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, 2015 AND 2014

Deloitte & Touche LLP
361 South Marine Corps Drive
Tamuning, GU 96913-3911
USA

Tel: (671)646-3884
Fax: (671)649-4932
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

Board of Regents
College of Micronesia-FSM:

Report on the Financial Statements

We have audited the accompanying financial statements of College of Micronesia-FSM (the College) and its discretely presented component unit, collectively a component unit of the FSM National Government, which comprise the statements of net position as of September 30, 2015 and 2014, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respectively, financial position of College of Micronesia-FSM and its discretely presented component unit as of September 30, 2015 and 2014, and the respective changes in financial position and cash flows, where applicable, for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 20, 2016, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

Deloitte + Touche LLP

June 20, 2016

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 combined 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)

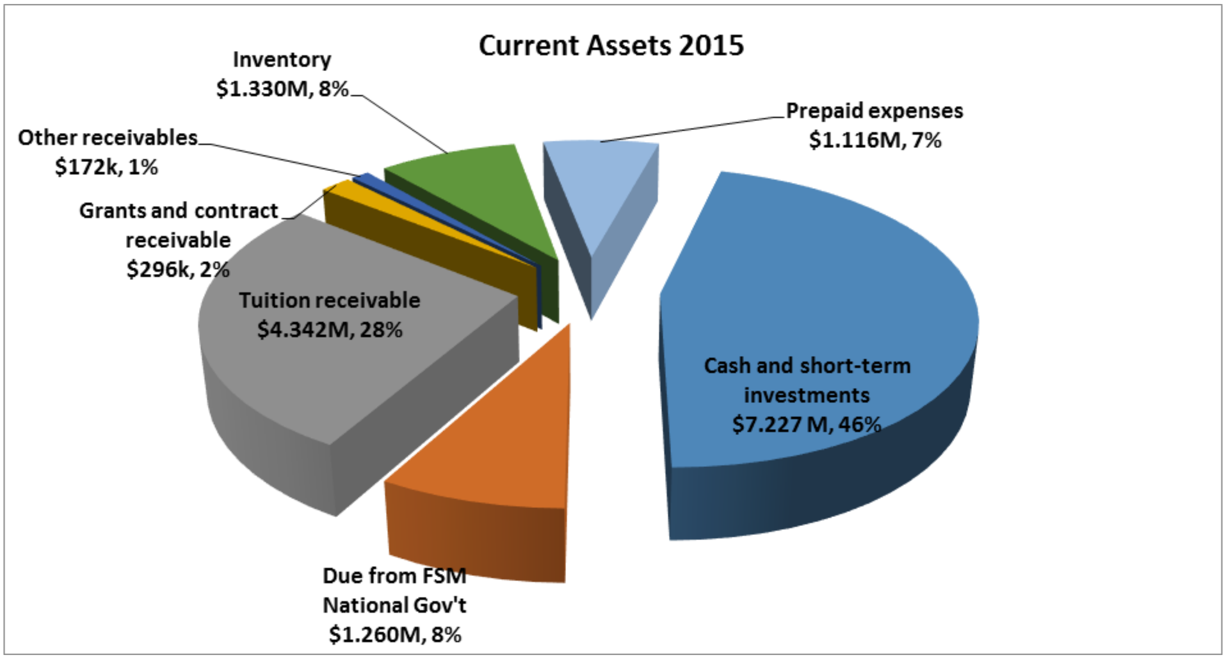
The SNP presents what the College owns (assets), owes (liabilities) and the net position (the difference between total assets and total liabilities) at the end of the fiscal year. The net position is one indicator of the current financial condition of the College, while the change in net position is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

A Comparative Statement of Net Position at September 30, 2015, 2014 and 2013 is summarized below:

	FY 2015 (In 000's)	FY 2014 (In 000's)	Difference (In 000's)	FY 2013 (In 000's)
Assets:				
Current assets	$ 15,744	$ 14,638	$ 1,106	$ 14,789
Noncurrent assets	12,535	13,263	(728)	13,432
Total assets	$ 28,279	$ 27,901	$ 378	$ 28,221
Liabilities:				
Current liabilities	$ 4,414	$ 4,627	$ (213)	$ 4,837
Noncurrent liabilities	270	336	(66)	302
Total liabilities	4,684	4,963	(279)	5,139
Net position	23,595	22,938	657	23,082
Total liabilities and net position	$ 28,279	$ 27,901	$ 378	$ 28,221

The comparison of the statement of net position for fiscal year 2015 with prior year indicates an increase in net position by $657k or 3%.

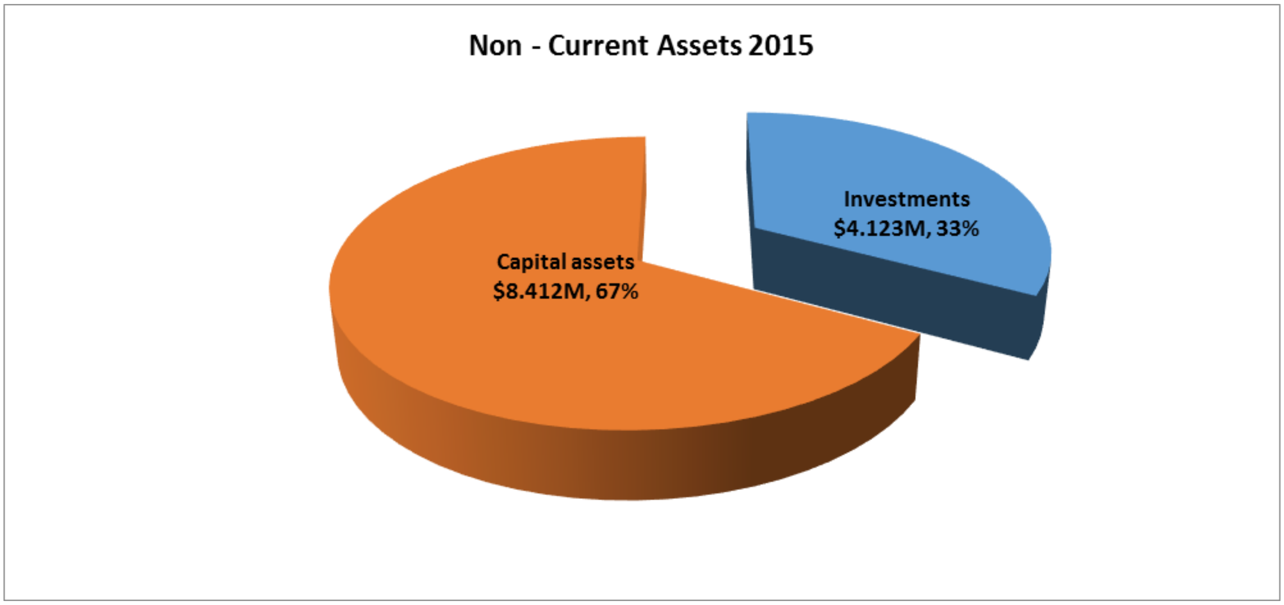
Current assets: Total current assets increased by $1.106 Million or 8%, from $14.638 Million in fiscal year 2014 to $15.744 Million in fiscal year 2015. Below is the composition of current assets for fiscal year 2015:



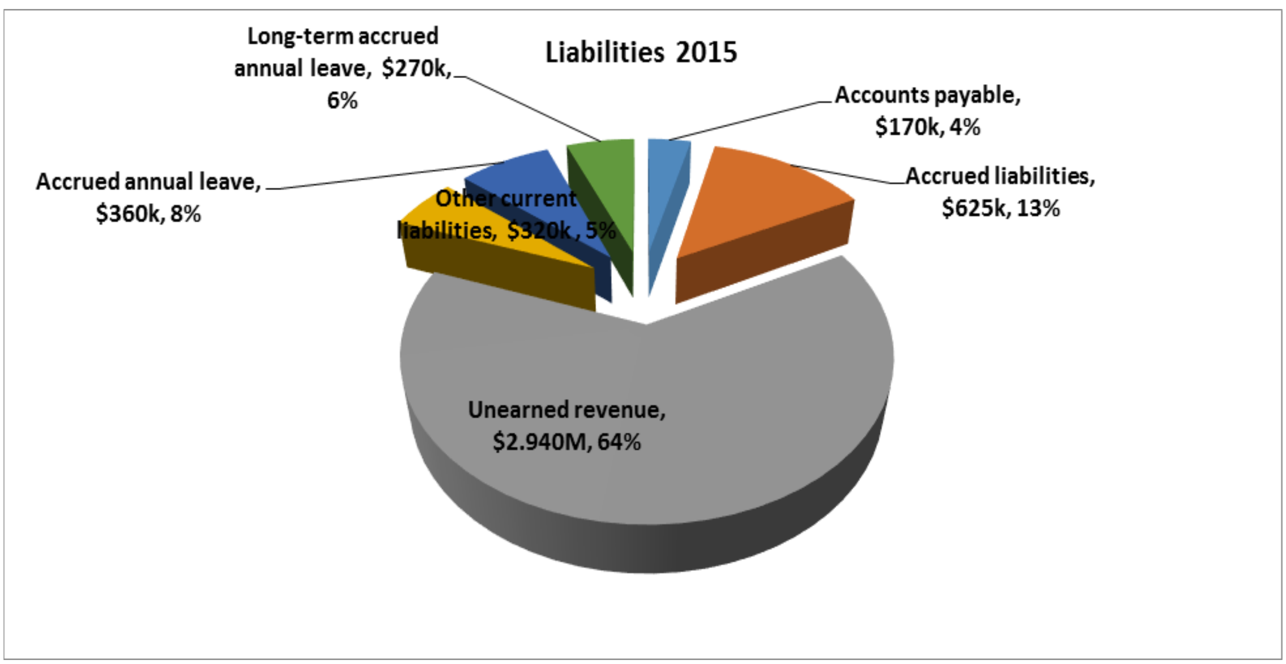
The net increase of $1.106 Million in current assets consists of the following changes:

- Increase in cash and equivalents and short-term investments of $1.688 Million or 30%, from $5.539 Million to $7.227 Million;
- Decrease in due from FSM National government of $110k or 8%, from $1.370 Million to $1.260 Million;
- Increase in tuition receivable of $259k or 6%, from $4.082 Million to $4.341 Million;
- Decrease in grants and contract receivable of $820k or 73%, from $1.116 Million to $296k;
- Decrease in other receivables of $18k or 9%, from $190k to $172k;
- Decrease in inventories of $107k or 7%, from $1.437 Million to $1.330 Million;
- Increase in prepaid expenses of $212k or 23%, from $905k to $1.116 Million;

Noncurrent assets: Total noncurrent assets decreased by $729k or 5% from $13.263 Million in fiscal year 2014 to $12.535 Million in current fiscal year 2015. The decline in non-current assets is due to a decrease in investments of $253k or 6% and a decrease in capital assets of $476k or 5%. Below is the graph depicting the allocation of noncurrent assets:



Liabilities: Liabilities decreased by $279k or 6%, from $4.963 Million to $4.684 Million. Current liabilities comprise 94% of total liabilities and 6% are non – current from long – term accrued annual leave. The allocation of liabilities is presented in the following graph:



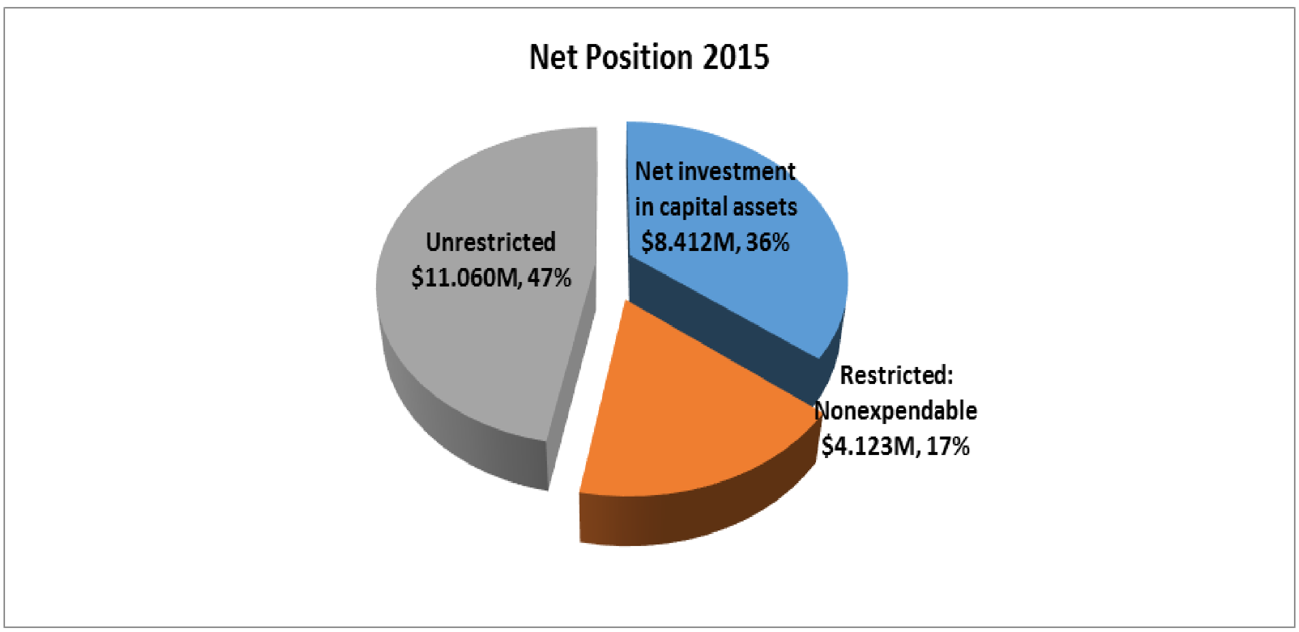
The net decrease in liabilities consists of the following:

- Decrease in accounts payable of $153k or 47%, from $323k to $170k;
- Decrease in accrued liabilities of $3k or 1%, from $628k to $625k;
- Increase in accrued annual leave of $61k or 20%, from $299k to $360k;
- Increase in unearned revenue of $59k or 2%, from $2.881 Million to $2.940 Million;
- Decrease in other current liabilities of $175k or 35%, from $495k to $320k;
- Decrease in non – current portion of accrued annual leave of $67k or 20%, from $336k to $270k.

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 2015 is $23.595 Million, which is higher by $657k or 3% compared to $22.938 Million in fiscal year 2014. Below is the breakdown of the College's net position categorized according to the reporting model of GASB:

	FY 2015 (In 000's)	FY 2014 (In 000's)	Difference (In 000's)	FY 2013 (In 000's)
Net investment in capital assets	$ 8,412	$ 8,887	$ (475)	$ 9,497
Restricted:				
Nonexpendable	4,123	4,376	(253)	3,935
Unrestricted	11,060	9,675	1,385	9,650
Total	$ 23,595	$ 22,938	$ 657	$ 23,082

The allocation of net position for fiscal year 2015 is illustrated below:

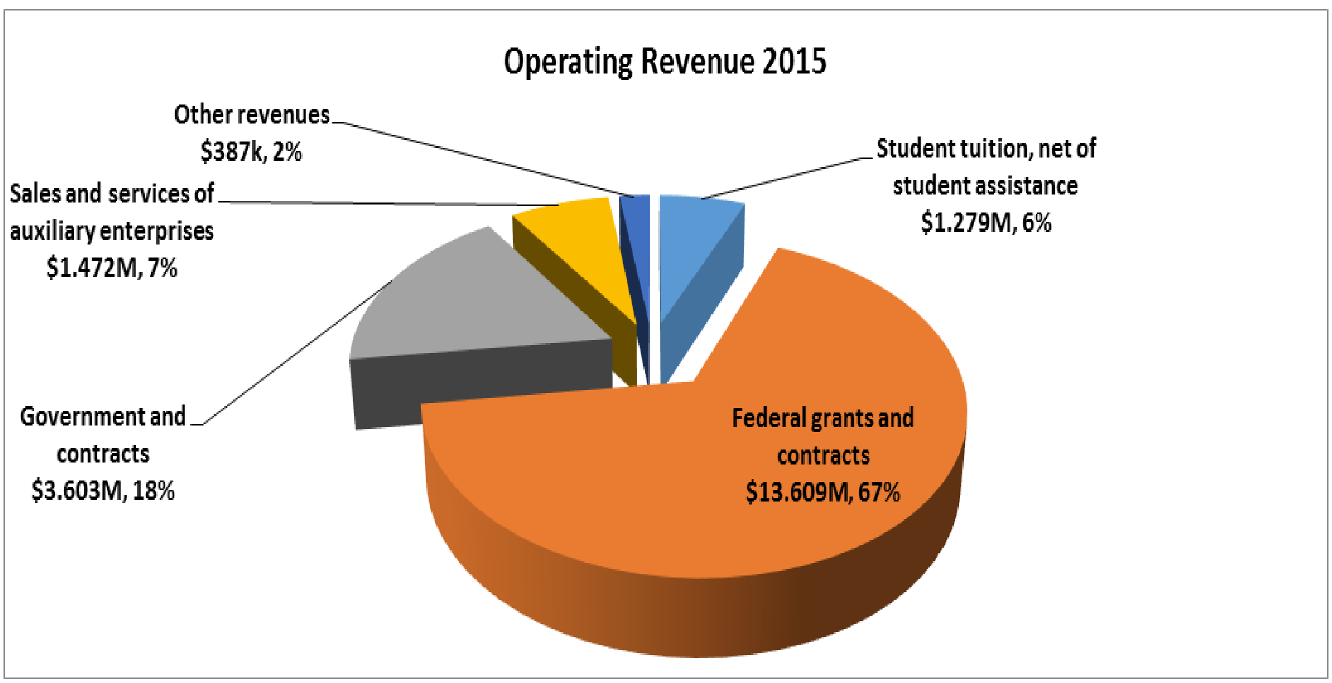


2. Statement of Revenues, Expenses and Changes in Net Position (SRECNA)

The SRECNA provides information on the College's financial performance for the current fiscal year in terms of revenues and expenses. It presents the operating revenues and expenses and the corresponding net operating results, as well as non-operating revenues and expenses and net change in net position. Below is the comparative summary of SRECNA for fiscal years ended September 30, 2015, 2014 and 2013:

	FY 2015 (In 000's)	FY 2014 (In 000's)	Difference (In 000's)	FY 2013 (In 000's)
Operating revenues	$ 19,388	$ 20,674	$ (1,205)	$ 21,490
Operating expenses	18,365	20,544	(2,179)	21,624
Operating income/(loss)	1,023	130	974	(134)
Nonoperating revenue (expense)	(366)	(274)	(92)	463
Net increase (decrease) in net position	657	(144)	882	329
Net position at beginning of year 22,938	23,082	(144)	22,753	
Net position at end of year	$ 23,595	$ 22,938	$ 738	$ 23,082

Operating revenues: The composition of operating revenues amounting to $20.350 Million for fiscal year 2015 is presented in the following graph:

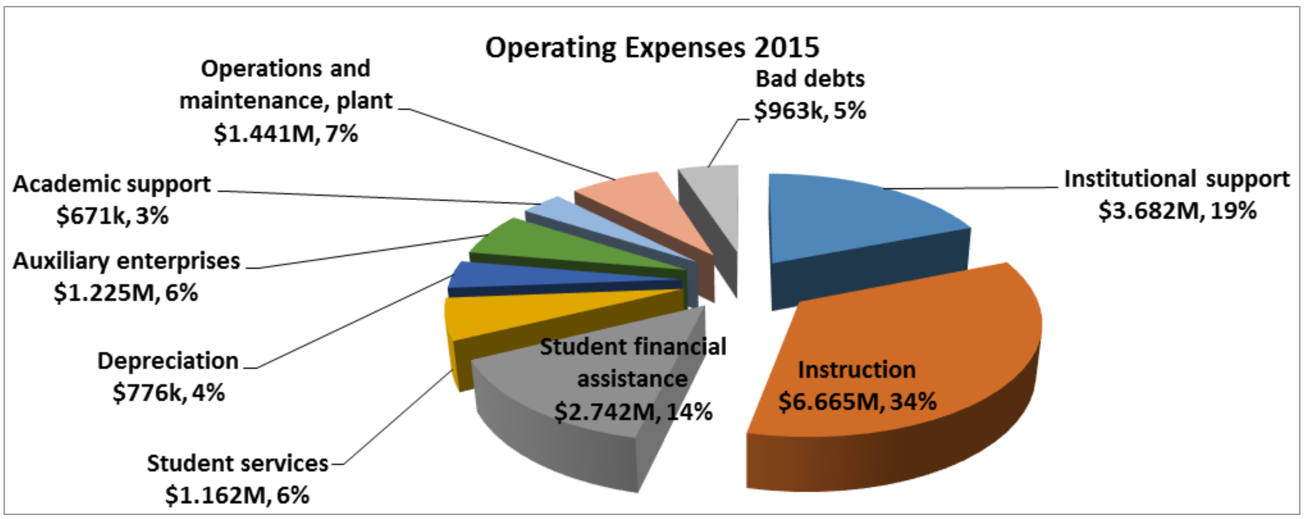


Below are the details of the changes in classification of operating revenues:

- Increase in other revenues of $163k or 73%, from $224k to $387k;
- Decrease in sales and services of auxiliary enterprises of $290k or 16%, from $1.762 Million to $1.472 Million;
- Increase in government and contracts of $818k or 29%, from $2.785 Million to $3.603 Million;
- Increase in student tuition of $442k or 53%, from $836k to $1.279 Million; and
- Decrease in federal grants and contracts of $1.816M or 12%, from $15.426 Million to $13.609 Million;

Operating expenses: The College's operating expenses inclusive of bad debts for fiscal year 2015 decreased by $1.576 or 8%, from $20.903 Million in 2014 to $19.327 Million in 2015. The operating expenses are presented in both functional and natural classifications.

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



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

<u>On Cash Items</u>

- Increase in institutional support of $332k or 10%, from $3.350 Million to $3.682 Million;
- Decrease in instruction of $866k or 11%, from $7.531 Million to $6.665 Million.
- Decrease in student financial assistance of $673k or 20%, from $3.415 Million to $2.742 Million;
- Decrease in student services of $147k or 11%, from $1.309 Million to $1.162 Million;
- Decrease in auxiliary enterprises of $486k or 28%, from $1.711 Million to $1.225 Million;
- Decrease in academic support of $59k or 8%, from $730k to $671k;
- Decrease in operations and maintenance of $191k or 12%, from $1.632 Million to $1.441 Million;

On Non-cash Items

- Increase in the provision of bad debts of $604k or 169%, from $358k to $963k;
- Decrease in depreciation of $90k or 10%, from $867k to $776k.

3. Statement of Cash Flows (SCF)

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

The SCF indicates a balance in cash and equivalents of $7.196 Million at end of fiscal year 2015. The fiscal year - end balance is higher by $1.688 Million or 31% compared with the fiscal year 2014 balance of $5.508 Million.

Below is a summary Statement of Cash Flows:

	FY 2015 (In 000's)	FY 2014 (In 000's)	Difference (In 000's)	FY 2013 (In 000's)
Provided by (used in) operating activities	$ 2,102	$ (62)	$ 2,028	$ 662
Used in capital and related financing activities	(301)	(257)	92	(442)
Used in investing activities	(113)	(715)	602	(33)
Net change in cash and cash equivalents	1,688	(1,034)	2,722	187
Cash and cash equivalents at beginning of year	5,508	6,542	(1,034)	6,355
Cash and cash equivalents at end of year	$ 7,196	$ 5,508	$ 1,688	$ 6,542

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 2015 included the following:

1. $11.263 Million for the administration and management of the College wherein the sources of revenue are from tuition and fees of $7.46 Million, $1.700 Million from the appropriation from FSM National Government from the Education Sector Grant of the Compact of Free Association II, and $2.100 Million from the General Fund of FSM National Government;
2. $794k for the administration and management of the FSM – FMI at Yap State which is 100% funded by FSM National Government;
3. $689k for work study, supplemental education opportunity grant and teacher corps programs funded by Compact of Free Association II through the FSM National Government;
4. $105k for the operations of the Board of Regents of the College funded by the FSM National Government; and
5. $307k for operating expenditures of auxiliary enterprises funded by service charges.

Capital Assets and Long-term Debt Activity

At September 30, 2015, the College's net investment in capital assets was $8.412 Million, with a gross amount of $20.288 Million for depreciable and non – depreciable assets net of accumulated depreciation. Depreciation for the current year amounted to $776k. For additional information concerning capital assets, please refer to Note 6 to the financial statements.

The College's long-term obligation of $270k represents the long – term portion of employees accrued annual leave. The College provides an accumulation of annual leave balances, wherein accumulated leave of not exceeding 240 hours shall be paid to the employee upon resignation/termination of employment. The College has no other long-term debt as of the end of fiscal year 2015.

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 the FSM National Government. The subsidy derives from the Education Sector Grant of the Compact of Free Association (ESG) between the Government of the United States of America and the Government of the FSM (Compact of Free Association II).

The U.S. Federal Student Aid programs are from the U.S. Department of Education under the U.S. Public Law 99 – 239. The U.S. Department of Education, Federal Student Aid renewed the Program Participation Agreement for the College through September 30, 2017. In school year 2015 – 2016, about 85% 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 in the range of 85% to 95% in the next couple of years.

The College is accredited by the Accrediting Commission for Community and Junior Colleges (ACCJC), Western Association of Schools and Colleges (WASC). Accreditation was reaffirmed in an action letter on July 3, 2013. The College completed its regularly scheduled comprehensive Self Evaluation Report on December 15, 2015, and hosted a 13-member accreditation visiting team during March 9-17, 2016. The Commission will meet June 2016 to make a decision on the College's status and the College expects an action letter on that decision during the first week of July 2016.

The College is expected to receive continued support of funding assistance in succeeding years from the FSM National Government through the ESG and FSM local revenue. The level of support from ESG was reduced by $700k in fiscal year 2013, and was reduced by $700k for each year up to fiscal year 2016. Accordingly, the funding support from ESG was reduced from $3.8 Million to $3.1 Million in fiscal year 2013. For the next three years, the ESG level of $3.8 Million was reduced by $1.4 Million in fiscal year 2014, by $2.1 Million in fiscal year 2015 and by $2.8 Million in fiscal year 2016 and beyond. The FSM Government provided its commitment to absorb funding decrements from ESG fund through local revenues of the FSM. On May 30th Congress Resolution, the FSM Congress provided the funding assistance of $1.4 Million to cover the decrement from ESG for fiscal year 2014. A FSM President's Letter dated February 27, 2014 communicated that government support will continue to fund the decrement from its domestic revenues in the future. 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 arrears of IDP fund and other sources.

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

Tuition and Facility fee increase:

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

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

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

The FSM submitted its "Infrastructure Development Plan 2016-2025" to the US Government in October 2015. The JEMCO acknowledged receipt of the plan and concurred in 15 projects from the FSM FY2016 Annual Implementation Plan in which Compact funding would be utilized. Submittal of the IDP obviated Resolution 2011-2 freeze on IDP. The College can now follow its new plan for facilities construction based on the *College of Micronesia-FSM Space Utilization and Facilities Master Plan Study.* On May 23, 2014, State and National Leadership Council adopted a communique expressing support for the outcome of the study and requested COM- FSM to provide plans to address the funding of the infrastructure projects to the government. The College can now submit an annual funding request through the budget process to the FSM for projects constructions

The College implemented a reorganizational structure with a new compensation model. The new structure and compensation model is expected to address the challenges of the College. The administration is in the process of reviewing the reporting system of the new structure. The College continues to review and assess the new structure for improvement and efficiency.

The College's endowment fund started in 1997, has the goal of growing in size to provide the long-term financial stability of the College. The board and administration through the newly created Office for Institutional Advancement and External Affairs put in place plans for soliciting assistance from businesses, private individuals and governments to generate the annual fund raising target of the endowment fund. Fundraising efforts through college alumni, annual founding day activities, raffles, fundraising dinners, and other on campus student fundraising events contribute to the growth of the endowment fund. The College organized the COM-FSM Foundation along with a new Board of Directors to serve as a fundraising vehicle for the College to secure its future long term funding. The College Foundation is up and running for three years. This new initiative is expected to boost the fund raising activities of the endowment fund.

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

Statements of Net Position - College Only
September 30, 2015 and 2014

ASSETS	2015	2014
Current assets:		
Cash and cash equivalents	$ 7,196,568	$ 5,508,202
Short-term investments	30,533	30,533
Due from FSM National Government	1,260,411	1,370,034
Tuition receivable, net	4,341,705	4,081,671
Grants and contracts receivable, net	296,498	1,116,286
Other receivables, net	171,897	189,668
Inventories	1,330,208	1,436,842
Prepaid expenses	1,116,336	904,796
Total current assets	15,744,156	14,638,032
Noncurrent assets:		
Investments	4,122,830	4,375,829
Capital assets:		
Nondepreciable capital assets	1,455,685	1,455,685
Capital assets, net of accumulated depreciation	6,956,052	7,431,652
Total noncurrent assets	12,534,567	13,263,166
Total assets	$ 28,278,723	$ 27,901,198
LIABILITIES AND NET POSITION		
Current liabilities:		
Accounts payable	$ 169,817	$ 323,290
Accrued liabilities	624,923	628,573
Accrued annual leave, current portion	360,250	298,614
Unearned revenue	2,939,913	2,881,149
Other current liabilities	319,639	495,278
Total current liabilities	4,414,542	4,626,904
Noncurrent liabilities:		
Long-term portion of accrued annual leave	269,542	336,315
Total liabilities	4,684,084	4,963,219
Commitments and contingencies		
Net position:		
Net investment in capital assets	8,411,737	8,887,337
Restricted:		
Nonexpendable	4,122,830	4,375,829
Unrestricted	11,060,072	9,674,813
Total net position	23,594,639	22,937,979
Total liabilities and net position	$ 28,278,723	$ 27,901,198

See accompanying notes to financial statements.

FRIENDS OF THE COLLEGE OF MICRONESIA-FSM, INC.

Statements of Financial Position
December 31, 2014

ASSETS		
Cash and cash equivalents	$	68,885
Investments		526,293
	$	595,178
NET ASSETS		
Net assets:		
Unrestricted	$	495,733
Temporarily restricted		99,445
Total net assets		595,178
	$	595,178

See accompanying notes to financial statements.

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

Statements of Revenues, Expenses and Changes in Net Position - College Only
Years Ended September 30, 2015 and 2014

	2015	2014
Operating revenues:		
Student tuition and fees	$ 8,528,524	$ 7,953,868
Less: Scholarship discounts and allowances	(7,249,700)	(7,117,413)
	1,278,824	836,455
Federal grants and contracts	13,609,445	15,425,720
Government grants and contracts	3,602,989	2,784,800
Sales and services of auxiliary enterprises	1,471,736	1,761,930
Other revenues	387,274	223,902
Total operating revenues	20,350,268	21,032,807
Less bad debts	(962,513)	(358,417)
Net operating revenues	19,387,755	20,674,390
Operating expenses:		
Institutional support	3,682,452	3,349,599
Instruction	6,665,382	7,530,851
Student financial assistance	2,742,160	3,414,711
Student services	1,161,687	1,308,537
Depreciation	776,497	866,792
Auxiliary enterprises	1,224,667	1,711,351
Academic support	671,327	730,084
Operations and maintenance, plant	1,440,543	1,632,431
Total operating expenses	18,364,715	20,544,356
Operating income	1,023,040	130,034
Nonoperating revenues (expense):		
Contributions to the Foundation	-	(625,000)
Net investment (loss) income	(366,380)	351,100
Total nonoperating (expense) revenues:	(366,380)	(273,900)
Change in net position	656,660	(143,866)
Net position:		
Net position at beginning of year	22,937,979	23,081,845
Net position at end of year	$ 23,594,639	$ 22,937,979

See accompanying notes to financial statements.

FRIENDS OF THE COLLEGE OF MICRONESIA-FSM, INC.

Statements of Activities
Year Ended December 31, 2014

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

See accompanying notes to financial statements.

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

Statements of Cash Flows - College Only
Years Ended September 30, 2015 and 2014

	2015	2014
Cash flows from operating activities:		
Grants and contracts	$ 18,198,122	$ 17,818,135
Auxiliary services	1,471,736	1,761,931
Other receipts	405,044	208,148
Payments to employees for salaries and benefits	(8,125,679)	(8,009,943)
Payments to suppliers and others	(9,846,578)	(11,840,751)
Net cash provided by (used in) operating activities	2,102,645	(62,480)
Cash flows from capital and related financing activities:		
Purchases of capital assets	(300,897)	(256,734)
Cash flows from investing activities:		
Contributions to the Foundation	-	(625,000)
Purchase of investments	(113,382)	(89,800)
Net cash used in investing activities	(113,382)	(714,800)
Net change in cash and cash equivalents	1,688,366	(1,034,014)
Cash and cash equivalents at beginning of year	5,508,202	6,542,216
Cash and cash equivalents at end of year	$ 7,196,568	$ 5,508,202
Reconciliation of operating income to net cash provided by (used in) operating activities:		
Operating income	$ 1,023,040	$ 130,034
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Depreciation	776,497	866,792
Bad debts	962,513	358,417
Provision for inventory obsolescence	24,281	14,502
Changes in assets and liabilities:		
Due from FSM National Government	109,623	(855,817)
Tuition receivable	(1,155,296)	(553,838)
Grants and contracts receivable	752,537	180,816
Other receivables	17,771	(15,753)
Inventories	82,353	297,107
Prepaid expenses	(211,541)	(309,003)
Accounts payable	(153,473)	(202,472)
Accrued liabilities	(8,787)	71,551
Unearned revenue	58,764	16,487
Other current liabilities	(175,637)	(61,303)
Net cash provided by (used in) operating activities	$ 2,102,645	$ (62,480)

See accompanying notes to financial statements.

(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.

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

(2) Basis of Presentation

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

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

The College has adopted GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, and presents the Foundation, a legally separate, tax-exempt entity, as a discretely presented component unit. The Foundation provides financial support for the objectives, purposes and programs of the College. Although the

(2) Basis of Presentation, Continued

College does not control the timing, purpose, or amount of receipts from the Foundation, the resources (and income thereon) which the Foundation holds and invests are restricted to the activities of the College. Because the resources held by the Foundation can only be used by, or for the benefit of, the College, the Foundation is considered as a component unit of the College and its Statement of Financial Position and Statement of Activities are separately presented in the College's financial statements. In addition, significant notes are summarized under Foundation Investments note 3.Q below.

The Foundation is a private organization that reports under accounting standards established by the Financial Statement Accounting Standards Board (FASB), which is the source of generally accepted accounting principles for not-for-profit entities. The financial statement presentation follows the recommendations of the Accounting Standards Codification (ASC) 958, *Not-for-Profit Entities*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation financial information in the College's financial reporting entity for these differences. The Foundation's fiscal year end is December 31. Copies of the Foundation's report can be obtained by contacting the Foundation.

B. Basis of Accounting. For financial statement purposes, COM-FSM is considered a special-purpose government engaged only in business-type activities. Accordingly, COM-FSM's financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All significant intra-college transactions have been eliminated. COM-FSM reports as a business-type activity, as defined by GASB Statement No. 35. Business-type activities are those that are financed in whole or in part by fees charged to external parties for goods and services.

(3) Summary of Significant Accounting Policies

A. Cash and Cash Equivalents and Short-term Investments. 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. Short-term investments include time certificates of deposit with initial maturities of more than three months.

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, 2015 and 2014, COM-FSM has recorded cash and cash equivalents and short-term investments of $7,227,101 and $5,538,735, respectively, with corresponding bank balances of $7,646,981 and $6,043,315, respectively. Of these amounts, $500,000 in 2015 and 2014 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.

(3) Summary of Significant Accounting Policies, Continued

A. Cash and Cash Equivalents and Short-term Investments., Continued

No losses as a result of this practice were incurred during the years ended September 30, 2015 and 2014.

B. Investments. COM-FSM accounts for its investments at fair value in accordance with GASB Statement No. 31, *Accounting for Financial Reporting for Certain Investments and for External Investment Pools*. Unrealized gains and losses on the carrying value of investments are reported as a component of net investment income in the Statements of Revenues, Expenses and Changes in Net Position.

C. Accounts Receivable. Accounts receivable tuition and fees and accounts receivable employees, net of an allowance for uncollectible accounts as of September 30, 2015, follows:

	National Campus	State Campuses	Totals
Accounts receivable, gross	$ 5,429,984	$ 2,404,532	$ 7,834,516
Allowance for uncollectible accounts	(2,162,032)	(1,330,779)	(3,492,811)
Accounts receivable, net	$ 3,267,952	$ 1,073,753	$ 4,341,705

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

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

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

Other receivables are net of an allowance for doubtful accounts of $153,778 as of September 30, 2015 and 2014.

D. Inventory. Inventory is stated at the lower of cost (first-in, first-out) or market (net realizable value). At September 30, 2015 and 2014, inventory is net of an allowance for obsolescence of $24,281 and $74,153, respectively.

E. Prepaid Expenses. Payments made to vendors for goods and services that will benefit periods beyond September 30, 2015 and 2014, are recorded as prepaid expenses. Prepaid expenses represent prepayments for office supplies, textbooks and computers.

(3) Summary of Significant Accounting Policies, Continued

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

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

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

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

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

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

The change in accrued compensated absences during fiscal years 2015 and 2014 is as follows:

Balance, Oct. 1, 2014	Addition	Reduction	Balance, Sept. 30, 2015	Current
$ 634,929	$ 256,506	$ (261,643)	$ 629,792	$ 360,250

Balance, Oct. 1, 2013	Addition	Reduction	Balance, Sept. 30, 2014	Current
$ 580,461	$ 255,430	$ (200,962)	$ 634,929	$ 298,614

(3) Summary of Significant Accounting Policies, Continued

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

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

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

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

Unrestricted Net Position – Unrestricted net position represents resources derived from student tuition and fees, governmental appropriations and contracts, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the COM-FSM, and may be used at the discretion of the governing board to meet current expenses for any purpose. These resources are to also be used for auxiliary enterprises, which are substantially self-supporting activities that provide services for 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, (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.

(3) Summary of Significant Accounting Policies, Continued

N. Scholarship Discounts and Allowances. Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the Statements of Revenues, Expenses and Changes in Net Position. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by COM-FSM, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other federal, state or nongovernmental programs, are recorded as either operating or nonoperating revenues in COM-FSM's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, COM-FSM has recorded a scholarship discount and allowance.

O. Risk Management. COM-FSM purchases insurance to cover its risk of losses due to fire, lightning, and other risks normal to operating an institution of higher learning. Refer also to note 8.

P. Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Q. Foundation Investments. Investments are carried at fair market values based on quoted market prices. Gains and losses on investments are reported in the statements of activities as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or by law. The composition of investments as of December 31, 2014 is as follows:

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

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

Net change in value	$ (9,183)
Interest and dividends	9,039
Fees	(3,563)
	$ (3,707)

(3) Summary of Significant Accounting Policies, Continued

R. New Accounting Standards.

During fiscal year 2015, the College implemented the following pronouncements:

- GASB S*tatement* No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The implementation of this statement did not have a material effect on the accompanying financial statements.

- GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The implementation of this statement did not have a material effect on the accompanying financial statements.

- GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, which addresses an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The implementation of this statement did not have a material effect on the accompanying financial statements.

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*, which addresses accounting and financial reporting issues related to fair value measurements and requires entities to expand their fair value disclosures by determining major categories of debt and equity securities within the fair value hierarchy on the basis of the nature and risk of the investment. The provisions in Statement 72 are effective for fiscal years beginning after June 15, 2015. Management believes that the implementation of this statement only requires additional disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques and will not have a material effect on the financial statements.

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements 67 and 68 with the reporting requirements in Statement 68. The provisions in Statement No. 73 are effective for fiscal years beginning after June 15, 2015, with the exception of the provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

(3) Summary of Significant Accounting Policies, Continued

R. New Accounting Standards, Continued

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and addresses financial reporting requirements for governments whose employees are provided with postemployment benefits other than pensions (other postemployment benefits or OPEB). The provisions in Statement No. 74 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. The provisions in Statement No. 75 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which eliminates two of the four categories of authoritative GAAP that exist under the existing hierarchy prescribed by Statement 55. The two categories that will remain under the new standard are (1) GASB Statements and (2) GASB technical bulletins and implementation guides in addition to AICPA guidance that the GASB clears. The provisions in Statement No. 76 are effective for fiscal years beginning after June 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements. The provisions in Statement No. 77 are effective for fiscal years beginning after December 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

S. Reclassifications

Certain account balances in 2014 have been reclassified to conform to the 2015 financial statement presentation.

(4) Investments

In January 1994, COM-FSM received an endowment contribution in the amount of $150,000 from FSM Telecommunications Corporation. The principal is to be maintained inviolate and in perpetuity.

(4) Investments, Continued

In November 1995, notification was received from the U.S. Department Education that COM-FSM had been selected for a grant under the Endowment Challenge Grant Program authorized by Title III of the Higher Education Act of 1965, as amended. Non-government funds raised for this endowment fund were matched by the U.S. Department of Education on a two-to-one basis.

The Secretary of Education awarded an amount to COM-FSM equal to two times the amount of the funds raised. The College of Micronesia-FSM raised $250,000 and the U.S. Department of Education awarded $500,000, bringing the total of this endowment fund to $750,000. The Endowment Challenge grant covers a period of twenty years.

The College has engaged in specific fund raising for the purpose of increasing net position invested with the above Endowment funds. Therefore, the College is of the opinion that such investments and related investments income are appropriately classified as nonexpendable restricted net position.

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

The composition of investments as of September 30, 2015 and 2014, by funding source, is as follows:

	2015	2014
Donor		
FSM Telecommunications Corporation (FSMTC)	$ 165,000	$ 165,000
U.S. Department of Education and local match (Challenge)	3,957,830	4,210,829
	$ 4,122,830	$ 4,375,829

Investments and related investment earnings are recorded at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

As of September 30, 2015 and 2014, investments at fair value are as follows:

	2015	2014
Fixed income securities:		
Domestic fixed income	$ 725,448	$ 729,213
International fixed income	260,218	281,883
	985,666	1,011,096
Other investments:		
Common equities	2,871,022	3,014,326
Exchange traded funds	136,139	209,788
Money market funds	130,003	140,619
	3,137,164	3,364,733
	$ 4,122,830	$ 4,375,829

(4) Investments, Continued

As of September 30, 2015, the College's fixed income securities had the following maturities:

		Investment Maturities (in years)			
Investment Type	Fair Value	Less than 1	1-5	5-10	more than 10
Corporate bond	$ 185,260	$ 6,055	$ 11,141	$ 67,602	$ 100,462
International bond	260,218	-	-	-	260,218
Government bond	540,188	-	422,059	69,502	48,627
	$ 985,666	$ 6,055	$ 433,200	$ 137,104	$ 409,307

As of September 30, 2014, the College's fixed income securities had the following maturities:

		Investment Maturities (in years)			
Investment Type	Fair Value	Less than 1	1-5	5-10	more than 10
Corporate bond	$ 162,574	$ 7,103	$ 34,966	$ 46,619	$ 73,886
International bond	281,883	281,883	-	-	-
Government bond	566,639	-	427,735	81,420	57,484
	$ 1,011,096	$ 288,986	$ 462,701	$ 128,039	$ 131,370

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

(4) Investments, Continued

The College's exposure to credit risk at September 30, 2015, was as follows:

Moody's Rating	Domestic	International	Total
AAA/AAA	$ 540,188	$ -	$ 540,188
AA1/AA+	7,259	-	7,259
A1/AA+	7,262	-	7,262
A1/A	7,289	-	7,289
A1/AA-	7,682	-	7,682
A3/A	7,191	-	7,191
A3/A-	19,236	-	19,236
A3/BBB+	14,299	-	14,299
BA1/BBB+	5,743	-	5,743
BAA1/A-	2,114	-	2,114
BAA1/BBB+	14,260	-	14,260
BAA1/BBB	7,927	-	7,927
BAA1-/BBB+	11,292	-	11,292
BAA2/BBB+	13,258	-	13,258
BAA2/BBB	14,293	-	14,293
BAA2/BBB-	7,099	-	7,099
BAA3/BBB+	7,090	-	7,090
BAA3/BBB	6,057	-	6,057
BAA3/BBB-	25,909	-	25,909
Not Rated	-	260,218	260,218
Total credit risk debt securities	$ 725,448	$ 260,218	$ 985,666

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

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

(4) Investments, Continued

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, the College will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The College's investments are held and administered by trustees. Based on negotiated trust and custody contracts, all of these investments were held in the College's name by the College's custodial financial institutions at September 30, 2015 and 2014.

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, 2015 and 2014.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of debt instruments. The College does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

(5) Due from Grantor Agencies

COM-FSM administers student financial aid (SFA) for the U.S. Department of Education. SFA funds related to Pell Grants, Talent Search Program, Upward Bound Program, and Student Support Services (TRIO program), Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP). COM-FSM also administers Land Grant Programs on behalf of COM Land Grant College. Grants and contracts receivable – U.S. Government comprised the following uncollected grants as of September 30, 2015 and 2014:

	2015	2014
Due from U.S. Department of Education	$ 32,448	$ 711,296
Due from COM-Land Grant	35,282	142,911
Due from University of Guam	163,433	187,453
Due from other grantor agencies	153,676	95,716
	384,839	1,137,376
Less allowance for doubtful accounts	(88,341)	(21,090)
	$ 296,498	$ 1,116,286

(6) Capital Assets

Capital assets at September 30, 2015 and 2014 consist of the following:

	Balance October 1, 2014	Additions	Retirements	Balance September 30, 2015
Depreciable assets:				
Buildings	$ 14,704,659	$ -	$ -	$ 14,704,659
Furniture and equipment	2,736,114	240,855	-	2,976,969
Vehicles/boats	1,091,088	60,042	-	1,151,130
	18,531,861	300,897	-	18,832,758
Less accumulated depreciation	(11,100,209)	(776,497)	-	(11,876,706)
	7,431,652	(475,600)	-	6,956,052
Non-depreciable assets:				
Land	1,455,685	-	-	1,455,685
Capital assets, net	$ 8,887,337	$ (475,600)	$ -	$ 8,411,737

	Balance October 1, 2013	Additions	Retirements	Balance September 30, 2014
Depreciable assets:				
Buildings	$ 14,704,659	$ -	$ -	$ 14,704,659
Furniture and equipment	2,523,575	212,539	-	2,736,114
Vehicles/boats	1,046,893	44,195	-	1,091,088
	18,275,127	256,734	-	18,531,861
Less accumulated depreciation	(10,233,417)	(866,792)	-	(11,100,209)
	8,041,710	(610,058)	-	7,431,652
Non-depreciable assets:				
Land	1,455,685	-	-	1,455,685
Capital assets, net	$ 9,497,395	$ (610,058)	$ -	$ 8,887,337

(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, 2015 and 2014, receivables from the FSM National Government amounted to $1,260,411 and $1,370,034, respectively. The College received $3,602,989 and $2,784,800 in appropriations for the years ended September 30, 2015 and 2014, respectively.

(8) Contingencies

Insurance

COM-FSM purchases commercial insurance to cover its potential risks from fire and property damage on some of its buildings and contents ($19,164,373 of coverage) and vehicles (up to $300,000 of coverage per vehicle per accident). Additionally, COM-FSM purchases fidelity insurance coverage for selected employees (total coverage of $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.

(8) Contingencies, Continued

Federal Grants

The College participates in a number of federally assisted grant programs and other various U.S. Department of Education grants. These programs are subject to financial and compliance audits to ascertain if Federal laws and guidelines have been followed. No questioned costs relating to fiscal year 2015 have been set forth in the College's Single Audit Report for the year ended September 30, 2015. The ultimate disposition of any questioned costs can be determined only by final action of the respective grantor agencies. Therefore, no provision for any liability that may result upon resolution of this matter has been made in the accompanying financial statements.

Accreditation

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

Litigation

COM-FSM is periodically a defendant in legal actions inherent to the nature of its operations. COM-FSM management is of the opinion that resolution of any matters existing as of September 30, 2015 and 2014 will not have a material effect on the accompanying financial statements.

(9) Retirement Plan

The College has a retirement plan, administered by a private corporation. All employees with at least one year of service are eligible for the plan. Employee contributions can be made up to 100% of earnings with a 50% match by the College up to 3% of employee compensation. The College's President, Vice - President for Administrative Services and Comptroller are the designated plan administrators. During the years ended September 30, 2015, 2014 and 2013, the College incurred an expense of $128,836, $113,951, and $113,309, respectively, for matching contributions. As of September 30, 2015, 2014 and 2013, plan assets were $3,075,926, $3,031,688, and $2,667,308, respectively. Management is of the opinion that the retirement plan assets do not constitute assets of the College.

(10) Leases

The College leases land in the State of Chuuk, where the Chuuk Campus is located. The future minimum lease payments are as follows:

Year Ending September 30,	Total
2016	$ 78,650
2017	78,650
2018	84,549
2019	86,515
2020	86,515
2021-2023	194,659
	$ 609,538

(11) Functional Classifications with Natural Classifications

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

2015

	Salaries	Benefits	Services	Travel	Supplies	Insurance, Utilities and Rent	Depreciation	Student Assistance	Miscellaneous	Total
Institutional Support	$ 1,655,416	$ 403,904	$ 82,317	$ 199,806	$ 164,134	$ 493,583	$ -	$ 84,382	$ 598,910	$ 3,682,452
Instruction	4,137,554	895,088	37,337	277,784	236,938	19,853	-	689,984	370,844	6,665,382
Student Financial Assistance	-	-	-	-	-	-	-	2,742,160	-	2,742,160
Student Services	726,279	116,399	-	63,099	61,641	148	-	143,177	50,944	1,161,687
Depreciation	-	-	-	-	-	-	776,497	-	-	776,497
Auxiliary Enterprises	151,857	29,596	-	5,351	392,029	-	-	-	645,834	1,224,667
Academic Support	320,617	66,745	-	3,656	12,034	261,731	-	-	6,544	671,327
Operations and Maintenance	423,584	49,757	75,282	-	112,521	518,058	-	290	261,051	1,440,543
	$ 7,415,307	$ 1,561,489	$ 194,936	$ 549,696	$ 979,297	$ 1,293,373	$ 776,497	$ 3,659,993	$ 1,934,127	$ 18,364,715

2014

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