

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

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2019 AND 2018

INDEPENDENT AUDITORS' REPORT

Board of Regents
College of Micronesia-FSM:

Report on the Financial Statements

We have audited the accompanying financial statements of College of Micronesia-FSM (the College), a component unit of the FSM National Government, which comprise the statements of net position as of September 30, 2019 and 2018, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of College of Micronesia-FSM as of September 30, 2019 and 2018, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matter

As discussed in Note 12 to the financial statements, the College of Micronesia-FSM has determined that the COVID-19 pandemic may negatively impact its business, results of operations and net position. The College of Micronesia-FSM is unable to reasonably estimate its ultimate financial impact. Our opinion is not modified with respect to this matter.

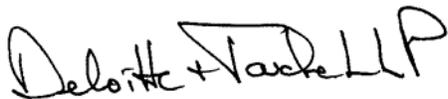
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 to 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2020 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 solely describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the College's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.



November 20, 2020

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

Management's Discussion and Analysis
Years Ended September 30, 2019 and 2018

Financial Statements Analysis

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

1. Statement of Net Position (SNP)

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

A Comparative Statement of Net Position at September 30, 2019, 2018 and 2017 is summarized below:

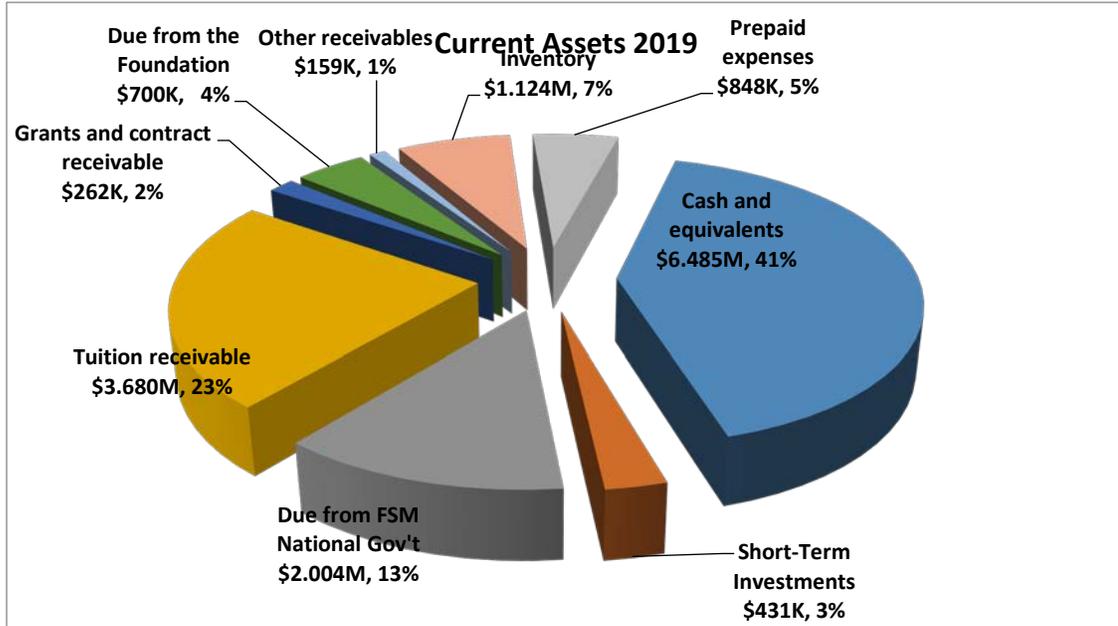
| | FY 2019 <u>(In 000's)</u> | FY 2018 <u>(In 000's)</u> | Difference <u>(In 000's)</u> | FY 2017 <u>(In 000's)</u> |
|------------------------------------|------------------------------|------------------------------|---------------------------------|------------------------------|
| Assets: | | | | |
| Current assets | \$ 15,693 | \$ 15,456 | \$ 237 | \$ 15,313 |
| Noncurrent asset | <u>14,361</u> | <u>14,482</u> | <u>(121)</u> | <u>14,123</u> |
| Total assets | <u>\$ 30,054</u> | <u>\$ 29,938</u> | <u>\$ 116</u> | <u>\$ 29,436</u> |
| Liabilities: | | | | |
| Current liabilities | \$ 4,503 | \$ 4,237 | \$ 266 | \$ 4,151 |
| Noncurrent liabilities | <u>458</u> | <u>379</u> | <u>79</u> | <u>410</u> |
| Total liabilities | <u>4,961</u> | <u>4,616</u> | <u>345</u> | <u>4,561</u> |
| Net position | <u>25,093</u> | <u>25,322</u> | <u>(229)</u> | <u>\$ 24,875</u> |
| Total liabilities and net position | <u>\$ 30,054</u> | <u>\$ 29,938</u> | <u>\$ 116</u> | <u>\$ 29,436</u> |

The comparison of the statement of net position for fiscal year 2019 with prior year indicates a decrease in net position by \$229K or 0.9%.

Current assets: Total current assets increased by \$237K or 2%, from \$15.456 million in fiscal year 2018 to \$15.693 million in fiscal year 2019. Below is the composition of current assets for fiscal year 2019:

**COLLEGE OF MICRONESIA-FSM
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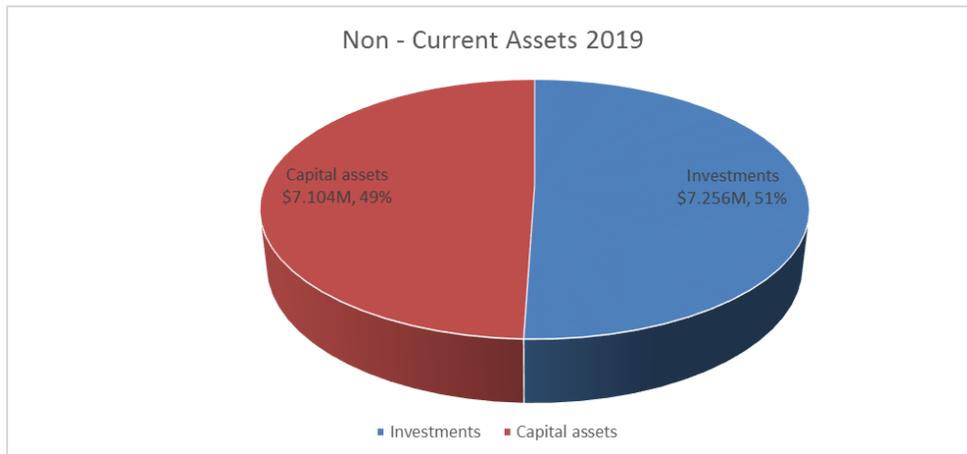
Management's Discussion and Analysis
Years Ended September 30, 2019 and 2018



The net increase by \$237K in current assets consists of the following changes:

- Increase in cash and equivalents by \$1.853M or 40%, from \$4.632 million to \$6.485 million;
- Increase in due from FSM National government by \$1.159M or 137%, from \$845K to \$2.004M;
- Decrease in short-term investment by \$2.560M or -86% from \$2.991M to \$431K;
- Decrease in tuition receivable by \$385K or -9%, from \$4.065 million to \$3.680 million;
- Decrease in grants and contract receivable by \$50K or -16%, from \$312K to \$262K;
- Increase in due from Foundation by 296K or 73%, from \$404K to \$700K;
- Decrease in other receivables by \$153K or -49%, from \$312K to \$159K;
- Increase in inventories by \$22K or 2%, from \$1.102 million to \$1.124 million;
- Increase in prepaid expenses by \$57K or 7%, from \$791K to \$848K;

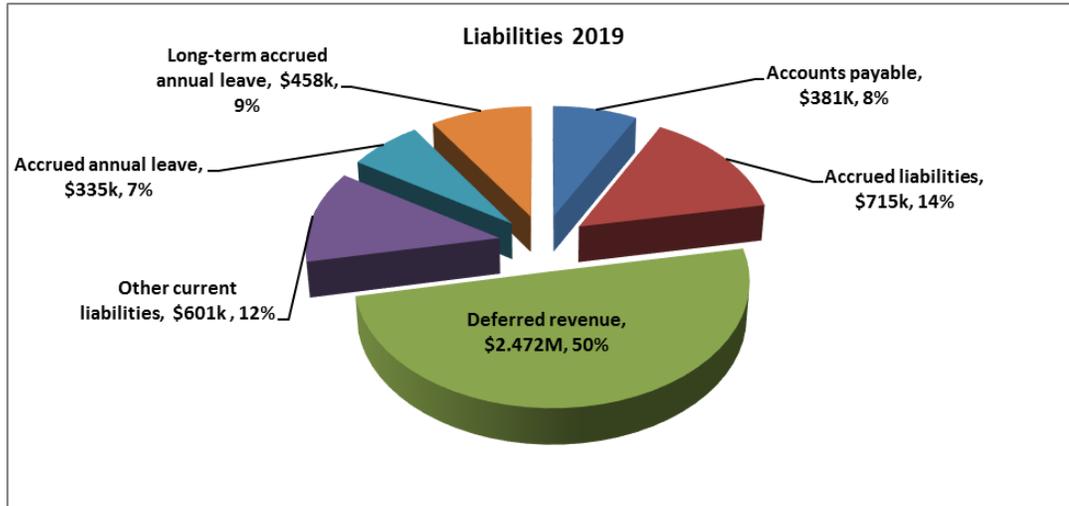
Noncurrent assets: Total noncurrent assets decreased by \$121K or -1% from \$14.482 Million in fiscal year 2018 to \$14.361 Million in current fiscal year 2019. The decrease in non-current assets is due to the increase in investments by \$495K or 7% and decrease in capital assets by \$616K or -8%. Below is the graph for the allocation of noncurrent assets:



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Management's Discussion and Analysis
Years Ended September 30, 2019 and 2018

Liabilities: The liabilities increased by \$345K or 7%, from \$4.616 Million to \$4.961 Million. Current liabilities comprise 91% of the total liabilities and 9% are non – current from long – term accrued annual leave. The allocation of liabilities is presented in the following graph:



The net decrease in liabilities consists of the following:

- Increase in accounts payable by \$94K or 33%, from \$287K to \$381K;
- Decrease in accrued liabilities by \$14K or -2%, from \$729K to \$715K;
- Decrease in accrued annual leave – current portion by \$7K or -2%, from \$342K to \$335K;
- Increase in unearned revenue by a \$24K or 1%, from \$2.448 Million to \$2.472 Million;
- Increase in other current liabilities by \$169K or 39%, from \$432K to \$601K;

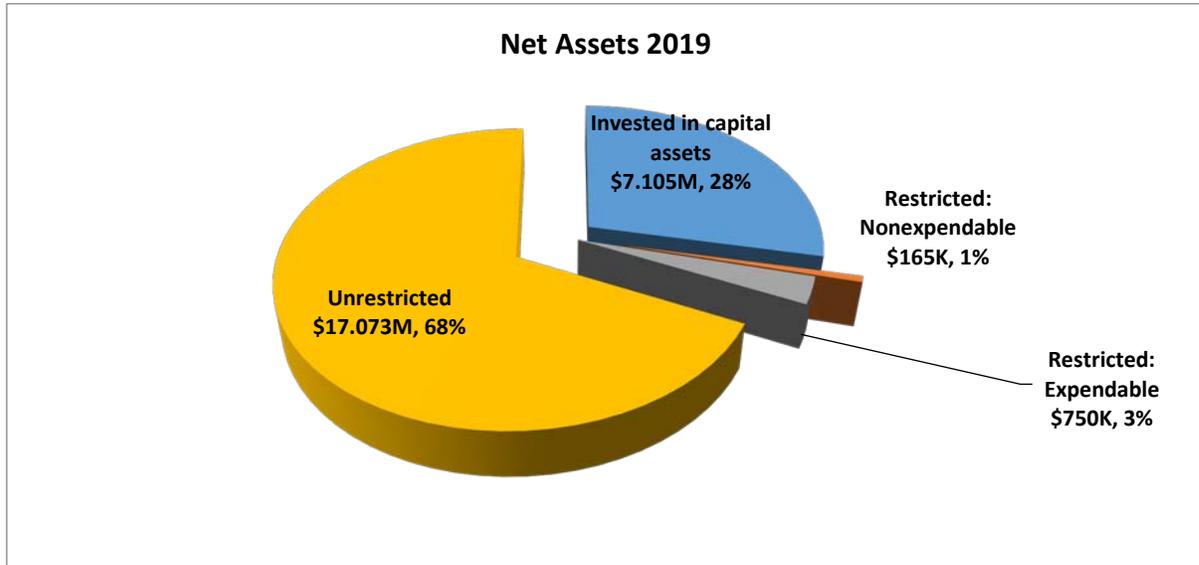
Net Position: Net position represents the residual interest in the College's assets after liabilities are deducted. The College's net position for fiscal year 2019 is \$25.093 Million, which is lower by \$229K or -1% compared to \$25.322 Million in fiscal year 2018. Below is the breakdown of the College's net position categorized according to the reporting model of GASB:

| | FY 2019 (In 000's) | FY 2018 (In 000's) | Difference (In 000's) | FY 2017 (In 000's) |
|----------------------------|-----------------------|-----------------------|--------------------------|-----------------------|
| Invested in capital assets | \$ 7,105 | \$ 7,721 | \$ (616) | \$ 7,962 |
| Restricted: | | | | |
| Nonexpendable | 165 | 165 | - | 165 |
| Expendable | 750 | 750 | - | 750 |
| Unrestricted | <u>17,073</u> | <u>16,686</u> | <u>387</u> | <u>15,998</u> |
| Total | \$ <u>25,093</u> | \$ <u>25,322</u> | \$ <u>(229)</u> | \$ <u>24,875</u> |

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Management's Discussion and Analysis
Years Ended September 30, 2019 and 2018

The allocation of net position for fiscal year 2019 is illustrated below:



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

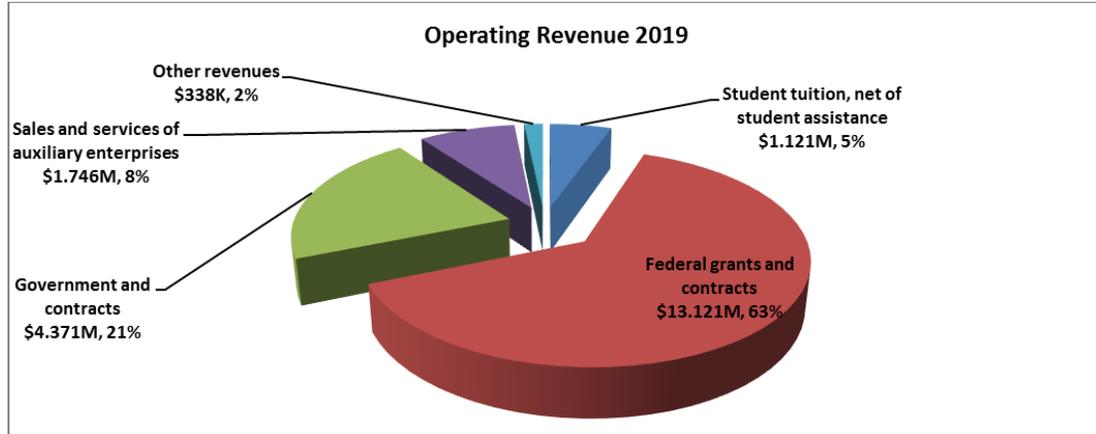
The SRECNP provides information on the College's financial performance for the current fiscal year in terms of revenues and expenses. It presents the operating revenues and expenses and the corresponding net operating results, as well as non-operating revenues and expenses and net change in net assets. Below is the comparative summary of SRECNP for fiscal years ended September 30, 2019, 2018 and 2017:

| | FY 2019 (In 000's) | FY 2018 (In 000's) | Difference (In 000's) | FY 2017 (In 000's) |
|--------------------------------------------|-----------------------|-----------------------|--------------------------|-----------------------|
| Operating revenues | \$ 20,284 | \$ 20,291 | \$ (7) | \$ 19,531 |
| Operating expenses | <u>21,088</u> | <u>20,560</u> | <u>528</u> | <u>19,891</u> |
| Operating income loss | (804) | (269) | (535) | (360) |
| Non-operating revenue | <u>575</u> | <u>715</u> | <u>(141)</u> | <u>807</u> |
| Net increase (decrease) in net position | (229) | 447 | (676) | 447 |
| Net position at beginning of year | <u>25,322</u> | <u>24,875</u> | <u>447</u> | <u>24,428</u> |
| Net position at end of year | \$ <u>25,093</u> | \$ <u>25,322</u> | \$ <u>(229)</u> | \$ <u>24,875</u> |

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Operating revenues: The composition of the operating revenues amounting to \$20.697 Million for fiscal year 2019 is presented in the following graph:

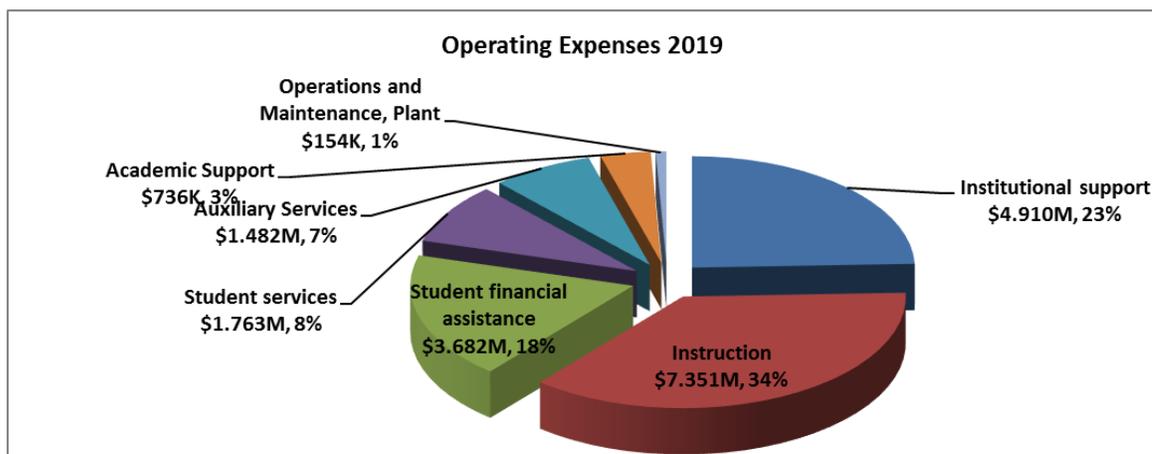


Below are the details of the changes for each classification of operating revenues:

- Decrease in other revenues by \$404K or -54%, from \$742K to \$338K;
- Increase in sales and services of auxiliary enterprises by \$34K or 2%, from \$1.712 Million to \$1.746 Million;
- Decrease in government and contracts by \$528K or -11%, from \$4.899 Million to \$4.371 Million;
- Decrease in student tuition by \$1.535M or -58%, from \$2.656M to \$1.121M; and
- Increase in federal grants and contracts by \$2.315M or 21%, from \$10.806 Million to \$13.121 Million;

Operating expenses: The College's operating expenses inclusive of bad debts for fiscal year 2019 increased by \$417K or 2%, from \$21.084 Million in 2018 to \$21.501 Million in 2019. The operating expenses are presented in both functional and natural classifications.

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



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Management's Discussion and Analysis
Years Ended September 30, 2019 and 2018

The increases and decreases of operating expenses based on their functional classifications are as follows:

On Cash Items

- Decrease in institutional support by \$766K or -14%, from \$5.677 Million to \$4.910 Million;
- Increase in instruction by \$371K or 5%, from \$6.979 Million to \$7.351 Million.
- Increase in student financial assistance by \$787K or 27%, from \$2.895 Million to \$3.682 Million;
- Increase in student services by \$75K or 4%, from \$1.688 Million to \$1.763 Million;
- Decrease in auxiliary enterprises by \$74K or -5%, from \$1.556 Million to \$1.482 Million;
- Increase in academic support by \$181K or 33%, from \$555K to \$736K;
- Decrease in operations and maintenance by \$243 or 0%, from \$154K to \$154K;

On Non-cash Items

- Decrease in the provision of bad debts by \$111K or -21%, from \$524K to \$413K;
- Decrease in depreciation by \$46K or -4%, from \$1.056 Million to \$1.010 Million.

3. Statement of Cash Flows (SCF)

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

The SCF indicates a balance in cash and cash equivalents of \$6.485 Million at end of fiscal year 2019. The fiscal year - end balance is higher by \$1.853 Million or 40% compared with fiscal year 2018 balance of \$4.632 Million.

Below is the summary Statement of Cash Flows:

| | FY 2019 <u>(In 000's)</u> | FY 2018 <u>(In 000's)</u> | Difference <u>(In 000's)</u> | FY 2017 <u>(In 000's)</u> |
|---------------------------------------------------|------------------------------|------------------------------|---------------------------------|------------------------------|
| Provided by (used for) operating activities | \$ (98) | \$ (1,160) | \$ 1,062 | \$ 1,574 |
| Used for capital and related financing activities | (394) | (815) | 421 | (559) |
| Provided by (used for) investing activities | <u>2,345</u> | <u>(288)</u> | <u>2,633</u> | <u>(2,936)</u> |
| Net increase in cash and equivalents | 1,853 | (2,263) | 4,116 | (1,921) |
| Cash and cash equivalents at beginning of year | <u>4,632</u> | <u>6,895</u> | <u>(2,263)</u> | <u>8,816</u> |
| Cash and cash equivalents at end of year | \$ <u>6,485</u> | \$ <u>4,632</u> | \$ <u>1,853</u> | \$ <u>6,895</u> |

**COLLEGE OF MICRONESIA-FSM
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Management's Discussion and Analysis
Years Ended September 30, 2019 and 2018

Budget Information

The budget was developed by departments, campuses and offices, and approved by the Board of Regents. The budget of the College for fiscal year 2019 included the following:

1. \$13.539 Million for the administration and management of the College wherein the sources of revenue are from tuition and fees of \$9.639 Million, and \$1.000 Million from the appropriation from FSM National Government - Education Sector Grant of the Compact of Free Association II, \$2.800 Million from the General Fund of FSM National Government, \$96K from Dormitory and other fees;
2. \$875K for the administration and management of the FSM – FMI at Yap State and 100% funded by FSM National Government;
3. \$690K for work study, supplemental education opportunity grant and teacher corps programs funded by Compact of Free Association II through FSM National Government;
4. \$115K for the operations of the Board of Regents of the College funded by FSM National Government; and
5. \$341K for the operating expenditures of auxiliary enterprises funded from service charges.

Capital Assets and Long-term Debt Activity

At September 30, 2019, the College's net investment in capital assets was \$7.105 Million, with a gross amount of \$20.484 Million for depreciable and non – depreciable assets net of accumulated depreciation. Depreciation for the current year amounted to \$1.010 Million. Refer to Note 6 to the accompanying financial statements for additional discussions on the College's capital assets.

The College's long-term obligation of \$458K represents the long – term portion of employee's accrued annual leave. The College provides accumulation of annual leave balance, wherein accumulated leave of not exceeding 240 hours shall be paid to the employee upon resignation/termination of employment. The College had no other long-term debt during fiscal year 2019. Refer to Note 3 to the accompanying financial statements for additional discussions on the College's long-term debt.

Economic Outlook

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

The U.S. Federal Student Aid programs are from the U.S. Department of Education under the U.S. Public Law 99 – 239. The U.S. Department of Education, Federal Student Aid renewed the Program Participation Agreement for the College through June 30, 2023. In the school year 2017- 2018, about 87% of the students at the College received financial assistance from U.S. Federal Student Aid programs. The College's projection of the percentage of students receiving financial assistance from U.S. Federal Student Aid programs will remain at the range of 85% to 95% in the next couple of years. For Spring 2019 the College was able to award 100% of all Pell-eligible students, which is about 90% of the College enrollment. The reinstating of the Year-Round Pell (YRP) in the school year 2017-2018 will continue through the school year 2018-2019 and forward. The school year 2020-2021, the College is aiming to award 100% of all Pell-eligible students at the end of the awarding term.

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Management's Discussion and Analysis
Years Ended September 30, 2019 and 2018

The College is accredited by the Accrediting Commission for Community and Junior Colleges (ACCJC), Western Association of Schools and Colleges (WASC). Accreditation was reaffirmed through spring 2023 in an [Action Letter](#) issued on January 26, 2018. The College submitted the required Midterm report in March 2020. ACCJC accepted the report in an [Action Letter](#) issued on June 29, 2020. The next institutional self-evaluation report is due to ACCJC March 2023.

The College is expected to receive the continued support of funding assistance in succeeding years from the FSM National Government through the ESG and FSM local revenue. The FSM Government provided its commitment to absorb the funding decrements from the ESG fund through the local revenue of the FSM. FSM President Letter dated February 27, 2014, communicated the government support to continue to fund the decrement from its domestic revenues in the future. FSM Government provided \$2.8 million for the FY2020 Budget and \$1 million from the Compact Educational Sector Grant. The College also received a letter dated March 1, 2016, from the FSM Secretary of Education expressing support for the College's Long-Term Facilities Development Master Plan from the FSM domestic revenues and ODA funds to continue to carry out its projects.

The College provided a structured tuition fee increases for three consecutive fiscal years from 2014 to 2016 and will remain at the same for the years beyond 2016. For the fiscal year 2021, the tuition will be maintained at \$135 per credit, and the facility fee was at the level of \$200 per student. The tuition and fees will continue to be at the same level for FY2019 and FY2020 except for the FY2021 budget year during the outbreak of the COVID-19 Pandemic which health, activity fees got waived because students are taking classes online.

Tuition and Facility fee Increase: *(No change in tuition and facility fee beyond fall 2016)*

| FEE | Fall 2013 | Spring 2014 | Summer 2014 | Fall 2014 | Spring 2015 | Summer 2015 | Fall 2015 | Spring 2016 | Summer 2016 | Fall 2016 |
|------------------------|-----------|-------------|-------------|-----------|-------------|-------------|-----------|-------------|-------------|-----------|
| Tuition Fee | 115 | 115 | 115 | 125 | 125 | 125 | 135 | 135 | 135 | 135 |
| Facility Fee Full Time | 150 | 150 | 150 | 175 | 175 | 175 | 200 | 200 | 200 | 200 |
| Facility Fee Part Time | 50 | 50 | 50 | 60 | 60 | 60 | 70 | 70 | 70 | 70 |

The College reviewed its Integrated Educational Master Plan (IEMP) and took into consideration program prioritization and cost savings measures. The College's Five-Year Integrated Educational Master Plan must be linked to the approved College's Five-Year Financial Plan (2018-2022). These plans have given the College a clear picture of its financial outlook for the next five years. The College's next Five-Year Financial Plan will commence in FY2023 until 2027.

With the College's *Facilities Master Plan*, COM-FSM intends to move forward with a prioritized program of selected capital investment in new buildings and existing building reconfigurations plus capacity enhancement in facilities maintenance and project management.

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Management's Discussion and Analysis
Years Ended September 30, 2019 and 2018

The College can now submit an annual funding request through the budget process to the FSM for projects constructions. The FSM appropriated \$8 million in FY2017 for project constructions for Pohnpei Campus vocational classrooms and multi-purpose facilities and the National Campus Student Services two-level building. For FY2018, the College submitted \$4.2 million for the Kosrae Campus design of Multi-Purpose building, new Chuuk Campus Design for onsite power, water supply, sewer system, and parking and walkways. New Health Clinic and Infrastructure upgrades for the National campus were included in the package. For the FY2019 IDP submission, the College submitted to the FSM National Government an IDP budget of \$3,500,000 million to construct a multipurpose building facility at Kosrae campus, Kosrae Campus onsite paved access road, parking lots, and covered walkways.

The College's endowment fund started in 1997, has the goal of growing the size of its corpus to provide long-term financial stability of the College. The Board and the Administration, through the newly created Office for Institutional Advancement and External Affairs put in place plans to raise money for the Endowment Fund from businesses, private individuals, and government entities within FSM including prospective donors and stakeholders abroad to meet the revised target goal of \$50 million. Fundraising efforts will continue for the remaining period, employing every conceivable way including lucky draw or raffles, fundraising dinners, cocktails, walk-a-thon, bake sales, memorabilia, and other on-campus student fundraising events after the 2021 -post-COVID-19 period to contribute to the growth of the endowment fund. The fundraising events have been suspended completely due to the coronavirus pandemic during the period of FY2020 and will continue on to the FY2021 period. Funding for the pandemic response has been sought through the FSM National Government and funding award from the US Government of \$3.6 million dollars which half of it (\$1.8 million) was disbursed to students and the other half (\$1.8 million) has been used by the college to enhance instructional delivery of courses online to students.

The College has sought authorization from ACCJC to launch a hybrid model of course delivery online and traditional face to face offering to students beyond spring of 2021. The College believe this will help increase the number of students taking more courses throughout the five campuses. Additionally, this model will greatly increase the funding revenues of the College.

No COVID-19 cases have been reported in the FSM. Should it reach FSM, it may negatively impact the College. However, its impact on the College's business, results of operations and financial position cannot be reasonably estimated at this time. The College reached an agreement with the FSM to include as part of its annual budget submission \$285,000 for the FSM contribution to the Endowment fund. The College received \$300,000 in FY2020 as FSM Government pledge contributions to the endowment fund. This pledge is expected to total up to \$2 million after 7 years from 2020.

Management's Discussion and Analysis for the year ended September 30, 2018 is set forth in the College's report on the audit of financial statements, which was dated June 28, 2019. That Discussion and Analysis explains the major factors impacting the 2018 financial statements and can be obtained from the FSM office of the National Public Auditor's website at www.fsmopa.fm.

FINANCIAL MANAGEMENT CONTACT

This financial report is designed to provide all interested users with a general overview of the College of Micronesia-FSM's finances. Inquiries concerning this report, if any, may be directed to the College of Micronesia-FSM, P.O. Box 159, Kolonia Pohnpei, FM 96941.

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

Statements of Net Position
September 30, 2019 and 2018

| <u>ASSETS</u> | <u>2019</u> | <u>2018</u> |
|-------------------------------------------------|----------------------|----------------------|
| Current assets: | | |
| Cash and cash equivalents | \$ 6,485,132 | \$ 4,631,662 |
| Time certificates of deposit | 18 | 18 |
| Investments | 431,058 | 2,990,905 |
| Due from FSM National Government, net | 2,004,022 | 845,279 |
| Tuition receivable, net | 3,680,221 | 4,065,428 |
| Grants and contracts receivable, net | 261,808 | 312,375 |
| Due from the Foundation | 700,000 | 404,518 |
| Other receivables, net | 158,805 | 312,174 |
| Inventories | 1,124,254 | 1,102,396 |
| Prepaid expenses | 847,833 | 790,776 |
| Total current assets | <u>15,693,151</u> | <u>15,455,531</u> |
| Noncurrent assets: | | |
| Investments | 7,256,159 | 6,761,490 |
| Capital assets: | | |
| Nondepreciable capital assets | 1,455,685 | 1,455,685 |
| Capital assets, net of accumulated depreciation | 5,648,887 | 6,265,274 |
| Total noncurrent assets | <u>14,360,731</u> | <u>14,482,449</u> |
| Total assets | <u>\$ 30,053,882</u> | <u>\$ 29,937,980</u> |
| <u>LIABILITIES AND NET POSITION</u> | | |
| Current liabilities: | | |
| Accounts payable | \$ 380,710 | \$ 286,772 |
| Accrued liabilities | 714,630 | 728,843 |
| Accrued annual leave, current portion | 335,074 | 342,125 |
| Unearned revenue | 2,471,753 | 2,448,055 |
| Other current liabilities | 600,681 | 431,670 |
| Total current liabilities | 4,502,848 | 4,237,465 |
| Noncurrent liabilities: | | |
| Long-term portion of accrued annual leave | 458,028 | 378,644 |
| Total liabilities | <u>4,960,876</u> | <u>4,616,109</u> |
| Commitments and contingencies | | |
| Net position: | | |
| Net investment in capital assets | 7,104,572 | 7,720,959 |
| Restricted: | | |
| Nonexpendable | 165,000 | 165,000 |
| Expendable | 750,000 | 750,000 |
| Unrestricted | 17,073,434 | 16,685,912 |
| Total net position | <u>25,093,006</u> | <u>25,321,871</u> |
| Total liabilities and net position | <u>\$ 30,053,882</u> | <u>\$ 29,937,980</u> |

See accompanying notes to financial statements.

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

Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2019 and 2018

| | 2019 | 2018 |
|---------------------------------------------|---------------|---------------|
| Operating revenues: | | |
| Student tuition and fees | \$ 7,943,504 | \$ 7,929,738 |
| Less: Scholarship discounts and allowances | (6,822,487) | (5,273,802) |
| | 1,121,017 | 2,655,936 |
| Federal grants and contracts | 13,120,662 | 10,805,918 |
| Government grants and contracts | 4,371,395 | 4,898,655 |
| Sales and services of auxiliary enterprises | 1,745,623 | 1,711,694 |
| Other revenues | 338,051 | 742,289 |
| Total operating revenues | 20,696,748 | 20,814,492 |
| Less bad debts | (413,219) | (523,988) |
| Net operating revenues | 20,283,529 | 20,290,504 |
| Operating expenses: | | |
| Institutional support | 4,910,036 | 5,676,575 |
| Instruction | 7,350,697 | 6,979,216 |
| Student financial assistance | 3,682,480 | 2,895,052 |
| Student services | 1,762,594 | 1,687,883 |
| Depreciation | 1,010,112 | 1,055,968 |
| Auxiliary enterprises | 1,482,402 | 1,556,413 |
| Academic support | 735,722 | 554,510 |
| Operations and maintenance, plant | 153,809 | 154,052 |
| Total operating expenses | 21,087,852 | 20,559,669 |
| Operating loss | (804,323) | (269,165) |
| Nonoperating revenues (expense): | | |
| Contributions from the Foundation | 295,482 | 404,518 |
| Net investment income | 279,976 | 311,426 |
| Total nonoperating revenues, net | 575,458 | 715,944 |
| Change in net position | (228,865) | 446,779 |
| Net position: | | |
| Net position at beginning of year | 25,321,871 | 24,875,092 |
| Net position at end of year | \$ 25,093,006 | \$ 25,321,871 |

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, 2019 and 2018

| | 2019 | 2018 |
|------------------------------------------------------------------------------------|---------------|----------------|
| Cash flows from operating activities: | | |
| Grants and contracts | \$ 17,506,514 | \$ 15,932,051 |
| Auxiliary services | 1,745,623 | 1,711,694 |
| Other receipts | 429,322 | 724,614 |
| Payments to employees for salaries and benefits | (8,911,962) | (8,821,730) |
| Payments to suppliers and others | (10,867,457) | (10,706,626) |
| Net cash used for operating activities | (97,960) | (1,159,997) |
| Cash flows from capital and related financing activities: | | |
| Purchase of capital assets | (393,725) | (815,158) |
| Cash flows from investing activities: | | |
| Proceeds from reserve fund investment withdrawals | 2,800,000 | - |
| Purchase of investments | (454,845) | (288,386) |
| Net cash provided by (used for) investing activities | 2,345,155 | (288,386) |
| Net change in cash and cash equivalents | 1,853,470 | (2,263,541) |
| Cash and cash equivalents at beginning of year | 4,631,662 | 6,895,203 |
| Cash and cash equivalents at end of year | \$ 6,485,132 | \$ 4,631,662 |
| Reconciliation of operating loss to net cash used for operating activities: | | |
| Operating loss | \$ (804,323) | \$ (269,165) |
| Adjustments to reconcile operating loss to net cash used for operating activities: | | |
| Depreciation | 1,010,112 | 1,055,968 |
| Bad debts | 413,219 | 523,988 |
| Provision for inventory obsolescence | - | 21,055 |
| Changes in assets and liabilities: | | |
| Due from FSM National Government | (1,256,563) | (407,735) |
| Tuition receivable | 131,907 | (2,100,979) |
| Grants and contracts receivable | 50,567 | 80,256 |
| Other receivables | 91,269 | (17,679) |
| Inventories | (21,858) | 46,554 |
| Prepaid expenses | (57,057) | (147,118) |
| Accounts payable | 93,938 | (57,019) |
| Accrued liabilities | 58,119 | (5,582) |
| Unearned revenue | 23,698 | 9,506 |
| Other current liabilities | 169,012 | 107,953 |
| Net cash used for operating activities | \$ (97,960) | \$ (1,159,997) |
| Noncash activity: | | |
| Increase in capital asset | \$ - | \$ 78,824 |
| Increase in accumulated depreciation | \$ - | \$ (67,261) |
| Decrease in depreciation | \$ - | \$ (11,563) |

See accompanying notes to financial statements.

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

Notes to Financial Statements
September 30, 2019 and 2018

(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 is limited to 2 consecutive terms. However, a member may serve beyond the expiration date of his/her term until a successor has been appointed. The purpose of COM-FSM is to serve the varied post-secondary and adult educational needs of the FSM.

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

(2) Basis of Presentation

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

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

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, 2019 and 2018

(3) Summary of Significant Accounting Policies

- A. Cash and Cash Equivalents and Time Certificate of Deposits. 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 of more than three months are separately presented.

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, 2019 and 2018, COM-FSM has recorded cash and cash equivalents and time certificates of deposit of \$6,485,150 and \$4,631,680, respectively, with corresponding bank balances of \$6,634,023 and \$4,751,032, respectively. Of these amounts, \$504,066 and \$603,202 in 2019 and 2018, respectively, are insured by the Federal Deposit Insurance Corporation (FDIC). 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, 2019 and 2018.

- B. Investments. Investments are recorded at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability (i.e. the exit price) in an orderly transaction between market participants at the date as of which the fair value of an asset or liability is determined.
- C. Accounts Receivable. Accounts receivable tuition and fees, net of an allowance for uncollectible accounts as of September 30, 2019, follows:

| | <u>National Campus</u> | <u>State Campuses</u> | <u>Totals</u> |
|--------------------------------------|----------------------------|---------------------------|---------------------|
| Accounts receivable, gross | \$ 5,333,587 | \$ 2,895,639 | \$ 8,229,226 |
| Allowance for uncollectible accounts | <u>(3,062,940)</u> | <u>(1,486,065)</u> | <u>(4,549,005)</u> |
| Accounts receivable, net | <u>\$ 2,270,647</u> | <u>\$ 1,409,574</u> | <u>\$ 3,680,221</u> |

Accounts receivable tuition and fees, net of an allowance for uncollectible accounts as of September 30, 2018, follows:

| | <u>National Campus</u> | <u>State Campuses</u> | <u>Totals</u> |
|--------------------------------------|----------------------------|---------------------------|---------------------|
| Accounts receivable, gross | \$ 5,558,365 | \$ 2,802,770 | \$ 8,361,135 |
| Allowance for uncollectible accounts | <u>(2,861,251)</u> | <u>(1,434,456)</u> | <u>(4,295,707)</u> |
| Accounts receivable, net | <u>\$ 2,697,114</u> | <u>\$ 1,368,314</u> | <u>\$ 4,065,428</u> |

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

Notes to Financial Statements
September 30, 2019 and 2018

(3) Summary of Significant Accounting Policies, Continued

C. Accounts Receivable, Continued

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

Other receivables are net of an allowance for doubtful accounts of \$280,059 and \$153,778 as of September 30, 2019 and 2018, respectively.

D. Inventory. Inventory is stated at the lower of cost (first-in, first-out) or market (net realizable value). At September 30, 2019 and 2018, inventory is net of an allowance for obsolescence of \$59,229.

E. Prepaid Expenses. Payments made to vendors for goods and services that will benefit periods beyond September 30, 2019 and 2018, are recorded as prepaid expenses. Prepaid expenses represent prepayments for office supplies, textbooks and computers.

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

Certain real property and buildings being used by COM-FSM were contributed to COM-FSM by the FSM National Government. No user fee or allowance has been computed or charged to COM-FSM by the FSM National Government. Therefore, such costs have not been recorded as in-kind contributions or expenses.

G. Deferred Outflows of Resources. In addition to assets, the statements of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (deduction of net position) until then. The College has no items that qualify for reporting in this category.

H. Unearned Revenue. Unearned revenue includes amounts received for tuition and fees and certain grants prior to the end of the fiscal year but relating to the subsequent accounting period. Unearned revenue also includes amounts received from grant and contract sponsors that have not yet been earned.

I. Compensated Absences. COM-FSM recognizes as a liability all vested vacation leave benefits accrued by its employees at the time such leave is earned. It is the policy of COM-FSM to record the cost of sick leave when leave is actually taken and an expense is actually incurred. Accordingly, no liability is recorded for nonvesting accumulating rights to receive sick pay benefits.

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

Notes to Financial Statements
September 30, 2019 and 2018

(3) Summary of Significant Accounting Policies, Continued

- J. Noncurrent Liabilities. Noncurrent liabilities include estimated amounts for accrued compensated absences that will not be paid within the next fiscal year.

The change in accrued compensated absences during fiscal years 2019 and 2018 is as follows:

| <u>Balance, October 1, 2018</u> | <u>Addition</u> | <u>Reduction</u> | <u>Balance, September 30, 2019</u> | <u>Current</u> |
|-------------------------------------|-----------------|------------------|----------------------------------------|------------------|
| <u>\$720,769</u> | <u>\$72,333</u> | <u>\$_____ -</u> | <u>\$793,102</u> | <u>\$335,074</u> |
| <u>October 1, 2017</u> | <u>Addition</u> | <u>Reduction</u> | <u>September 30, 2018</u> | <u>Current</u> |
| <u>\$709,961</u> | <u>\$10,808</u> | <u>\$_____ -</u> | <u>\$720,769</u> | <u>\$342,125</u> |

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

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

Net Investment in Capital Assets – This represents COM-FSM's net investment in capital assets, reduced by outstanding debt obligations related to those capital assets.

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

Restricted Net Position – Expendable – Expendable restricted net position consists of endowment and similar type funds subject to donors or other outside sources imposed stipulations that can be fulfilled by actions of the COM-FSM pursuant to those stipulations or that expire with the passage of time.

Unrestricted Net Position – Unrestricted net position represents resources derived from student tuition and fees, governmental appropriations and contracts, sales and services of educational departments and auxiliary enterprises and grants and contributions not subject to donors or other outside sources imposed stipulations. 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 students, faculty and staff.

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

Notes to Financial Statements
September 30, 2019 and 2018

(3) Summary of Significant Accounting Policies, Continued

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

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

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

- N. Scholarship Discounts and Allowances. Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the Statements of Revenues, Expenses and Changes in Net Position. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by COM-FSM, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other federal, state or nongovernmental programs, are recorded as either operating or nonoperating revenues in COM-FSM's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, COM-FSM has recorded a scholarship discount and allowance.
- O. Risk Management. COM-FSM purchases insurance to cover its risk of losses due to fire, lightning, and other risks normal to operating an institution of higher learning. Refer also to note 8.
- P. Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.
- Q. Reclassifications. Certain 2018 balances were reclassified to conform with the 2019 presentation.
- R. New Accounting Standards

During fiscal year 2019, the College implemented the following pronouncements:

- GASB Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs) associated with the retirement of a tangible capital asset.

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

Notes to Financial Statements
September 30, 2019 and 2018

(3) Summary of Significant Accounting Policies, Continued

R. New Accounting Standards, Continued

- GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, which improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements.

The implementation of these statements did not have a material effect on the College's financial statements.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of all state and local governments. The provisions in Statement No. 84 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2017, GASB issued Statement No. 87, *Leases*, which establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The provisions in Statement No. 87 are effective for fiscal years beginning after December 15, 2019. Management has yet to determine whether the implementation of this statement will have a material effect on the financial statements.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The provisions in Statement No. 89 are effective for fiscal years beginning after December 15, 2019. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In August 2018, GASB issued Statement No. 90, *Majority Equity Interests - an Amendment of GASB Statements No. 14 and No. 61*, which improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and the relevance of financial statement information for certain component units. The provisions in Statement No. 90 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*, which clarifies the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The provisions in Statement No. 91 are effective for fiscal years beginning after December 15, 2020. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

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

Notes to Financial Statements
September 30, 2019 and 2018

(3) Summary of Significant Accounting Policies, Continued

R. New Accounting Standards, Continued

In May 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postpones the effective dates of GASB Statement No. 84, 89, 90, and 91 by one year and GASB Statement No. 87 by 18 months; however, earlier application of the provisions addressed in GASB Statement No. 95 is encouraged and is permitted to the extent specified in each pronouncement as originally issued. Management has yet to ascertain whether the implementation of these statements will be postponed as provided in GASB Statement No. 95.

(4) Investments

The COM-FSM maintains an internally-restricted fund specifically for endowment contributions, fundraisings and 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. The contribution is classified as restricted nonexpendable net position in the accompanying Statements of Net Position.

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 which concluded on September 30, 2017. The grant fund is classified as restricted expendable net position in the accompanying Statements of Net Position pursuant to expiration of grantor's imposed stipulation with the passage of time.

The College has engaged in specific fundraising for the purpose of increasing net position invested with the above endowment funds. Therefore, the College is of the opinion that such investments and related investment income are appropriately classified as unrestricted net position due to absence of external imposed stipulations.

In December 1997, COM-FSM adopted an investment policy, which guides current investment decisions. The policy provides that investment earnings may not be obligated until the principal has aggregated to a market value of \$20 million. The investment consultant revised the investment policy on March 2017 to incorporate the amendments adopted by the Board during the March 2017 meeting. No revisions were made for the year ended September 30, 2019.

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

Notes to Financial Statements
September 30, 2019 and 2018

(4) Investments, Continued

The composition of endowment investments as of September 30, 2019 and 2018, by funding source, is as follows:

| <u>Funding Source</u> | <u>2019</u> | <u>2018</u> |
|----------------------------------------------------------|---------------------|---------------------|
| FSM Telecommunications Corporation (FSMTC) | \$ 165,000 | \$ 165,000 |
| U.S. Department of Education and local match (Challenge) | 750,000 | 750,000 |
| Fundraisings and investment income | <u>6,341,159</u> | <u>5,846,490</u> |
| | <u>\$ 7,256,159</u> | <u>\$ 6,761,490</u> |

Investments and related investment earnings are reported at fair value using quoted market prices. Fair value is the price that would be received to sell an asset or paid to transfer a liability (i.e., the exit price) in an orderly transaction between market participants at the date as of which the fair value of an asset or liability is determined.

As of September 30, 2019 and 2018, total investments at fair value are as follows:

| | <u>2019</u> | <u>2018</u> |
|----------------------------|---------------------|---------------------|
| Fixed income securities: | | |
| Domestic fixed income | \$ 1,866,211 | \$ 2,912,317 |
| International fixed income | <u>463,135</u> | <u>461,281</u> |
| | <u>2,329,346</u> | <u>3,373,598</u> |
| Other investments: | | |
| Common equities | 4,902,010 | 5,512,911 |
| Alternatives | - | 42,045 |
| Exchange traded funds | 139,318 | 168,065 |
| Money market funds | <u>316,543</u> | <u>655,776</u> |
| | <u>5,357,871</u> | <u>6,378,797</u> |
| | <u>\$ 7,687,217</u> | <u>\$ 9,752,395</u> |

As of September 30, 2019, the College's fixed income securities had the following maturities:

| <u>Investment Type</u> | <u>Fair Value</u> | <u>Investment Maturities (in years)</u> | | | |
|--------------------------------------|---------------------|-----------------------------------------|-------------------|-------------------|---------------------|
| | | <u>Less than 1</u> | <u>1-5</u> | <u>5-10</u> | <u>more than 10</u> |
| Mortgage and asset-backed securities | \$ 22,243 | \$ - | \$ - | \$ - | \$ 22,243 |
| Corporate bonds | 1,405,990 | - | 408,788 | 709,377 | 287,825 |
| International bonds | 463,135 | 463,135 | - | - | - |
| Government bonds | <u>437,978</u> | <u>13,961</u> | <u>358,610</u> | <u>65,407</u> | <u>-</u> |
| | <u>\$ 2,329,346</u> | <u>\$ 477,096</u> | <u>\$ 767,398</u> | <u>\$ 774,784</u> | <u>\$ 310,068</u> |

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

Notes to Financial Statements
September 30, 2019 and 2018

(4) Investments, Continued

As of September 30, 2018, the College's fixed income securities had the following maturities:

| <u>Investment Type</u> | <u>Fair Value</u> | <u>Investment Maturities (in years)</u> | | | |
|--------------------------------------|---------------------|-----------------------------------------|---------------------|---------------------|---------------------|
| | | <u>Less than 1</u> | <u>1-5</u> | <u>5-10</u> | <u>more than 10</u> |
| Mortgage and asset-backed securities | \$ 97,933 | \$ - | \$ - | \$ - | \$ 97,933 |
| Corporate bonds | 1,267,107 | - | 592,851 | 616,312 | 57,944 |
| International bonds | 461,281 | 461,281 | - | - | - |
| Government bonds | <u>1,547,277</u> | <u>-</u> | <u>1,054,692</u> | <u>414,441</u> | <u>78,144</u> |
| | <u>\$ 3,373,598</u> | <u>\$ 461,281</u> | <u>\$ 1,647,543</u> | <u>\$ 1,030,753</u> | <u>\$ 234,021</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, 2019, was as follows:

| <u>Moody's Rating</u> | <u>Domestic</u> | <u>International</u> | <u>Total</u> |
|-----------------------|---------------------|----------------------|---------------------|
| AAA/AAA | \$ 848,308 | \$ - | \$ 848,308 |
| AA1/AA+ | 217,839 | - | 217,839 |
| AA2AA | 4,100 | - | 4,100 |
| AA2/AA- | 5,618 | - | 5,618 |
| AA3/AA- | 14,702 | - | 14,702 |
| AA3/A+ | 4,159 | - | 4,159 |
| A1/AA- | 6,000 | - | 6,000 |
| A1/A- | 6,239 | - | 6,239 |
| A2/A | 67,471 | - | 67,471 |
| A2/A- | 141,093 | - | 141,093 |
| A3/A | 48,281 | - | 48,281 |
| A3/A- | 97,992 | - | 97,992 |
| A3/BBB+ | 104,473 | - | 104,473 |
| BAA1/A- | 45,015 | - | 45,015 |
| BAA1/BBB+ | 51,825 | - | 51,825 |
| BAA2/A | 4,092 | - | 4,092 |
| BAA2/A- | 5,102 | - | 5,102 |
| BAA2/BBB | 110,339 | - | 110,339 |
| BAA3/BBB | 61,320 | - | 61,320 |
| Not rated | <u>22,243</u> | <u>463,135</u> | <u>485,378</u> |
| Total | <u>\$ 1,866,211</u> | <u>\$ 463,135</u> | <u>\$ 2,329,346</u> |

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

Notes to Financial Statements
September 30, 2019 and 2018

(4) Investments, Continued

The College's exposure to credit risk at September 30, 2018, was as follows:

| <u>Moody's Rating</u> | <u>Domestic</u> | <u>International</u> | <u>Total</u> |
|-----------------------|---------------------|----------------------|---------------------|
| AAA/AAA | \$ 1,547,277 | \$ - | \$ 1,547,277 |
| AA2/AA | 19,143 | - | 19,143 |
| AA3/A | 41,405 | - | 41,405 |
| A1/AA- | 24,538 | - | 24,538 |
| A1/A+ | 44,514 | - | 44,514 |
| A1/A- | 23,475 | - | 23,475 |
| A1/AA- | 96,791 | - | 96,791 |
| A2/A+ | 50,594 | - | 50,594 |
| A2/A | 1,943 | - | 1,943 |
| A2/A- | 89,474 | - | 89,474 |
| A3/A | 204,600 | - | 204,600 |
| A3/A- | 100,728 | - | 100,728 |
| A3/BBB+ | 30,038 | - | 30,038 |
| BAA1/A | 44,075 | - | 44,075 |
| BAA1/BBB+ | 152,419 | - | 152,419 |
| BAA1/BBB | 112,252 | - | 112,252 |
| BAA2/A- | 19,685 | - | 19,685 |
| BAA2/BBB+ | 24,714 | - | 24,714 |
| BAA2/BBB | 147,986 | - | 147,986 |
| BAA3/BBB | 38,734 | - | 38,734 |
| Not rated | 97,932 | 461,281 | 559,213 |
| Total | <u>\$ 2,912,317</u> | <u>\$ 461,281</u> | <u>\$ 3,373,598</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, 2019 and 2018.

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, 2019 and 2018.

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.

The College categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

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

Notes to Financial Statements
September 30, 2019 and 2018

(4) Investments, Continued

The College has the following recurring fair value measurements as of September 30, 2019 and 2018:

| | Fair Value Measurements Using | | | |
|-----------------------------------------|-------------------------------|-------------------------------------------------------------------------|-----------------------------------------------------|----------------------------------------------------|
| | September 30, 2019 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Investments by fair value level: | | | | |
| Fixed income securities | \$ 2,329,346 | \$ - | \$ 2,329,346 | \$ - |
| Equity securities | 4,902,010 | 4,902,010 | - | - |
| Exchange traded funds | <u>139,318</u> | <u>139,318</u> | - | - |
| Total investments by fair value level | <u>7,370,674</u> | <u>\$ 5,041,328</u> | <u>\$ 2,329,346</u> | <u>\$ -</u> |
| Investments measured at amortized cost: | | | | |
| Money market funds | <u>316,543</u> | | | |
| | <u>316,543</u> | | | |
| | <u>\$ 7,687,217</u> | | | |

| | Fair Value Measurements Using | | | |
|-----------------------------------------|-------------------------------|-------------------------------------------------------------------------|-----------------------------------------------------|----------------------------------------------------|
| | September 30, 2018 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Investments by fair value level: | | | | |
| Fixed income securities | \$ 3,373,598 | \$ - | \$ 3,373,598 | \$ - |
| Equity securities | 5,554,956 | 5,554,956 | - | - |
| Exchange traded funds | <u>168,065</u> | <u>168,065</u> | - | - |
| Total investments by fair value level | <u>9,096,619</u> | <u>\$ 5,723,021</u> | <u>\$ 3,373,598</u> | <u>\$ -</u> |
| Investments measured at amortized cost: | | | | |
| Money market funds | <u>655,776</u> | | | |
| | <u>655,776</u> | | | |
| | <u>\$ 9,752,395</u> | | | |

(5) Due from Grantor Agencies

COM-FSM administers student financial aid (SFA) for the U.S. Department of Education. SFA funds relate to Pell Grants, Talent Search Program, Upward Bound Program, and Student Support Services (TRIO program), Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP). COM-FSM also administers Land Grant Programs on behalf of COM Land Grant College. Grants and contracts receivable – U.S. Government comprised the following uncollected grants as of September 30, 2019 and 2018:

COLLEGE OF MICRONESIA-FSM
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Notes to Financial Statements
September 30, 2019 and 2018

(5) Due from Grantor Agencies, Continued

| | <u>2019</u> | <u>2018</u> |
|---------------------------------------|-------------------|-------------------|
| Due from U.S. Department of Education | \$ 84,926 | \$ 85,753 |
| Due from COM-Land Grant | 103,923 | 158,137 |
| Due from University of Guam | 120,233 | 120,233 |
| Due from University of Hawaii | 22,124 | 22,124 |
| CARIPAC | 165,738 | 165,738 |
| Due from other grantor agencies | <u>244,802</u> | <u>194,276</u> |
| | 741,746 | 746,261 |
| Less allowance for doubtful accounts | <u>(479,938)</u> | <u>(433,886)</u> |
| | <u>\$ 261,808</u> | <u>\$ 312,375</u> |

(6) Capital Assets

Capital assets at September 30, 2019 and 2018 consist of the following:

| | Balance October 1, <u>2018</u> | <u>Additions</u> | <u>Retirements</u> | Balance September 30, <u>2019</u> |
|-------------------------------|--------------------------------------|---------------------|--------------------|-----------------------------------------|
| Depreciable assets: | | | | |
| Buildings | \$ 14,416,008 | \$ 42,762 | \$ - | \$ 14,458,770 |
| Furniture and equipment | 3,598,267 | 265,163 | - | 3,863,430 |
| Vehicles/boats | <u>620,656</u> | <u>85,800</u> | - | <u>706,456</u> |
| | 18,634,931 | 393,725 | - | 19,028,656 |
| Less accumulated depreciation | <u>(12,369,657)</u> | <u>(1,010,112)</u> | - | <u>(13,379,769)</u> |
| | 6,265,274 | (616,387) | - | 5,648,887 |
| Non-depreciable assets: | | | | |
| Land | <u>1,455,685</u> | - | - | <u>1,455,685</u> |
| Capital assets, net | <u>\$ 7,720,959</u> | <u>\$ (616,387)</u> | <u>\$ -</u> | <u>\$ 7,104,572</u> |
| | | | | |
| | Balance October 1, <u>2017</u> | <u>Additions</u> | <u>Retirements</u> | Balance September 30, <u>2018</u> |
| Depreciable assets: | | | | |
| Buildings | \$ 14,704,659 | \$ 271,814 | \$ (560,465) | \$ 14,416,008 |
| Furniture and equipment | 4,065,830 | 530,004 | (997,567) | 3,598,267 |
| Vehicles/boats | <u>1,183,480</u> | <u>92,164</u> | <u>(654,988)</u> | <u>620,656</u> |
| | 19,953,969 | 893,982 | (2,213,020) | 18,634,931 |
| Less accumulated depreciation | <u>(13,447,885)</u> | <u>(1,134,792)</u> | <u>2,213,020</u> | <u>(12,369,657)</u> |
| | 6,506,084 | (240,810) | - | 6,265,274 |
| Non-depreciable assets: | | | | |
| Land | <u>1,455,685</u> | - | - | <u>1,455,685</u> |
| Capital assets, net | <u>\$ 7,961,769</u> | <u>\$ (240,810)</u> | <u>\$ -</u> | <u>\$ 7,720,959</u> |

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

Notes to Financial Statements
September 30, 2019 and 2018

(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, 2019 and 2018, receivables from the FSM National Government amounted to \$2,004,022 and \$845,279, respectively, net of \$612,285 allowance for doubtful accounts. The College received \$4,371,395 and \$4,898,655 in appropriations for the years ended September 30, 2019 and 2018, respectively.

During the year ended September 30, 2019, the Friends of the College of Micronesia-FSM, Inc. (the Foundation) has received a contribution of \$110,000 from an external donor and was recognized by the College as a component of the outstanding receivable from the Foundation at September 30, 2019. At September 30, 2019 and 2018, receivables from the Foundation amounted to \$700,000 and \$404,518, respectively. The Foundation ceased operations in December 2019 and settled the outstanding receivable in January 2020.

(8) Contingencies

Insurance

COM-FSM purchases commercial insurance to cover its potential risks from fire and property damage on some of its buildings and contents (\$19,904,291 of coverage) and vehicles (up to \$300,000 of coverage per vehicle per accident). Additionally, COM-FSM purchases fidelity insurance coverage for selected employees (total coverage of \$460,000) and workmen's compensation insurance (coverage of up to \$100,000 per employee). COM-FSM also purchases student personal insurance (\$5,000 per student). There have been no settlements in excess of insurance coverage during the past three years.

Federal Grants

The College participates in a number of federally assisted grant programs and other various U.S. Department of Education grants. These programs are subject to financial and compliance audits to ascertain if Federal laws and guidelines have been followed. No questioned costs relating to fiscal year 2019 have been set forth in the College's Single Audit Report for the year ended September 30, 2019. The ultimate disposition of any questioned costs can be determined only by final action of the respective grantor agencies. Therefore, no provision for any liability that may result upon resolution of this matter has been made in the accompanying financial statements.

Accreditation

The College is accredited by the Accrediting Commission for Community and Junior Colleges (ACCJC), Western Association of Schools and Colleges (WASC). Accreditation was reaffirmed in an Action Letter issued on January 26, 2018. The College is scheduled to submit its next Midterm Report on March 15, 2020 and the next comprehensive review will occur in Spring 2023.

Litigation

COM-FSM is periodically a defendant in legal actions inherent to the nature of its operations. COM-FSM management is of the opinion that resolution of any matters existing as of September 30, 2019 and 2018 will not have a material effect on the accompanying financial statements.

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

Notes to Financial Statements
September 30, 2019 and 2018

(9) Retirement Plan

The College has a retirement plan, administered by a private corporation. All employees with at least one year of service are eligible for the plan. Employee contributions can be made up to 100% of earnings with a 50% match by the College up to 3% of employee compensation. The College's President, Vice - President for Administrative Services and Comptroller are the designated plan administrators. During the years ended September 30, 2019, 2018 and 2017, the College incurred an expense of \$153,804, \$153,535 and \$143,151, respectively, for matching contributions. As of September 30, 2019, 2018 and 2017, plan assets were \$4,761,025, \$4,466,081 and \$4,111,461, respectively. Management is of the opinion that the retirement plan assets do not constitute assets of the College.

(10) Leases

The College leases land and building with terms ranging from three to five years. The future minimum lease payments are as follows:

| <u>Year Ending</u> <u>September 30,</u> | <u>Total</u> |
|--------------------------------------------|-------------------|
| 2020 | \$ 101,915 |
| 2021 | 86,515 |
| 2022 | 86,515 |
| 2023 | <u>21,629</u> |
| | <u>\$ 296,574</u> |

(11) Functional Classifications with Natural Classifications

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

| | 2019 | | | | | | | | | |
|-----------------------|---------------------|-------------------|-------------------|-------------------|---------------------|----------------------------------------------|---------------------|-------------------------------|----------------------|----------------------|
| | <u>Salaries</u> | <u>Benefits</u> | <u>Services</u> | <u>Travel</u> | <u>Supplies</u> | <u>Insurance, Utilities and Rent</u> | <u>Depreciation</u> | <u>Student Assistance</u> | <u>Miscellaneous</u> | <u>Total</u> |
| Institutional Support | \$ 2,263,459 | \$ 281,930 | \$ 47,068 | \$ 310,521 | \$ 286,865 | \$ 793,181 | \$ - | \$ 6,749 | \$ 920,263 | \$ 4,910,036 |
| Instruction | 4,166,803 | 470,624 | 41,789 | 240,308 | 277,120 | 140 | - | 587,536 | 1,566,377 | 7,350,697 |
| Student Financial | | | | | | | | | | |
| Assistance | - | - | - | - | - | - | - | 3,682,480 | - | 3,682,480 |
| Student services | 1,069,611 | 145,962 | 24,236 | 164,716 | 62,786 | 125 | - | - | 295,158 | 1,762,594 |
| Depreciation | - | - | - | - | - | - | 1,010,112 | - | - | 1,010,112 |
| Auxiliary Enterprises | 163,547 | 22,813 | - | 16,590 | 430,009 | 26 | - | - | 849,417 | 1,482,402 |
| Academic support | 289,236 | 42,930 | - | 16,908 | 13,922 | - | - | - | 372,726 | 735,722 |
| Operations and | | | | | | | | | | |
| Maintenance | 23,825 | 4,866 | 7,800 | - | 96 | 67,870 | - | - | 49,352 | 153,809 |
| | <u>\$ 7,976,481</u> | <u>\$ 969,125</u> | <u>\$ 120,893</u> | <u>\$ 749,043</u> | <u>\$ 1,070,798</u> | <u>\$ 861,342</u> | <u>\$ 1,010,112</u> | <u>\$ 4,276,765</u> | <u>\$ 4,053,293</u> | <u>\$ 21,087,852</u> |

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

Notes to Financial Statements
September 30, 2019 and 2018

(11) Functional Classifications with Natural Classifications, Continued

| | 2018 | | | | | | | | | |
|-------------------|---------------------|---------------------|-------------------|-------------------|---------------------|----------------------------------------------|---------------------|-------------------------------|----------------------|----------------------|
| | <u>Salaries</u> | <u>Benefits</u> | <u>Services</u> | <u>Travel</u> | <u>Supplies</u> | <u>Insurance, Utilities and Rent</u> | <u>Depreciation</u> | <u>Student Assistance</u> | <u>Miscellaneous</u> | <u>Total</u> |
| Institutional | | | | | | | | | | |
| Support | \$ 2,327,176 | \$ 447,931 | \$ 146,930 | \$ 296,684 | \$ 210,924 | \$ 776,753 | \$ - | \$ 21,411 | \$ 1,448,766 | \$ 5,676,575 |
| Instruction | 4,087,767 | 895,756 | - | 190,714 | 276,792 | 6,828 | - | 630,709 | 890,650 | 6,979,216 |
| Student Financial | | | | | | | | | | |
| Assistance | - | - | - | - | - | - | - | 2,895,052 | - | 2,895,052 |
| Student services | 958,174 | 167,467 | - | 161,673 | 98,723 | 849 | - | - | 300,997 | 1,687,883 |
| Depreciation | - | - | - | - | - | - | 1,055,968 | - | - | 1,055,968 |
| Auxiliary | | | | | | | | | | |
| Enterprises | 188,512 | 33,064 | 90 | 13,381 | 429,672 | 283 | - | - | 891,411 | 1,556,413 |
| Academic support | 259,921 | 78,006 | - | 12,376 | 19,753 | 173,132 | - | - | 11,322 | 554,510 |
| Operations and | | | | | | | | | | |
| Maintenance | 33,148 | 6,958 | 14,174 | - | 12,586 | 68,927 | - | - | 18,259 | 154,052 |
| | <u>\$ 7,854,698</u> | <u>\$ 1,629,182</u> | <u>\$ 161,194</u> | <u>\$ 674,828</u> | <u>\$ 1,048,450</u> | <u>\$ 1,026,772</u> | <u>\$ 1,055,968</u> | <u>\$ 3,547,172</u> | <u>\$ 3,561,405</u> | <u>\$ 20,559,669</u> |

(12) Subsequent Events

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. As of November 20, 2020, there have been no confirmed cases of COVID-19 in the Federated States of Micronesia (FSM). The COM-FSM has determined that should the pandemic reach the FSM, it may negatively impact COM-FSM's business, results of operations and financial position and COM-FSM may become dependent upon the financial support of FSM National Government (FSMNG). However, the effect of the pandemic on FSMNG is also uncertain and future available funding to FSMNG component units may be limited. Therefore, while COM-FSM expects this matter to potentially have a negative impact on its business, results of operations and financial position, the related financial impact cannot be reasonably estimated at this time.