the College of Micronesia-FSM is responsible for establishing and maintaining effective internal control over compliance with 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 requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

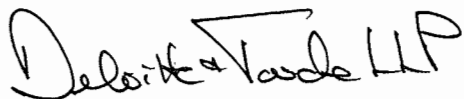
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the College of Micronesia-FSM's internal control.

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

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the College of Micronesia-FSM, as of and for the year ended September 30, 2007, and have issued our report thereon dated June 15, 2008. 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 the purpose 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 the College of Micronesia-FSM. Such information has been subjected to the auditing procedures applied in our 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 the College of Micronesia-FSM, federal awarding agencies, pass-through entities, the cognizant audit and other federal agencies, and is not intended to be, and should not be, used by anyone other than those specified parties.

A handwritten signature in black ink that reads "Deloitte & Touche LLP". The signature is written in a cursive, flowing style.

June 15, 2008

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

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2007

<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	\$ 7,955,261
Federal Supplemental Education Opportunity Grant	84.007	135,200
Federal Work-Study Program	84.033	116,429
TRIO: Upward Bound	84.047	1,316,613
TRIO: Talent Search	84.044	232,304
TRIO: Student Support Services	84.042	248,442
Bilingual Education: Professional Development	84.195	<u>215,007</u>
Total U.S. Department of Education		\$ <u>10,219,256</u>
 <u>U.S. Department of the Interior:</u>		
Compact of Free Association II, Amended	15.875	\$ 3,852,833
Compact of Free Association II, Amended (SEG)	15.875	573,037
Operation and Maintenance Technical Assistance	15.875	<u>22,557</u>
Total U.S. Department of the Interior		\$ <u>4,448,427</u>
Total Federal Awards		\$ <u>14,667,683</u>

Notes: The above grants are received in a direct capacity from the U.S. Department of Education and the U.S. Department of the Interior, with the exception of the Compact of Free Association, as amended, which is received in a subrecipient capacity through the FSM National Government. The Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting.

Reconciliation to financial statements:

Total federal awards expenditures:	\$ 14,667,683
Depreciation	1,137,699
Non-federal awards	<u>3,162,131</u>
Total expenditures per financial statements	\$ <u>18,967,513</u>

COLLEGE OF MICRONESIA-FSM
(A COMPONENT UNIT OF THE FSM NATIONAL GOVERNMENT)
Schedule of Findings and Questioned Costs
Year Ended September 30, 2007

Part I - Summary of Auditors' Results

1. The Independent Auditors' Report on the financial statements expressed an unqualified opinion.
2. No significant deficiencies in internal control over financial reporting were identified.
3. Instances of noncompliance considered material to the financial statements were not disclosed by the audit.
4. No significant deficiencies in internal control over compliance with requirements applicable to major federal awards programs were identified.
5. The Independent Auditors' Report on compliance with requirements applicable to major federal award programs expressed an unqualified opinion.
6. The audit disclosed no findings required to be reported by OMB Circular A-133.
7. COM-FSM's major programs were:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
<u>U.S. Department of Education:</u>	
	Federal Student Aid Cluster:
84.063	Federal Pell Grant Program
84.033	Federal Work-Study Program
84.007	Federal Supplemental Opportunity Grant
	TRIO Cluster:
84.047	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

8. A threshold of \$440,030 was used to distinguish between Type A and Type B programs, as those terms are defined in OMB Circular A-133.
9. COM-FSM did qualify as a low-risk auditee as that term is defined in OMB Circular A-133.

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 Questioned Costs
Year Ended September 30, 2007

The following is a summary of unresolved federal questioned costs for the College of Micronesia-FSM:

	Questioned Costs Set Forth in the Audit Report <u>2006</u>	Questioned Costs <u>Resolved</u>	Questioned Costs at <u>September 30, 2007</u>
Costs questioned during the year ended September 30, 2007	\$ -	\$ -	\$ <u>-</u>
Total questioned costs outstanding as of September 30, 2007			\$ <u><u>-</u></u>