Financial Statements

College of Micronesia-FSM

(A Component Unit of the Federated States of
Micronesia National Government)

Years ended September 30, 2023 and 2022
with Report of Independent Auditors

Building a better
working world

College of Micronesia-FSM
(A Component Unit of the Federated States of Micronesia National Government)

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Years ended September 30, 2023 and 2022

Contents

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Report of Independent Auditors

The Board of Regents
College of Micronesia-FSM

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of College of Micronesia-FSM (the College), a component unit of the Federated States of Micronesia National Government, as of and for the years ended September 30, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents (collectively referred to as the "basic financial statements").

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of College of Micronesia-FSM at September 30, 2023 and 2022, and the changes in financial position, and, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the College and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the College's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit 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 College's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the College's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 16, 2025 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.

Ernst + Young LLP

June 16, 2025

College of Micronesia-FSM (the College) did not meet the definition of a low-risk auditee for Fiscal Year 2023. This classification stems from the late submission of the data collection form for Fiscal Year 2022 to the Federal Audit Clearinghouse, which is a critical requirement for federal compliance and oversight. Despite this setback, it is important to note that several issues raised in past audits have been effectively resolved, reflecting the College's commitment to improving its financial practices and accountability.

In the following sections, we provide a comprehensive overview and detailed analysis of the College's financial activities for the fiscal years ended September 30, 2023, 2022 and 2021. This analysis aims to shed light on the financial health and operational effectiveness of the institution. We strongly encourage readers to review this information in conjunction with the additional details presented in the College's basic financial statements, as they offer crucial information regarding fiscal trends, revenue sources, and expenditure patterns that contribute to a fuller understanding of the College's financial position.

Fiscal Year 2023 Overview:

- The appointments of the new President, Vice President for Instructional Affairs, Vice President for Institutional Effectiveness and Quality Assurance, and Vice President for Cooperative Research and Extension have been finalized.

- The Accrediting Commission for Community and Junior Colleges (ACCJC) has officially reaffirmed the college's accreditation for an additional seven years until 2030.

- The process for developing the 2024-2030 Strategic Plan has commenced.

Local Appropriations:

Public Law 22-153, the appropriation act of the Federated States of Micronesia, has allocated the following to the College for fiscal year ended 2023.

$4,000,000 for the operational expenses of the College
$965,735 for the operation of FSM Fisheries and Maritime Institute
$689,948 SEG funding for Teacher Corps, work study, and scholarship programs offered by the College
$488,798 COM Public Health Initiative to support the DDFT program of the college

In total, the government support to the College amounted to $6,144,481.

Grants Funding Sources:

Pell Grant

The College has been awarded a total of $9,327,972 through the Pell Grant program for the current fiscal year. This funding is 8.3% lower compared with the grant received in the previous year due to a decline in enrollment. This reduction in financial support significantly impacted the assistance available to students, particularly those from low-income backgrounds. Pell Grants play a vital role in helping these individuals access higher education by covering tuition costs and related expenses. As a result, the decrease in funding hindered the ability of many students to afford their education and limited their opportunities for academic and career advancement.

Coronavirus Aid, Relief, and Economic Security Act, Coronavirus Response and Relief Supplemental Appropriations Act, and American Rescue Plan Act

The College received a total of $4,989,214 from the Education Stabilization Fund to support its operations and initiatives during the challenges posed by the COVID-19 pandemic. These funds were essential in ensuring that students could continue their education without interruption.

Specifically, the College allocated these resources to cover tuition and fees for students facing financial hardships, ensuring that financial barriers did not hinder their academic progress. Additionally, the College invested in purchasing laptop computers to facilitate remote learning, allowing students to effectively engage with their courses from home.

To further enhance the quality of education, the funds were also used to improve instructional resources, providing faculty with the tools necessary to deliver engaging and effective online courses. Finally, a portion of the funding was dedicated to constructing a new teaching clinic, which aims to provide hands-on training and practical experience for students in health-related programs.

These efforts collectively contributed to the College's commitment to supporting its students and maintaining educational standards during a challenging time.

TRIO Program

The College has recently received a significant grant of $936,249 from the TRIO Program, which is administered by the U.S. Department of Education. This funding is specifically designed to support students from disadvantaged backgrounds who face various obstacles in their pursuit of higher education

The TRIO Program focuses on providing a range of resources aimed at promoting academic success and personal development. This includes access to individualized academic tutoring, mentorship programs, and specialized counseling services that address both educational and personal challenges. The program also offers workshops on essential skills such as study techniques, financial literacy, and career planning, ensuring that students are well-equipped to navigate their academic paths.

With this grant, the College aims to create a more supportive and inclusive educational environment where marginalized students can thrive. The initiative seeks to empower these individuals by providing them with the tools and guidance needed to overcome barriers and achieve their academic and career aspirations. By investing in the success of these students, the College hopes to foster a diverse and vibrant community that reflects the rich variety of backgrounds and experiences represented among its student body.

Economic Development Administration

The College has successfully secured a substantial grant of $424,596.76 from the Department of Commerce. This funding is specifically allocated for the construction of an advanced greenhouse facility designed to support a wide range of academic and research programs across various disciplines.

The state-of-the-art greenhouse will not only provide a controlled environment for plant growth but will also serve as an invaluable resource for hands-on learning experiences. Both students and faculty will have the opportunity to engage directly with cutting-edge agricultural technologies and sustainable practices, fostering an experiential learning environment that enhances their understanding of agricultural science and horticulture.

In addition to its educational benefits, the greenhouse will also play a crucial role in promoting sustainable practices. It will host workshops, community outreach programs, and research initiatives aimed at advancing knowledge in sustainable agriculture.

Furthermore, the grant will cover operational costs associated with the facility, ensuring that it can be used effectively for a variety of educational purposes, including research projects, lab courses, and collaborations with local community organizations. This initiative aims to reinforce the college's commitment to sustainability and community engagement while providing students with the skills and knowledge essential for future careers in environmental science and agriculture.

National Institute of Standards and Technology

The College has been awarded a significant grant of $1,195,260 to enhance internet connectivity for its student body, particularly focusing on those attending state campuses. This funding is designed to tackle the specific challenges that students face when engaging in online classes, such as slow connection speeds and inconsistent access.

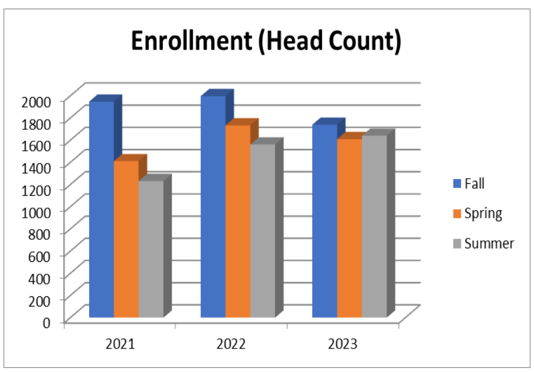
With this grant, the College plans to upgrade its network infrastructure, providing faster and more reliable internet services across campus. This initiative aims to ensure that all students can access their online courses seamlessly, participate in virtual discussions without interruptions, and utilize digital resources effectively. By improving internet access, the college hopes to foster a more supportive and productive learning environment, ultimately enabling students to achieve their academic goals without the barriers posed by poor connectivity.

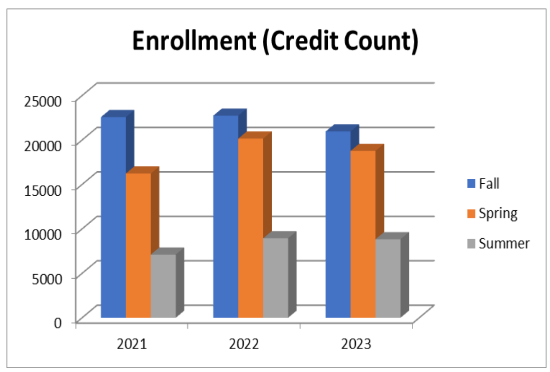
Enrollment

The College is currently facing significant challenges in maintaining its student enrollment numbers, which are critical for its viability and funding. During the academic year 2023, the institution witnessed a concerning decline in both overall enrollment headcount and the total number of credit hours. Specifically, the total number of enrolled students fell by 5.7%, indicating a substantial decrease in student participation across a range of college programs.

Furthermore, the reduction in student engagement is evidenced by a 6.3% decrease in the number of credit hours taken by enrolled students. This suggests that not only are fewer individuals choosing to enroll, but those who do enroll may also be opting to take fewer courses than before.

In response to this troubling trend, the College has implemented several proactive programs and initiatives aimed at reversing these declines and encouraging greater participation. These programs focus on enhancing student support services, improving academic offerings, and increasing outreach efforts to prospective students to boost enrollment and student retention. By taking these steps, the College hopes to foster a more engaging and supportive learning environment that will attract and retain students.





<u>Financial Statements Analysis</u>

In fiscal year 2003, the College implemented the financial reporting standards specifically designed for public colleges and universities, guided by the principles established by the Governmental Accounting Standards Board (GASB). This significant change marked a departure from the College's previous practice of presenting financial information separately for each fund.

Instead, the College now consolidates its financial data into comprehensive financial statements that provide a holistic view of its financial position and performance.

The shift to GASB principles has led to the development and presentation of three fundamental financial statements: the Statement of Net Position, which reflects the College's assets, liabilities, and net assets; the Statement of Revenues, Expenses, and Changes in Net Position, which outlines the College's financial activities over a specific period; and the Statement of Cash Flows, which details the sources and uses of cash within the institution. This approach enhances transparency and enables stakeholders to better understand the College's financial health and operational effectiveness.

1. Statements of Net Position (SNP)

The SNP presents what the College owns (assets), owes (liabilities) and the net assets (the difference between total assets and total liabilities) at the end of the fiscal year. The net position is one indicator of the current financial condition of the College. In contrast, 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, 2023, 2022 and 2021 is summarized below:

	FY 2023 (In 000's)	FY 2022 (In 000's)	Difference (In 000's)	FY 2021 (In 000's)
Assets:				
Current assets	$14,577	$16,756	$(2,179)	$16,133
Noncurrent asset	18,123	14,476	3,647	16,395
Total assets	$32,700	$31,232	$ 1,468	$32,528
Liabilities				
Current liabilities	$ 5,093	$ 4,826	$ 267	$ 4,438
Noncurrent liabilities	853	538	315	521
Total liabilities	5,946	5,364	582	4,959
Net position	26,754	25,868	886	27,569
Total liabilities and net position	$32,700	$31,232	$ 1,468	$32,528

The statement of net position for the fiscal year 2023 reveals that net position increased by $886 thousand, reflecting a growth of 3% in comparison to the previous fiscal year. This increase suggests improved financial health and stability, indicating that the organization has effectively managed its resources and may be positioned for future growth. The FY2023 net position is still below the net position of FY2021 due to the decrease in federal funding received from FY2021.

The current asset decreased by $2.179 million, driven by a reduction in tuition receivables and prepaid expenses.

	FY 2023 (In 000's)	FY 2022 (In 000's)	Difference (In 000's)	FY 2021 (In 000's)
Cash	$ 4,360	$ 3,886	$ 474	$ 4,085
Short-Term Investments	3,051	2,764	287	3,595
Due from FSM National Government	1,230	760	470	974
Tuition Receivable	3,480	4,586	(1,106)	4,676
Grants and Contracts Receivable	848	1,007	(159)	997
Other Receivables	258	101	157	173
Inventories	917	1,228	(311)	1,230
Prepaid Expenses	433	2,424	(1,991)	403
Total Current Assets	$14,577	$16,756	$(2,179)	$16,133

Non-current assets experienced a substantial increase of $3.647 million, primarily driven by a remarkable net investment gain of $1.360 million, reflecting strong market performance and strategic asset management, and additional funds placed in investment. In addition, capital assets saw a significant rise of $1.293 million, attributed to new acquisitions and enhancements of existing infrastructure, further strengthening the company's financial position, operational capabilities, and recognition of assets from prepaid purchases.

	FY 2023 (In 000's)	FY 2022 (In 000's)	Difference (In 000's)	FY 2021 (In 000's)
Investments	$10,910	$ 8,555	$2,355	$10,020
Capital Assets	7,213	5,921	1,292	6,375
Total Non-current Assets	$18,123	$14,476	$3,647	$16,395

Management's Discussion and Analysis, continued

The current liabilities have increased by $267,000, reflecting changes in our short-term obligations. This increase may be attributed to various factors, including operational expenditures toward the end of fiscal year 2023 and adjustments in our payment schedules.

	FY 2023 (In 000's)	FY 2022 (In 000's)	Difference (In 000's)	FY 2021 (In 000's)
Accounts Payable	$1,529	$ 534	$995	$ 296
Accrued Liabilities	330	636	(306)	610
Unearned Revenue	2,238	2,414	(176)	2,237
Lease Liability	109	---	109	---
SBITA Liability	44	---	44	---
Other Current Liabilities	565	918	(353)	930
Accrued Annual Leave	278	324	(46)	365
Total Current Liabilities	$5,093	$4,826	$267	$4,438

The non-current liabilities rose robustly by $315K, primarily attributed to the recognition of lease liabilities alongside the subscription-based information technology (SBIT) liabilities. This increase highlights our proactive management of liabilities and our adherence to evolving accounting standards, reinforcing our commitment to transparency and precision in financial reporting.

	FY 2023 (In 000's)	FY 2022 (In 000's)	Difference (In 000's)	FY 2021 (In 000's)
Lease Liabilities	$349	$---	$349	$---
SBITA Liabilities	14	---	14	---
Accrued Annual Leave	490	538	(48)	521
Total Non-current Liabilities	$853	$538	$315	$521

The net position for FY2023 rose by $886,000 compared to FY2022. However, it still falls short of the net position of FY2021, which stands at an impressive $27,569 million. This increase indicates a positive trend for FY2023, yet there remains a significant gap compared to the substantial holdings of FY2021.

	FY 2023 (In 000's)	FY 2022 (In 000's)	Difference (In 000's)	FY 2021 (In 000's)
Net Investment in Capital Asset	$ 6,698	$ 5,921	$777	$ 6,376
Restricted Nonexpendable	165	165	---	165
Restricted Expendable	---	750	(750)	750
Unrestricted	19,891	19,032	859	20,278
Total Net Position	$26,754	$25,868	$886	$27,569

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

The SRECNP provides an in-depth analysis of the College's financial performance for the current fiscal year, focusing on revenues and expenses incurred during this period. This comprehensive report delves into the various sources of operating revenues, such as tuition fees, government grants, and donations, as well as the associated operating expenses, which include costs related to faculty salaries, facility maintenance, and instructional materials. By examining these figures, the report presents the net operating results that indicate the College's efficiency in managing its core educational functions.

In addition to operating activities, the report includes a thorough breakdown of non-operating revenues and expenses. These elements encompass income sources, such as investments and endowment earnings, alongside expenditures that are not directly linked to the College's primary mission but are essential for overall financial management. The net change in net position is also discussed, offering insights into the institution's financial health and sustainability.

Furthermore, the document features a comparative summary of the SRECNP for the fiscal years that ended on September 30, 2023, September 30, 2022, and September 30, 2021. This comparative analysis allows stakeholders, such as College administrators, board members, and external partners, to assess financial trends over the past two years, identify potential areas of growth or concern, and make data-driven decisions regarding the College's financial strategies for the future. By evaluating these trends, the College can better adapt to changing circumstances and enhance its long-term viability.

	FY 2023 (In 000’s)	FY 2022 (In 000’s)	Difference (In 000’s)	FY 2021 (In 000’s)
Operating revenues	$ 4,853	$ 3,575	$1,278	$ 2,768
Operating expenses	29,737	33,509	3,772	22,832
Operating loss	(24,884)	(29,934)	5,050	(20,064)
Non-operating revenue	25,770	28,233	(2,463)	22,837
Change in net position	886	(1,701)	2,587	2,773
Net position at beginning of year	25,868	27,569	(1,701)	24,796
Net position at end of year	$26,754	$25,868	$ 886	$27,569

The analysis of the statement of revenues, expenses, and changes in net position for the fiscal year 2023 reveals a noteworthy increase in net position amounting to $886,000, representing a growth of 3% compared to the previous fiscal year. This positive change highlights the organization's improved financial performance and underscores effective revenue generation and expense management strategies implemented during the year. This is a partial recovery of the decrease in net position in FY2022.

The operating revenue increased due to increase in Student tuition and fees and recovery of bad debts from application of remaining CARES Act grant to student receivables.

	FY 2023 (In 000’s)	FY 2022 (In 000’s)	Difference (In 000’s)	FY 2021 (In 000’s)
Student Tuition and Fees	$2,506	$2,260	$ 246	$ 720
Sales of Auxiliary Enterprises	1,715	2,052	(337)	2,085
Other Revenues	378	433	(55)	290
Bad Debt Recover (Expense)	254	(1,170)	1,424	(327)
Total Operating Revenues	$4,853	$3,575	$1,278	$2,768

Operating expenses decreased during FY2023 due to the end of the period of performance of various grants supporting the students and the operation of the College, as reflected in the decrease of institutional support and student financial assistance.

	FY 2023 (In 000's)	FY 2022 (In 000's)	Difference (In 000's)	FY 2021 (In 000's)
Institutional Support	$12,958	$15,841	$(2,883)	$ 8,066
Instruction	7,648	7,845	(197)	6,905
Student Financial Assistance	3,753	4,073	(320)	2,284
Auxiliary Enterprises	2,081	2,384	(303)	1,910
Student Services	1,429	1,454	(25)	1,482
Depreciation	1,093	984	109	956
Academic Support	631	664	(33)	881
Operation and maintenance, plant	145	264	(119)	348
Total Operating Expenses	$29,738	$33,509	$(3,771)	$22,832

3. Statements of Cash Flows (SCF)

The Statement of Cash Flows (SCF) provides a comprehensive overview of the changes in the College's cash position by employing the direct method. This method clearly summarizes all significant cash inflows and outflows at their gross amounts, allowing for a detailed analysis of the College's financial activities. The cash flows are categorized into four distinct activities:

Operating Activities – Transactions include cash received from tuition and fees, grants, and other operating revenues, as well as cash payments for operating expenses such as salaries, utilities, and supplies.

Noncapital Financing Activities - These transactions involve cash flows related to noncapital financing sources, such as student loans and appropriations from government entities not explicitly designated for capital expenditures.

Capital and Related Financing Activities - This section addresses cash flows associated with acquiring, constructing, or improving long-term assets. It may also include cash payments for interest on capital-related debts.

Investing Activities - This refers to cash transactions involving financial investments, such as purchasing or selling securities or real estate.

For the fiscal year ended 2023, the SCF shows that the College had a balance of cash and cash equivalents amounting to $4.360 million. This represents an increase of $474,000, or 12%, compared to the previous fiscal year's balance of $3.886 million. This growth in cash position reflects the College's ability to manage its cash flow effectively and may indicate improved operations or increased revenue streams during the fiscal year.

Below is the summary Statement of Cash Flows:

	FY 2023 (In 000's)	FY 2022 (In 000's)	Difference (In 000's)	FY 2021 (In 000's)
Cash flows from operating activities	$(20,473)	$(30,404)	$9,931	$(19,824)
Cash flows from noncapital financing activities	23,370	30,478	(7,108)	20,423
Govt. contribution to the endowment fund	500	500	---	285
Other contribution to the endowment fund	230	---	230	---
Purchase of capital asset	(1,871)	(529)	(1,342)	(630)
Cash flow from investing activities	(1,282)	(244)	(1,038)	(275)
Net change in cash	474	(199)	673	(21)
Cash at beginning of year	3,886	4,085	(199)	4,106
Cash and cash equivalents at end of year	$ 4,360	$ 3,886	$ 474	$ 4,085

Capital Assets and Long-term Debt Activity

Capital Assets

The College's capital assets net of depreciation rose to $7,213 million in FY2023 from $5,921 million in FY2022, and $6,375 million in FY2021. This substantial increase in capital assets is primarily attributed to the ongoing construction of the Teaching Clinic at the National Campus, which aims to enhance educational and healthcare training opportunities for students. The new facility is expected to provide advanced resources and technology, fostering an improved learning environment and better preparing students for their future careers in the healthcare field.

Long-Term Debt

For the fiscal year 2023, the organization's long-term debt totals $852,932, a figure that underscores significant financial responsibilities. In comparison, the long-term debts for FY2022 and FY2021 are at $538,151 and $521,054, respectively. This increase in overall debt is primarily driven by the formal recognition of lease liabilities related to the land at Chuuk Campus, which signifies a commitment to maintaining a dedicated educational environment. Additionally, the rise is further influenced by the subscription-based information technology liabilities tied to essential software applications that are integral to the organization's daily operations. These developments reflect a strategic approach to enhance both physical and technological resources, positioning the organization for future growth and improved service delivery.

Economic Outlook

Multiple key revenue sources support the College's financial foundation and play a crucial role in its sustainability. Firstly, tuition fees collected from students constitute a significant portion of this revenue, reflecting the investment families make in higher education. In addition to tuition, extra fees are levied on students who benefit from financial assistance programs provided by the U.S. Federal Student Aid. These fees help to cover various costs associated with administering financial aid and maintaining educational services.

Another vital source of funding comes from a substantial annual subsidy provided by the National Government of the Federated States of Micronesia (FSM). This subsidy is specifically designated under the Education Sector Grant, which is part of the broader Compact of Free Association (COFA) between the FSM and the Government of the United States. The COFA agreement has undergone amendments over the years, and the most recent phase, known as Compact of Free Association III, has been established to extend support for an additional twenty years. This long-term commitment is intended to enhance the educational landscape in the FSM, ensuring that the College can continue to offer quality education and resources to its students for the foreseeable future.

A significant portion of the College's funding is derived from Pell Grants, which are part of the federal Student Aid (FSA) programs administered by the U.S. Department of Education. These grants are crucial in supporting students from low-income backgrounds in pursuing higher education without the burden of excessive debt.

On June 23, 2023, the U.S. Department of Education reaffirmed that the College meets the necessary requirements to participate in these vital Student Aid Programs. This decision is based on a thorough evaluation of the college's adherence to the regulatory framework established by the Higher Education Act of 1965 (HEA), which aims to promote access to education for all students.

The recent reauthorization of the College's eligibility will remain in effect until September 30, 2028. During this period, the College is expected to maintain compliance with federal standards and ensure that its programs continue to effectively serve students' needs. The institution is scheduled to reapply for this important designation on June 30, 2028. This reaffirmation underscores the College's commitment to meeting federal requirements and its ongoing ability to provide students with access to federally funded financial aid, thus supporting their educational goals.

As we look to the future, the College projects that the percentage of students qualifying for Pell Grants will likely remain consistently high, estimated to be between 85% and 95%. This trend reflects the College's dedication to serving a diverse and economically disadvantaged student population.

During the academic year 2022-2023, the College made a significant financial impact by disbursing a total of $9,621,952 in Pell Grants to 3,603 individual students. This substantial amount underscores the institution's commitment to making higher education accessible for all, particularly for those in need of financial assistance.

Furthermore, in the summer term of 2023, the College achieved a noteworthy milestone by successfully awarding Pell Grants to every eligible student who applied. This accomplishment not only demonstrates the College's commitment to student financial aid but also highlights its proactive approach in ensuring that students can continue their education without undue financial burden.

The College is deeply committed to its mission as a learner-centered institution, which focuses on empowering students and ensuring their success at every stage of their academic journey. Recognizing the diverse needs of its student body, the College actively leverages resources from Pell Grants to provide crucial financial support.

By effectively utilizing these funds, the College not only assists students in managing their immediate educational expenses—such as tuition, fees, and textbooks—but also invests in initiatives and programs that promote their long-term career success and personal development. The institution prioritizes accessibility and equity, ensuring that all students who qualify for Pell Grants receive adequate financial assistance to cover their attendance costs by the end of each awarding term.

This commitment to financial support is part of a broader strategy to cultivate a nurturing and inclusive environment where students can thrive academically while also developing valuable life skills. Through mentorship programs, workshops, and academic advising, the college strives to create pathways that lead to both personal growth and academic achievement, ultimately preparing students for successful futures.

The College's accreditation status is actively supported and maintained by the Accrediting Commission for Community and Junior Colleges (ACCJC), which ensures that educational institutions meet specific standards of quality and effectiveness. The most recent reaffirmation of the College's accreditation occurred in the spring of 2023, as documented by an official Action Letter dated June 15, 2023.

As part of the accreditation cycle, the College is scheduled to submit its next comprehensive institutional self-evaluation report to the ACCJC in March 2030. This report is a critical reflection of the College's performance, goals, and adherence to established standards. Additionally, a Mid-Term Report is required and is due in 2027, which will provide updates on the College's progress and any developments since the last evaluation.

In an effort to adapt to changing educational needs and enhance learning opportunities, the College has also received authorization from the ACCJC to implement a hybrid model for course delivery. This model effectively combines online instruction with traditional face-to-face classes, allowing for a flexible learning environment that meets diverse student needs. Currently, this hybrid model is actively being utilized, providing students with a modern approach to education that leverages both digital and in-person teaching methods.

Due to the newly approved education sector funding under Compact III, the College is set to receive significant financial support from the FSM National Government. The FSM Government has confirmed its commitment to compensate for any potential reductions in funding from the Education Sector Grant using local revenues. A letter from the FSM President, dated February 11, 2021, explicitly assured that the government would use its domestic revenues to continue supporting educational funding in the future.

For the current budget, the FSM Government has allocated $3.0 million along with an additional $1 million from the Compact Educational Sector Grant. Additionally, the College has received $285,000 for its endowment fund and has secured a commitment of $4 million from the FSM Government's Department of Transportation, Communications, and Infrastructure (TC&I), designated for the College's infrastructure projects over the next 20 years under Compact III. This funding will also aid in implementing the College’s Long-Term Facilities Development Master Plan, which will be financed through domestic revenues as well as Official Development Assistance (ODA) funds, ensuring the successful execution of planned projects. Furthermore, the college will benefit from the Compact III Infrastructure Maintenance Fund, receiving $900,000 annually without the need for any matching funds from the FSM.

The College has instituted a structured approach to tuition fee increases, having adjusted fees in 2016 and again in 2022. For the fiscal year 2023, tuition rates were standardized, with a fee of $145 per credit for two-year degree and certificate programs, and $165 per credit applicable to major requirement courses for Bachelor's degrees in Elementary Education and Business, with an emphasis on Accounting. Additionally, students incurred a facility fee of $200 and a technology fee of $100. These tuition and fee rates remained unchanged for the fiscal year 2023-2024.

The College is currently undertaking a thorough and detailed review of its Integrated Educational Master Plan (IEMP). This review aims to prioritize academic programs effectively, ensuring that resources are allocated to the most impactful and necessary offerings. Additionally, the college is identifying and implementing various cost-saving measures to enhance financial efficiency.

The IEMP, which spans a decade, will be designed to closely align with the College's Five-Year Financial Plan for 2024-2029. This alignment will facilitate the development of a transparent and actionable financial strategy that is robust and adaptable to the college's evolving needs over the next five years.

As part of this process, the Five-Year Financial Plan began in FY2024 and will be in effect until the year 2029. The goal is to ensure that all financial decisions and program implementations are guided by a clear vision and well-coordinated efforts, providing the necessary foundation for future growth and sustainability of the college's educational offerings.

In alignment with its comprehensive Facilities Master Plan, the College is committed to making substantial improvements to its infrastructure and facilities. This initiative is designed to create a more conducive learning environment that enhances the overall educational experience for students.

As part of this effort, the College will focus on upgrading existing buildings, improving accessibility, and incorporating modern technology into classrooms and laboratories. These developments aim to provide students with resources and spaces that support innovative teaching and learning methods.

Ultimately, these enhancements reflect the College's mission to foster student success by creating an environment that not only facilitates academic achievement but also encourages personal growth and development. By investing in its facilities, the College is dedicated to preparing students for a successful future in an ever-evolving world.

Statements of Net Position

	September 30, 2023	September 30, 2022
Assets		
Current assets:		
Cash	$ 4,359,972	$ 3,885,598
Investments	3,051,379	2,764,015
Due from FSM National Government, net of allowance for doubtful accounts of $999,569 and $787,187, respectively	1,229,768	760,401
Tuition receivable, net of allowance for doubtful accounts of $5,781,463 and $6,270,116, respectively	3,479,972	4,585,805
Grants and contracts receivable, net of allowance for doubtful accounts of $553,829 and $531,705, respectively	848,089	1,006,532
Other receivables, net of allowance for doubtful accounts of $338,976 and $339,016, respectively	257,802	100,996
Inventories, net of allowance for obsolescence of $551,106 and $471,567, respectively	916,589	1,228,098
Prepaid expenses	433,363	2,424,682
Total current assets	14,576,934	16,756,127
Investments	10,909,450	8,554,945
Capital assets:		
Subscription-based information technology assets, net	58,125	---
Lease assets, net	451,943	---
Nondepreciable capital assets	2,720,923	1,455,685
Depreciable capital assets, net	3,982,503	4,465,249
Total assets	$32,699,878	$31,232,006
Liabilities		
Current liabilities:		
Accounts payable	1,529,421	534,024
Accrued liabilities	330,122	635,607
Current portion of lease liability	108,467	---
Current portion of subscription-based information technology liability	43,594	---
Current portion of accrued annual leave	278,084	323,686
Unearned revenue	2,238,325	2,414,102
Other current liabilities	564,743	918,362
Total current liabilities	5,092,756	4,825,781

Statements of Net Position, continued

	September 30, 2023	September 30, 2022
Non-current liabilities:		
Lease liability, net of current portion	348,796	---
Subscription-based information technology liability, net of current portion	14,531	---
Accrued annual leave, net of current portion	489,605	538,151
Total liabilities	5,945,688	5,363,932
Net position:		
Net investment in capital assets	6,698,106	5,920,934
Restricted – nonexpendable	165,000	165,000
Restricted for education	---	750,000
Unrestricted	19,891,084	19,032,140
Total net position	26,754,190	25,868,074
Total liabilities and net position	$32,699,878	$31,232,006

See accompanying notes.

College of Micronesia-FSM
(A Component Unit of the Federated States of Micronesia National Government)

Statements of Revenues, Expenses and Changes in Net Position

	Years ended September 30, 2023	Years ended September 30, 2022
Operating revenues:		
Student tuition and fees	$ 8,081,331	$ 8,355,581
Less scholarship discounts and allowances	(5,575,131)	(6,095,334)
	2,506,200	2,260,247
Sales and services of auxiliary enterprises	1,714,888	2,052,329
Other revenues	378,286	432,841
Total operating revenues	4,599,374	4,745,417
Add (less) bad debts recovery (expense)	254,056	(1,170,205)
Net operating revenues	4,853,430	3,575,212
Operating expenses:		
Institutional support	12,958,068	15,841,128
Instruction	7,647,804	7,845,391
Student financial assistance	3,752,841	4,072,929
Auxiliary enterprises	2,081,122	2,383,577
Student services	1,428,545	1,454,460
Depreciation	1,092,502	983,530
Academic support	632,178	664,005
Operations and maintenance, plant	144,524	264,073
Total operating expenses	29,737,584	33,509,093
Operating loss	(24,884,154)	(29,933,881)
Nonoperating revenue (expense):		
Federal grants and contracts	19,370,234	25,269,297
Government grants and contracts	4,310,340	5,004,398
Government contributions to the Endowment Fund	500,000	500,000
Other contributions to Endowment Fund	230,042	---
Net investment gain (loss)	1,359,654	(2,540,784)
Total nonoperating revenues, net	25,770,270	28,232,911
Change in net position	886,116	(1,700,970)
Net position at beginning of year	25,868,074	27,569,044
Net position at end of year	$26,754,190	$25,868,074

See accompanying notes.

College of Micronesia-FSM
(A Component Unit of the Federated States of Micronesia National Government)

Statements of Cash Flows

	Years ended September 30, 2023	2022
Cash flows from operating activities:		
Student tuition and fees	$ 3,690,312	$ 1,357,682
Sales and services of auxiliary services	1,714,888	2,052,329
Other revenues	221,480	504,627
Payments to suppliers and others	(12,330,003)	(20,462,258)
Payments to employees for salaries and benefits	(10,017,265)	(9,783,780)
Payments to students	(3,752,841)	(4,072,929)
Net cash used in operating activities	(20,473,429)	(30,404,329)
Cash flows from noncapital and related financing activities:		
Federal grants and contracts	19,370,234	25,269,297
Government grants and contracts	3,999,416	5,208,525
Government contributions to Endowment Fund	500,000	500,000
Other contributions to Endowment Fund	230,042	---
Net cash provided by noncapital and related financing activities	24,099,692	30,977,822
Cash flow from capital and related financing activity:		
Purchase of capital assets	(1,869,674)	(528,873)
Cash flow from investing activities:		
Net purchase of investments	(1,282,215)	(244,456)
Net change in cash	474,374	(199,836)
Cash at beginning of year	3,885,598	4,085,434
Cash at end of year	$ 4,359,972	$ 3,885,598

See accompanying notes.

Statements of Cash Flows, continued

	Years ended September 30, 2023	2022
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	$(24,884,154)	$(29,933,881)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	1,092,502	983,530
Bad debts (recovery) expense	(254,056)	1,170,205
Provision for inventory obsolescence	79,540	163,126
Changes in assets and liabilities:		
Tuition receivable	1,359,889	(1,079,915)
Other receivables	(156,806)	71,786
Inventories	231,969	(161,150)
Prepaid expenses	1,991,319	(2,022,581)
Accounts payable	995,397	237,945
Accrued liabilities	(399,633)	528
Unearned revenue	(175,777)	177,350
Other current liabilities	(353,619)	(11,272)
Net cash used in operating activities	$(20,473,429)	$(30,404,329)

See accompanying notes.

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, an 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

Financial Statement Presentation

The financial statement presentation is required to provide 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.

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. Business-type activities are those that are financed in whole or in part by fees charged to external parties for goods and services.

3. Summary of Significant Accounting Policies

A. *Cash.* Cash are defined as cash on hand and cash in bank.

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.

Management elected not to require insurance or collateralization on the remaining balances based on confidence in the financial health of the banking institutions.

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*.

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.

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

E. *Prepaid Expenses.* Payments made to vendors for goods and services that will benefit periods beyond year end 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.

3. Summary of Significant Accounting Policies, continued

G. *Deferred Outflows of Resources*. In addition to assets, the statement 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.

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

J. *Long-term Portion of Accrued Annual Leave*. This includes estimated amounts for accrued compensated absences that will not be paid within the next fiscal year.

K. *Deferred Inflows of Resources*. In addition to liabilities, the statement 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:

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

<u>Restricted Net Position – Nonexpendable</u> – 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.

<u>Restricted Net Position – Expendable</u> – 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.

3. Summary of Significant Accounting Policies, continued

L. *Net Position*, continued

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.

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, and (2) sales and services of auxiliary enterprises.

Nonoperating – Nonoperating revenues and expenses include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other sources and uses, such as (1) most federal, state and local grants and contracts and federal appropriations, and (2) 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 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.

COM-FSM also adopts tuition waiver and reduction as approved by the Board policy. COM-FSM allows waiver of tuition and auditing fees up to six (6) credit hours each academic semester for full-time regular employees. Dependents of regular employees of the College, age twenty-two or younger at the time of registration for any courses, are eligible for a 50% tuition reduction for COM-FSM courses.

3. Summary of Significant Accounting Policies, continued

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 9.

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. *New Accounting Standards*

During the year ended September 30, 2023, COM-FSM implemented the following pronouncements:

- GASB Statement No. 91, *Conduit Debt Obligations*, which provides a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying 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 implementation of this Statement did not have a material effect on the accompanying financial statements.

- GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, which improves financial reporting by addressing issues related to public-private and public-public partnership arrangements. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements. The implementation of this Statement did not have a material effect on the accompanying financial statements.

3. Summary of Significant Accounting Policies, continued

Q. *New Accounting Standards, continued*

- In GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, which provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset - an intangible asset - and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. Upon adoption of this Statement, the College recorded $169,789 of intangible right-to-use asset and subscription liability at October 1, 2022.

- In GASB Statement No. 99, *Omnibus 2022*, which enhances comparability in accounting and financial reporting and improves the consistency of authoritative literature by addressing (1) practice issues that have been identified during the implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. This Statement provides clarification of provisions in:

    - GASB Statement No. 87, *Leases*, related to the determination of the lease term, classification of a lease as a short-term lease, recognition and measurement of a lease liability and a lease asset, and identification of lease incentives.

    - GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, related to (a) the determination of the public-private and public-public partnership (PPP) term and (b) recognition and measurement of installment payments and the transfer of the underlying PPP asset.

    - GASB Statement No. 96 related to the SBITA term, classification of a SBITA as a short-term SBITA, and recognition and measurement of a subscription liability.

  This Statement modifies accounting and reporting guidance in:

    - GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, related to termination of hedge.

  The implementation of this Statement did not have a material effect on the accompanying financial statements.

3. Summary of Significant Accounting Policies, continued

Q. *New Accounting Standards, continued*

In April 2022, GASB issued Statement No. 99. This Statement contains guidance whose effective dates are in future periods. Management is evaluating the effect that this Statement, upon implementation, will have on the financial statements. GASB Statement No. 99:

1) Modifies guidance in GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, to bring all guarantees under the same financial reporting requirements and disclosures effective for fiscal year ending September 30, 2024.

2) Provides guidance on classification and reporting of derivative instruments within the scope of GASB Statement No. 53 effective for fiscal year ending September 30, 2024

In June 2022, GASB issued Statement No. 100, *Accounting Changes and Error Corrections - An Amendment of GASB Statement No. 62*. This Statement enhances accounting and financial reporting requirements for accounting changes and error corrections and requires that (a) changes in accounting principles and error corrections be reported retroactively by restating prior periods, (b) changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and (c) changes in accounting estimates be reported prospectively by recognizing the change in the current period. Requirements applicable to changes in accounting principles apply to the implementation of a new pronouncement if there is no specific transition guidance in the new pronouncement. The Statement also requires that aggregate amounts of adjustments to, and restatements of, beginning net position, fund balance, or fund net position, as applicable, be displayed by reporting unit in the financial statements. Management is evaluating the effect that this Statement, upon implementation, will have on the financial statements. GASB Statement No. 100 will be effective for fiscal year ended September 30, 2024.

In June 2022, GASB issued Statement No. 101, *Compensated Absences.* The primary objective of the Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. This Statement requires that liabilities for compensated absences be recognized for leave that has not been used and leave that has been used but not yet paid, provided the services have occurred, the leave accumulates, and the leave is more likely than not to be used for time off or otherwise paid in cash or noncash means. In estimating the leave that is more likely than not to be used or otherwise paid or settled, a government should consider relevant factors such as employment policies related to compensated absences and historical information about the use or payment of compensated absences. Leave that is more likely than not to be settled through conversion to defined benefit postemployment benefits should not be included in a liability for compensated absences. Management is evaluating the effect that this Statement, upon implementation, will have on the financial statements. GASB Statement No. 101 will be effective for fiscal year ending September 30, 2025.

3. Summary of Significant Accounting Policies, continued

Q. *New Accounting Standards, continued*

In December 2023, GASB issued Statement No. 102, *Certain Risk Disclosures*. The objective of this Statement is to provide users of government financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints. This Statement requires a government to assess whether a concentration or constraint makes the primary government reporting unit or other reporting units that report a liability for revenue debt vulnerable to the risk of a substantial impact. Additionally, this Statement requires a government to assess whether an event or events associated with a concentration or constraint that could cause the substantial impact have occurred, have begun to occur, or are more likely than not to begin to occur within 12 months of the date the financial statements are issued. GASB Statement No. 102 will be effective for fiscal year ending September 30, 2025.

In April 2024, GASB issued Statement No. 103, *Financial Reporting Model Improvements.* The primary objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This Statement also addresses certain application issues. This Statement establishes new accounting and financial reporting requirements or modifies existing requirements related to management's discussion and analysis (MD&A), unusual or infrequent items, presentation of the proprietary fund statement of revenues, expenses, and changes in fund net position, information about major component units in basic financial statements, budgetary comparison information and financial trends information in the statistical section. Management is evaluating the effect that this Statement, upon implementation, will have on the financial statements. GASB Statement No. 103 will be effective for fiscal year ending September 30, 2026.

In September 2024, GASB issued Statement No. 104, *Disclosure of Certain Capital Assets*. The objective of this Statement is to provide users of government financial statements with essential information about certain types of capital assets. This Statement requires certain types of capital assets to be disclosed separately in the capital assets note disclosures required by Statement 34. Lease assets recognized in accordance with Statement No. 87, *Leases*, and intangible right-to-use assets recognized in accordance with Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, should be disclosed separately by major class of underlying asset in the capital assets note disclosures. Subscription assets recognized in accordance with Statement No. 96, *Subscription-Based Information Technology Arrangements*, also should be separately disclosed. In addition, this Statement requires intangible assets other than those three types to be disclosed separately by major class. This Statement also requires additional disclosures for capital assets held for sale. A capital asset is a capital asset held for sale if (a) the government has decided to pursue the sale of the capital asset and (b) it is probable that the sale will be finalized within one year of the financial statement date. Governments should consider relevant factors to evaluate the likelihood of the capital asset being sold within the established time frame.

3. Summary of Significant Accounting Policies, continued

Q. *New Accounting Standards, continued*

This Statement requires that capital assets held for sale be evaluated each reporting period. Governments should disclose (1) the ending balance of capital assets held for sale, with separate disclosure for historical cost and accumulated depreciation by major class of asset, and (2) the carrying amount of debt for which the capital assets held for sale are pledged as collateral for each major class of asset. Management is evaluating the effect that this Statement, upon implementation, will have on the financial statements. GASB Statement No. 104 will be effective for fiscal year ending September 30, 2026.

The College is currently evaluating the effects the above upcoming accounting pronouncements might have on its financial statements.

R. *Correction of Error*

In the statement of revenues, expenses and changes in net position for the year ended September 30, 2022, the College increased both the institutional support and the federal grants and contracts by $1,000,540 to recognize certain federal grants and expenditures. Such correction of error has no effect on previously reported change in net position.

4. Deposits and Investments

Deposits

As of September 30, 2023 and 2022, COM-FSM has recorded cash and time certificates of deposit of $4,359,972 and $3,885,598, respectively, and the corresponding bank balances are $5,120,447 and $3,952,243, respectively. As of September 30, 2023 and 2022, $4,620,447 and $3,452,243, respectively, were not insured or collateralized with securities held by a trustee in the name of the financial institution. No losses as a result of this practice were incurred during the years ended September 30, 2023 and 2022.

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, in addition to a subsequent contribution, is classified as restricted nonexpendable net position in the accompanying Statements of Net Position.

4. Deposits and Investments, continued

Investments, continued

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 years ended September 30, 2023 and 2022.

As of September 30, 2023 and 2022, total investments are as follows:

	2023	2022
Domestic fixed income	$ 3,913,655	$ 3,639,035
Other investments:		
Equity securities	8,570,487	6,832,350
Exchange traded funds	1,077,395	847,575
Certificates of deposit	399,292	---
	10,047,174	7,679,925
	$13,960,829	$11,318,960

As of September 30, 2023, the College's fixed income securities had the following maturities:

		Investment Maturities (in years)				
Investment Type	Fair Value	Less than 1	1- 3 Years	3 - 7 Years	7- 14 Years	more than 14 Years
Corporate bond	$ 1,854,067	$ 63,641	$ 262,581	$ 941,825	$ 472,452	$ 113,568
Government bond	2,059,588	90,513	978,064	501,861	228,591	260,559
	$ 3,913,655	$ 154,154	$ 1,240,645	$ 1,443,686	$ 701,043	$ 374,127

4. Deposits and Investments, continued

Investments, continued

As of September 30, 2022, the College's fixed income securities had the following maturities:

		Investment Maturities (in years)				
Investment Type	Fair Value	Less than 1	1- 3 Years	3 - 7 Years	7- 14 Years	more than 14 Years
Corporate bond	$ 1,669,442	$ ---	$ 303,259	$ 639,339	$ 633,299	$ 93,615
Government bond	1,969,593	65,236	838,776	785,450	115,404	164,727
	$ 3,639,035	$ 65,236	$ 1,142,035	$ 1,424,789	$ 748,703	$ 258,342

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, 2023 and 2022, are as follows:

Moody's Rating	2023	2022
AAA	$2,116,215	$2,017,287
AA	118,110	23,746
A	890,333	643,007
BAA	740,414	954,995
Not rated	48,583	---
	$3,913,655	$3,639,035

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, 2023 and 2022.

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. Entities are required to disclose 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, 2023 and 2022.

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.

4. Deposits and Investments, continued

Investments, continued

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.

The College has the following recurring fair value measurements as of September 30, 2023 and 2022:

		Fair Value Measurements Using		
	September 30, 2023	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	$ 3,913,655	$ ---	$3,913,655	$ ---
Equity securities	8,570,487	8,570,487	---	---
Exchange traded funds	1,077,395	1,077,395	---	---
Total investments by fair value level	$13,561,537	$9,647,882	$3,913,655	$ ---
Investment measured at cost:				
Certificates of deposit	399,292			
	$13,960,829			

		Fair Value Measurements Using		
	September 30, 2022	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	$ 3,639,035	$ ---	$3,639,035	$ ---
Equity securities	6,832,350	6,832,350	---	---
Exchange traded funds	847,575	847,575	---	---
Total investments by fair value level	$11,318,960	$7,679,925	$3,639,035	$ ---

5. Receivables

Accounts receivable tuition and fees per campus, net of an allowance for uncollectible accounts, as of September 30, 2023, follows:

	National Campus	State Campuses	Totals
Accounts receivable, gross	$6,016,893	$3,244,542	$9,261,435
Allowance for uncollectible accounts	(3,988,736)	(1,792,727)	(5,781,463)
Accounts receivable, net	$2,028,157	$1,451,815	$3,479,972

Accounts receivable tuition and fees per campus, net of an allowance for uncollectible accounts, as of September 30, 2022, follows:

	National Campus	State Campuses	Totals
Accounts receivable, gross	$7,042,216	$3,813,705	$10,855,921
Allowance for uncollectible accounts	(4,477,387)	(1,792,729)	(6,270,116)
Accounts receivable, net	$2,564,829	$2,020,976	$ 4,585,805

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, 2023 and 2022:

	2023	2022
Due from U.S. Department of Education	$ 264,472	$ 266,155
Due from COM-Land Grant	200,499	236,609
Due from University of Guam	120,233	120,233
Due from University of Hawaii	22,124	22,124
CARIPAC	41,209	165,738
Due from other grantor agencies	753,381	727,378
	1,401,918	1,538,237
Less allowance for doubtful accounts	(553,829)	(531,705)
	$ 848,089	$1,006,532

6. Capital Assets

Capital assets at September 30, 2023 and 2022 consist of the following:

	Balance October 1, 2022	Additions	Retirements	Balance September 30, 2023
Depreciable assets:				
Buildings	$14,458,770	$ ---	$ ---	$14,458,770
Furniture and equipment	5,080,649	465,477	(45,097)	5,501,029
Vehicles/boats	922,471	152,356	(26,499)	1,048,328
	20,461,890	617,833	(71,596)	21,008,127
Less accumulated depreciation	(15,996,641)	(1,093,883)	64,900	(17,025,624)
	4,465,249	(476,050)	(6,696)	3,982,503
Lease assets, net				
Lease assets	---	557,464	---	557,464
Less accumulated amortization	---	(105,521)	---	(105,521)
	---	451,943	---	451,943
Subscription- based IT Asset:				
Subscription-based IT asset	---	169,789	---	169,789
Less accumulated amortization	---	(111,664)	---	(111,664)
	---	58,125	---	58,125
Non-depreciable assets:				
Construction in progress	---	1,265,238	---	1,265,238
Land	1,455,685	---	---	1,455,685
	1,455,685	1,265,238	---	2,720,923
Capital assets, net	$ 5,920,934	$1,299,256	$(6,696)	$ 7,213,494

	Balance October 1, 2021	Additions	Retirements	Balance September 30, 2022
Depreciable assets:				
Buildings	$14,458,770	$ ---	$ ---	$14,458,770
Furniture and equipment	4,710,439	490,435	(120,225)	5,080,649
Vehicles/boats	924,932	40,723	(43,184)	922,471
	20,094,141	531,158	(163,409)	20,461,890
Less accumulated depreciation	(15,174,235)	(983,530)	161,124	(15,996,641)
	4,919,906	(452,372)	(2,285)	4,465,249
Non-depreciable assets:				
Land	1,455,685	---	---	1,455,685
Capital assets, net	$ 6,375,591	$(452,372)	$(2,285)	$ 5,920,934

7. Non-Current Liabilities

A summary of changes in non-current liabilities for the years ended September 30, 2023 and 2022 follows:

	Outstanding October 1, 2022	Increase	Decrease	Outstanding September 30, 2023	Amount due within one year	Amount due beyond one year
Lease liability	---	557,464	100,201	457,263	108,467	348,796
Subscription-based IT liability	---	169,789	111,664	58,125	43,594	14,531
Accrued annual leave	861,837	---	94,148	767,689	278,084	489,605
	$ 861,837	$ 727,253	$ 306,013	$ 1,283,077	$ 430,145	$ 852,932

	Outstanding October 1, 2021	Increase	Decrease	Outstanding September 30, 2022	Amount due within one year	Amount due beyond one year
Accrued annual leave	886,418	---	24,581	861,837	323,686	538,151
	$ 886,418	$ ---	$ 24,581	$ 861,837	$ 323,686	$ 538,151

8. 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, 2023 and 2022, receivables from the FSM National Government amounted to $1,229,768 and $760,401, net of $999,569 and $787,187 allowance for doubtful accounts, respectively. The College recognized $5,453,711 and $5,325,398 in appropriations for the years ended September 30, 2023 and 2022, respectively.

9. Contingencies

Insurance

COM-FSM purchases commercial insurance to cover its potential risks from fire and property damage on some of its buildings and contents ($19,961,382 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 $510,000) 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.

9. Contingencies, continued

Accreditation

The College is accredited by the Accrediting Commission for Community and Junior Colleges (ACCJC), Western Association of Schools and Colleges Senior College and University Commission (WSCUC). Accreditation was reaffirmed in an Action Letter issued on June 15, 2023. The College will submit its next Midterm Report in March 2027 and the next comprehensive review will occur in Fall 2029.

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, 2023 will not have a material effect on the accompanying financial statements.

10. Retirement Plan

The College sponsors the College of Micronesia - FSM Retirement Savings Plan (the Plan), a deferred compensation plan. 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, 2023 and 2022, the College incurred an expense of $143,646 and $139,709, respectively for matching contributions.

Although the Plan does not accumulate assets in a trust where Plan assets are legally protected from the creditors of the College and the pension plan administrator, the College has concluded that the activities of the Plan are not fiduciary activities of the College as the participants have the right to direct the exchange and the right to direct the employment of the Plan assets. At September 30, 2023 and 2022, Plan assets totaled $5,733,901 and $5,448,830, respectively.

11. Leases

The College leases land and building with terms ranging from three to five years. The agreements were determined to be leases and the related assets are recorded as right-to-use lease asset in the accompanying statements of net position. The related lease liability is payable in annual installments of principal and interest of $140,790 at interest rate of 7.00%. The future minimum lease payments are as follows:

Year Ending September 30,	Principal	Interest	Total
2024	$115,936	$24,855	$140,791
2025	124,492	16,298	140,790
2026	96,019	17,832	113,851
2027	96,333	8,457	104,790
2028	24,483	1,714	26,197
	$457,263	$69,156	$526,419