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June 18, 2015

To the Board of Regents of
College of Micronesia-FSM:

We have performed an audit of the financial statements of College of Micronesia-FSM (the College), a component unit of the Federated States of Micronesia (FSM) National Government, as of and for the year ended September 30, 2014, in accordance with auditing standards generally accepted in the United States of America ("generally accepted auditing standards") and have issued our report thereon dated June 18, 2015.

We have prepared the following comments to assist you in fulfilling your obligation to oversee the financial reporting and disclosure process for which management of the College is responsible.

OUR RESPONSIBILITY UNDER GENERALLY ACCEPTED AUDITING STANDARDS AND GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS

Our responsibility under generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, have been described in our engagement letter dated September 2, 2014, a copy of which has been provided to you. As described in that letter, the objective of a financial statement audit conducted in accordance with the aforementioned standards is:

- To express an opinion on whether the statement of net position of the College as of September 30, 2014, and the related statements of revenues, expenses, and changes in net position and of cash flows for the year ended September 30, 2014 (the "financial statements"), are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America ("generally accepted accounting principles"), and perform specified procedures on the required supplementary information for the year ended September 30, 2014.
- To report on the College's internal control over financial reporting and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the year ended September 30, 2014 based on an audit of financial statements performed in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*; and
- To report on the College's compliance with requirements applicable to each major federal program and on internal control over compliance in accordance with the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* ("OMB Circular A-133") and on the schedule of expenditures of federal awards.

Our responsibilities under generally accepted auditing standards include forming and expressing an opinion about whether the financial statements that have been prepared with the oversight of management and the Board of Regents are presented fairly, in all material respects, in conformity with generally accepted accounting principles. The audit of the financial statements does not relieve management or the Board of Regents of their responsibilities.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether caused by fraud or error. In making those assessments, we considered internal control over financial reporting relevant to the College's preparation and fair presentation of the financial statements in order to design audit procedures that were 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 do not express an opinion on the effectiveness of the College's internal control over financial reporting. Our consideration of internal control over financial reporting was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

We also considered the College'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 and to test and report on internal control over compliance in accordance with OMB Circular A-133. Our audit does not, however, provide a legal determination of the College's compliance with those requirements.

ACCOUNTING ESTIMATES

Accounting estimates are an integral part of the financial statements prepared with the oversight of management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and on assumptions about future events. Significant accounting estimates reflected in the College's 2014 financial statements include management's estimate of the allowance for uncollectible accounts, which is determined based upon past collection experience and aging of the accounts; management's estimate of the allowance for inventory obsolescence, which is determined based upon expected inventory turnover and inventory aging; and management's estimate of depreciation expense, which is based on estimated useful lives of the respective capital assets. During the year ended September 30, 2014 we are not aware of any significant changes in accounting estimates or in management's judgments relating to such estimates.

AUDIT ADJUSTMENTS AND UNCORRECTED MISSTATEMENTS

Our audit of the financial statements was designed to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. As the result of our audit, we identified matters that resulted in audit adjustments that we believe, either individually or in the aggregate, would have a significant effect on the College's financial reporting process. Such proposed adjustments, listed as Appendix A to Attachment I, have been recorded in the accounting records and are reflected in the 2014 financial statements.

We have attached to this letter, as Appendix B to Attachment I, a summary of uncorrected misstatements by us during the current engagement and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

SIGNIFICANT ACCOUNTING POLICIES

The College's significant accounting policies are set forth in Note 3 to College's 2014 financial statements. During the year ended September 30, 2014, there were no significant changes in previously adopted accounting policies or their application, except for the following pronouncements adopted by the College:

- 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 College's financial statements.

SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

- 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 College's 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 College's 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 does not believe that the implementation of this statement will have a material effect on the financial statements of the College.

OTHER INFORMATION IN THE ANNUAL REPORTS OF THE COLLEGE

When audited financial statements are included in documents containing other information, such as Annual Reports, we will read such other information and consider whether it, or the manner of its presentation, is materially inconsistent with the information, or the manner of its presentation, in the financial statements audited by us. In the event that the College issues an Annual Report or other documentation that includes the audited financial statements, we will be required to read the other information in the College's 2014 Annual Report and will inquire as to the methods of measurement and presentation of such information. If we note a material inconsistency or if we obtain any knowledge of a material misstatement of fact in the other information, we will discuss this matter with management and, if appropriate, with the Board of Regents.

DISAGREEMENTS WITH MANAGEMENT

We have not had any disagreements with management related to matters that are material to the College's 2014 financial statements.

OUR VIEWS ABOUT SIGNIFICANT MATTERS THAT WERE THE SUBJECT OF CONSULTATION WITH OTHER ACCOUNTANTS

We are not aware of any consultations that management may have had with other accountants about auditing and accounting matters during 2014.

SIGNIFICANT FINDINGS OR ISSUES DISCUSSED, OR SUBJECT OF CORRESPONDENCE, WITH MANAGEMENT PRIOR TO OUR RETENTION

Throughout the year, routine discussions were held, or were the subject of correspondence, with management regarding the application of accounting principles or auditing standards in connection with transactions that have occurred, transactions that are contemplated, or reassessment of current circumstances. In our judgment, such discussions or correspondence, were not held in connection with our retention as auditors.

SIGNIFICANT DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

In our judgment, we received the full cooperation of the College's management and staff and had unrestricted access to the College's senior management in the performance of our audit.

MANAGEMENT'S REPRESENTATIONS

We have made specific inquiries of the College's management about the representations embodied in the financial statements. Additionally, we have requested that management provide to us the written representations the College is required to provide to its independent auditors under generally accepted auditing standards. We have attached to this letter, as Attachment I, a copy of the representation letter we obtained from management.

CONTROL-RELATED MATTERS

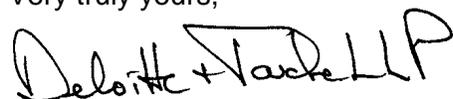
We have issued a separate report to you, dated June 18, 2015, on the College's internal control over financial reporting and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters, which was based upon the audit performed in accordance with *Government Auditing Standards*. We have also issued a separate report to you, also dated June 18, 2015, involving the College's compliance with requirements applicable to each major program and on internal control over compliance in accordance with OMB Circular A-133. Within those reports, we noted certain matters that were considered to be significant deficiencies under standards established by the American Institute of Certified Public Accountants and OMB Circular A-133. Although we have included management's written responses to our comments contained in the reports, such responses have not been subjected to the auditing procedures applied in our audit of the basic financial statements and, accordingly, we do not express an opinion or provide any form of assurance on the appropriateness of the response or the effectiveness of any corrective actions described therein.

We have communicated to management and the Board of Regents, in separate letters dated June 18, 2015, certain deficiencies and other matters related to the College's internal control over financial reporting that we identified during our audit.

This report is intended solely for the information and use of the Board of Regents, the management, and others within the College and is not intended to be and should not be used by anyone other than these specified parties.

We wish to thank the staff and management of the College for their cooperation and assistance during the course of this engagement.

Very truly yours,

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



COLLEGE OF MICRONESIA –FSM

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Office of the President

June 18, 2015

Deloitte & Touche
P.O. Box 753
Kolonia, Pohnpei 96941

We are providing this letter in connection with your audits of the statements of net position of the College of Micronesia-FSM (COM-FSM), a component unit of the Federated States of Micronesia (FSM) National Government, as of September 30, 2014 and 2013, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows of the COM-FSM in conformity with accounting principles generally accepted in the United States of America (GAAP).

We confirm that we are responsible for the following:

- a. The fair presentation in the basic financial statements of financial position of COM-FSM in conformity with GAAP.
- b. The design, implementation, and maintenance of programs and controls to prevent and detect fraud, including fraud related to federal awards.
- c. Establishing and maintaining effective internal control over financial reporting.
- d. The review and approval of the financial statements and related notes and acknowledge your role in the preparation of this information. Specifically, we acknowledge that your role in the preparation of the financial statements was a matter of convenience rather than one of necessity. We have reviewed the financial statement preparation assistance provided by you and acknowledge that the financial statements are prepared in accordance with GAAP. Our review was based on the use of the financial statement disclosure checklist for stand-alone business-type activities obtained from the Government Finance Officers Association. Additionally, we agree with the recorded adjustments included in Appendix A.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audits.

1. The basic financial statements referred to above are fairly presented in conformity with GAAP. In addition:
 - a. The financial statements include all component units and properly disclose all other related organizations.
 - b. Net position components (net investment in capital assets; restricted; and unrestricted) are properly classified and, if applicable, approved.
 - c. Deposits and investment securities are properly classified in category of custodial credit risk.
 - d. Interfund, internal, and intra-Entity activity and balances have been appropriately classified and reported.
 - e. Capital assets, including infrastructure assets, are properly capitalized, reported, and, if applicable, depreciated.
 - f. Required supplementary information is measured and presented within prescribed guidelines.
 - g. Applicable laws and regulations are followed in adopting, approving and amending budgets.
 - h. Federal awards expenditures have been charged in accordance with applicable cost principles.
 - i. The financial statements properly classify all funds and activities, including special and extraordinary items.
 - j. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.

2. COM-FSM has provided to you all relevant information and access as agreed in the terms of the audit engagement letter.

3. COM-FSM has made available to you all:
 - a. Minutes of the meetings of the Board of Regents or summaries of actions of recent meetings for which minutes have not yet been prepared. Board meetings were held on the following dates:

December 2-3, 2013	January 8, 2015
March 22, 2014	February 19-20, 2015
May 28, 2014	March 19, 2015
August 8, 2014	

- b. Financial records and related data for all financial transactions of COM-FSM and for all funds administered by COM-FSM. The records, books, and accounts, as provided to you, record the financial and fiscal operations of all funds administered by COM-FSM and provide the audit trail to be used in a review of accountability. Information presented in financial reports is supported by the books and records from which the financial statements have been prepared.
 - c. Contracts and grant agreements (including amendments, if any) and any other correspondence that has taken place with federal agencies.
4. There has been no:
 - a. Action taken by COM-FSM management that contravenes the provisions of federal laws and Federated States of Micronesia's laws and regulations, or of contracts and grants applicable to COM-FSM except as discussed in the Schedule of Findings and Questioned Costs section of your Independent Auditors' Reports on Internal Control and on Compliance.
 - b. Communication from other regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices or other matters that could have a material effect on the financial statements.
5. We believe the effects of any uncorrected financial statement misstatements aggregated by you during the current audit engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. A summary of such uncorrected misstatements has been attached as Appendix B.
6. COM-FSM has not performed a formal risk assessment, including the assessment of the risk that the financial statements may be materially misstated as a result of fraud. However, management has made available to you their understanding about the risks of fraud in COM-FSM and do not believe that the financial statements are materially misstated as a result of fraud.
7. We have no knowledge of any fraud or suspected fraud affecting COM-FSM involving:
 - a. Management
 - b. Employees who have significant roles in internal control over financial reporting
 - c. Others if the fraud could have a material effect on the financial statements.
8. We have no knowledge of any allegations of fraud or suspected fraud affecting COM-FSM received in communications from employees, former employees, analysts, regulators, or others.
9. There are no unasserted claims or assessments that legal counsel has advised us are probable of assertion and must be disclosed in accordance with GASB Codification of Governmental Accounting and Financial Reporting Standards ("GASB Codification") Section C50, *Claims and Judgments*.
10. Significant assumptions used by us in making accounting estimates are reasonable.

11. The Schedule of Expenditures of Federal Awards was prepared in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. We have identified in that schedule all awards provided by federal agencies in the form of grants, contracts, loans, loan guarantees, property, cooperative agreements, interest subsidies, insurance, or direct appropriations. In addition, we have accurately completed the appropriate sections of the data collection form.
12. We are responsible for compliance with local, state, and federal laws, rules, and regulations, including compliance with the requirements of OMB Circular A-133, and provisions of grants and contracts relating to the COM-FSM's operations. We are responsible for establishing and maintaining the components of internal control relating to our activities in order to achieve the objectives of providing reliable financial reports, effective and efficient operations, and compliance with laws and regulations. COM-FSM is responsible for maintaining accounting and administrative control over revenues, obligations, expenditures, assets, and liabilities.
13. We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance for federal and state programs that provides reasonable assurance that we are managing federal and state awards in compliance with laws, regulations, and provisions of contracts or grant agreements that could have a material effect on its federal programs.
14. COM-FSM has obligated, expended, received, and used public funds in accordance with the purpose for which such funds have been appropriated or otherwise authorized by local, state, or federal law. Such obligation, expenditure, receipt, or use of public funds was in accordance with any limitations, condition, or mandatory directions imposed by local, state, or federal law.
15. Money or similar assets handled by COM-FSM on behalf of the Federal Government have been properly and legally administered, and the accounting and record keeping related thereto is proper, accurate, and in accordance with law.
16. We have disclosed to you all deficiencies in the design or operation of internal control over financial reporting identified as part of our evaluation, including separately disclosing to you all such deficiencies that are significant deficiencies or material weaknesses in internal control over financial reporting.
17. We have:
 - a. Identified the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each federal program as identified in Part 3 of the Compliance Supplement dated March 2014 related to period under audit.
 - b. Complied, in all material respects, with the requirements identified above in connection with federal awards except as disclosed in the Schedule of Findings and Questioned Costs section of your Independent Auditors' Reports on Internal Control and on Compliance.
 - c. Identified and disclosed interpretations of any compliance requirements that have varying interpretations.

- d. Made available all information related to federal financial reports and claims for advances and reimbursements. Federal financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared and are prepared on a basis consistent with that presented in the Schedule of Expenditures of Federal Awards. The copies of federal program financial reports provided are true copies of the reports submitted, or electronically transmitted, to the federal agency or pass-through entity, as applicable.
 - e. Identified and disclosed all amounts questioned and any known noncompliance with the requirements of federal awards, including the results of other audits or program reviews related to the objectives of the audit.
 - f. Identified previous financial audits, attestation engagements, performance audits, or other studies related to the objectives of the audit and the corrective actions taken to address significant findings and recommendations, including the status of follow-up on prior audit findings (and information about all management decisions) by federal awarding agencies and pass-through entities.
 - g. Provided to you our views on the reported findings, conclusions, and recommendations for your report.
 - h. Monitored subrecipients to determine that they have expended pass-through assistance in accordance with applicable laws and regulations and have met the requirements of Circular A-133.
 - i. Taken appropriate corrective action on a timely basis after receipt of a subrecipient's auditor's report that identifies noncompliance with laws, regulations, or the provisions of contracts or grant agreements.
 - j. Considered the results of the subrecipient's audits and made any necessary adjustments to the auditee's own books and records.
18. We are responsible for follow-up on all prior-year findings. We have prepared a summary schedule of prior-year findings reporting the status of our efforts in implementation of the prior-year's corrective action plan.
19. We have included in the corrective action plan for current-year findings, the name of the person in our organization responsible for implementation of the actions, the best actions to be taken, and the estimate of a completion date. We have taken timely and appropriate steps to remedy fraud, illegal acts, violation of provisions of contracts or grant agreements, or abuse that you report.
20. Management has identified and disclosed to you all laws and regulations that have a direct and material effect on the determination of financial statement amounts.
21. Except for the Foundation discussed in item 1a above, no other organizations were identified that meet the criteria established in GASB Statement No. 39 of the Governmental Accounting Standards Board, *Determining Whether Certain Organizations are Component Units*, an amendment of Statement No. 14 of the Governmental Accounting Standards Board, *The Financial Reporting Entity*.

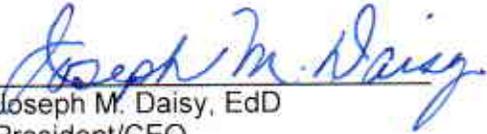
Except where otherwise stated below, matters less than \$85,000 collectively are not considered to be exceptions that require disclosure for the purpose of the following representations. This amount is not necessarily indicative of amounts that would require adjustment to or disclosure in the financial statements.

22. There are no transactions that have not been properly recorded in the accounting records underlying the financial statements.
23. COM-FSM has no plans or intentions that may affect the carrying value or classification of assets and liabilities.
24. The following, to the extent applicable, have been appropriately identified, properly recorded, and disclosed in the financial statements:
 - a. Related-party transactions and associated accounts receivable or payable, including sales, purchases, loans, transfer, leasing arrangements, and guarantees (written or oral).
 - b. Guarantees, whether written or oral, under which COM-FSM is contingently liable.
25. In preparing the financial statements in conformity with accounting principles generally accepted in the United States of America, management uses estimates. All estimates have been disclosed in the financial statements for which known information available prior to the issuance of the financial statements indicates that both of the following criteria are met:
 - a. It is at least reasonably possible that the estimate of the effect on the financial statements of a condition, situation, or set of circumstances that existed at the date of the financial statements will change in the near term due to one or more future confirming events.
 - b. The effect of the change would be material to the financial statements.
26. Risks associated with concentrations, based on information known to management, that meet all of the following criteria have been disclosed in the financial statements:
 - a. The concentration exists at the date of the financial statements.
 - b. The concentration makes the enterprise vulnerable to the risk of a near-term severe impact.
 - c. It is at least reasonably possible that the events that could cause the severe impact will occur in the near term.
27. There are no:
 - a. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
 - b. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB Codification Section C50, *Claims and Judgments*, except as disclosed in Note 8 to the basic financial statements.
28. COM-FSM has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral except as disclosed in the note to the financial statements.
29. COM-FSM has complied with all aspects of contractual agreements that may have an effect on the financial statements in the event of noncompliance.

30. No department or agency of the COM-FSM has reported a material instance of noncompliance to us.
31. COM-FSM has disclosed whether, subsequent to September 30, 2014, any changes in internal control or other factors that might significantly affect internal control, including any corrective action taken by management with regard to significant deficiencies and material weaknesses, have occurred.
32. No evidence of fraud, possible irregularities, or dishonesty in fiscal operations of programs administered by COM-FSM has been discovered.
33. Other than those described in Note 12 to the financial statements, no events have occurred subsequent to September 30, 2014, but before June 18, 2015, the date the financial statements were available to be issued that require consideration as adjustments to or disclosures in the financial statements.
34. No events have occurred subsequent to September 30, 2014 that requires consideration as adjustments to or disclosures in the schedule of federal awards and related notes.
35. Regarding required supplementary information:
 - a. We confirm that we are responsible for the required supplementary information.
 - b. The required supplementary information is measured and presented in accordance with GASB Codification Section 2200, *Comprehensive Annual Financial Report*.
 - c. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period.
36. We have appropriately identified and properly recorded and disclosed in the financial statements, where applicable, all interfund transactions, including repayment terms.
37. Receivables recorded in the financial statements represent valid claims against debtors for sales or other charges arising on or before the balance sheet date and have been appropriately reduced to their estimated net realizable value.
38. Provision has been made, where applicable, to reduce excess or obsolete inventories to their estimated net realizable value. All inventories are the property of COM-FSM and do not include any items consigned to it or any items billed to customers.
39. During fiscal year 2014, COM-FSM 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 College's 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 College's 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 College's financial statements.
40. 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.
 41. 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.
 42. 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.
 43. We represent to you that, subsequent to September 30, 2014, there were no changes in internal control or other factors that might significantly affect internal control, including any corrective action taken by management with regard to reportable conditions (including material weaknesses).
 44. COM-FSM is responsible for determining and maintaining the adequacy of the allowance for doubtful accounts receivable, as well as estimates used to determine such amounts. Management believes the allowances are adequate to absorb currently estimated bad debts in the account balances.

45. COM-FSM is periodically a defendant in legal actions inherent to the nature of its operations, the ultimate impact of which is not currently predictable. Therefore, no liability has been recorded in the accompanying financial statements due to management's inability to predict the ultimate outcome of these proceedings.



Joseph M. Daisy, EdD
President/CEO



Doman Daoas
Acting Comptroller

**APPENDIX A
SUMMARY OF AUDIT ADJUSTMENTS
SEPTEMBER 30, 2014 AUDIT**

Unrestricted Fund:

#	Name	Debit	Credit
1 AJE To reclass accrual			
4001	Accounts payable - General Fund	113,164.28	-
4001	Accounts payable - General Fund	177,370.32	-
4051	Social Security payable	-	177,370.32
4053	Withholding tax payable	-	113,164.28
		<u>290,534.60</u>	<u>290,534.60</u>
	To reclass accrual from AP for FS presentation.		
2 AJE To reclass receivables			
2451	Due from FSM-FMI	-	130,515.20
2411	Due from FSM-Operations App.	130,515.20	-
		<u>130,515.20</u>	<u>130,515.20</u>
	To reclass receivables for proper presentation.		
3 AJE To adjust liability			
5202	Due to COM Land Grant - Matching Fund	25,000.00	-
8997	Matching costs (grants/supports)	-	25,000.00
		<u>25,000.00</u>	<u>25,000.00</u>
	To adjust liability account due to previously settled liability.		
4 AJE To correct recording of contributions			
5022	Due to endowment fund	-	100,000.00
5807	Obligations to Contracts	100,000.00	-
2020	25k Initial Fund of Friends of COM-FSM Inc	-	625,000.00
8741.1	Contributions to CU	625,000.00	-
		<u>725,000.00</u>	<u>725,000.00</u>
	To correct recording of contributions to Friends of COM-FSM Foundation.		
5 AJE To adjust prepayment			
2053	Prepaid Expenses	-	34,960.00
8932	Computer (Hardware/Software)	34,960.00	-
		<u>1,350,000.00</u>	<u>725,000.00</u>
	To adjust prepayment due to capital assets received prior to 9/30/14.		
6 AJE To adjust prepayment			
2053	Prepaid Expenses	-	12,017.30
8932	Computer (Hardware/Software)	12,017.30	-
		<u>12,017.30</u>	<u>12,017.30</u>
	To adjust prepayment due to received items prior to 9/30/14.		

**APPENDIX A
SUMMARY OF AUDIT ADJUSTMENTS
SEPTEMBER 30, 2014 AUDIT**

Unrestricted Fund:

7 AJE To adjust prepayment			
2053	Prepaid Expenses	-	22,156.95
8932	Computer (Hardware/Software)	22,156.95	-
		<u>22,156.95</u>	<u>22,156.95</u>

To adjust prepayment due to receipt of purchased items prior to 9/30/14 cut off.

8 AJE To adjust allowance			
2102	Allow, rec. students -National	285,612.00	-
9101	Bad debts expense	-	285,612.00
		<u>285,612.00</u>	<u>285,612.00</u>

To correct allowance for doubtful accounts.

9 AJE To adjust prepaid expense			
2053	Prepaid Expenses	-	36,328.00
8999	Off-Island Supplies & Equipment	36,328.00	-
		<u>36,328.00</u>	<u>36,328.00</u>

To adjust prepaid expenses.

State Campus Fund:

#	Name	Debit	Credit
	1 AJE To adjust Net position beginning balance		
4001	Accounts payable - General Fund	1,331.00	-
6020	Fund balance - state campus combined	-	1,331.00
		<u>1,331.00</u>	<u>1,331.00</u>

To adjust Net position beginning balances

	2 AJE To reclass accrual		
4001	Accounts payable - General Fund	38,847.35	-
4001	Accounts payable - General Fund	60,118.68	-
4051	Social Security payable	-	60,118.68
4053	Withholding tax payable	-	38,847.35
		<u>98,966.03</u>	<u>98,966.03</u>

To reclass accrual from AP for FS presentation.

	3 AJE To adjust prepayment		
2051	Prepaid purchases	-	18,025.95
8932	Computer (Hardware/Software)	18,025.95	-
		<u>18,025.95</u>	<u>18,025.95</u>

To adjust prepayment due to received items prior to 9/30/14

**APPENDIX A
SUMMARY OF AUDIT ADJUSTMENTS
SEPTEMBER 30, 2014 AUDIT**

Unrestricted Fund:**4 AJE To adjust allowance**

2132	Allow, rec. students - Chuuk	-	175,851.00
9101	Bad debts expense	175,851.00	-
		<u>175,851.00</u>	<u>175,851.00</u>

To correct the allowance for doubtful accounts.

Endowment Fund:

#	Name	Debit	Credit
	1 AJE To record donation		
7503	Donation for endowment fund	-	100,000.00
2201	Due from unrestricted fund	100,000.00	-
		<u>100,000.00</u>	<u>100,000.00</u>

To record donation from Tan Siu.

Plant Fund:

#	Name	Debit	Credit
	1 AJE To capitalize fixed assets		
3304	Inv. in plant-Computer	4,400.00	-
3304	Inv. in plant-Computer	6,710.00	-
3304	Inv. in plant-Computer	23,850.00	-
8991	Expenses (various) - accrual	-	34,960.00
		<u>34,960.00</u>	<u>34,960.00</u>

To capitalize fixed assets received prior to 9/30/14.

2 AJE To capitalize fixed assets

3304	Inv. in plant-Computer	30,043.25	-
8991	Expenses (various) - accrual	-	30,043.25
		<u>30,043.25</u>	<u>30,043.25</u>

To capitalize fixed assets as of 9/30/14

3 AJE To record capitalized assets

3202	Inv. in plant-Furnitures	21,945.00	-
3304	Inv. in plant-Computer	26,496.97	-
3702	Inv. in plant-Vehicles/boat	32,925.00	-
8900	Expended for Plant Facilities	-	81,366.97
		<u>81,366.97</u>	<u>81,366.97</u>

To record capitalized asset at 9/30/14.

Restricted Fund:

#	Name	Debit	Credit
	1 AJE To adjust beginning Net Position		
6101	Fund balance - restricted	-	50,000.00
7669	FSM other grants	50,000.00	-
		<u>50,000.00</u>	<u>50,000.00</u>

To adjust beginning Net Position due to unrecorded audit adjustment.

**APPENDIX A
SUMMARY OF AUDIT ADJUSTMENTS
SEPTEMBER 30, 2014 AUDIT**

Unrestricted Fund:**2 AJE To reclass accrual**

4007	Accounts payable - Rest. Operation Fund	11,106.31	-
4007	Accounts payable - Rest. Operation Fund	22,597.38	-
4051	Social Security payable	-	22,597.38
4053	Withholding tax payable	-	11,106.31
		<u>33,703.69</u>	<u>33,703.69</u>

To reclass accrual from AP for FS presentation

APPENDIX B SUMMARY OF UNCORRECTED MISSTATEMENTS							
Description of Misstatement	Assets		Liabilities		Income		TOTAL
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	
To recognize unrecorded liabilities				33,101	33,101		0
To reclassify unreleased checks	43,466			43,466			0
To recognize income			36,481			36,481	0
To reverse receivable		37,298			37,298		0
To reclassify expenses	27,885					27,885	0
To radjust stale dated checks			54,013			54,013	0
To provide allowance for old long-outstanding travel advances		86,699				86,699	0
	\$ 71,351	\$ 123,997	\$ 90,494	\$ 76,567	\$ 157,098	\$ 118,379	\$ -