

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

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

SEPTEMBER 30, 2011 AND 2010

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

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INDEPENDENT AUDITORS' REPORT

Board of Regents
College of Micronesia-FSM:

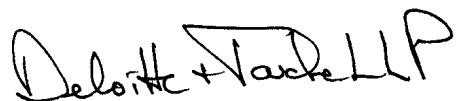
We have audited the accompanying statements of net assets of the College of Micronesia-FSM, a component unit of the FSM National Government, as of September 30, 2011 and 2010, and the related statements of revenues, expenses and changes in net assets and of cash flows for the years then ended. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the College of Micronesia-FSM as of September 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 29, 2012, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 2 through 10 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the College's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



June 29, 2012

COLLEGE OF MICRONESIA-FSM

Management's Discussion and Analysis
September 30, 2011 and 2010

OVERVIEW OF FISCAL YEAR 2011

COM – FSM awards associate degrees to students who complete a prescribed two-year program of study. The time is extended for students who need to complete preparation classes before beginning the degree program. The College offers four Associate of Arts degrees, seven Associate of Science degrees and three Associate of Applied Science degrees. The College also awards certificates of achievement to students who complete a prescribed one – year program of study. There are five Third – year Certificates of Achievement and nineteen other Certificates of Achievement. Other short – term certificate programs are also offered at the state campuses in response to expressed local needs.

The College enrolled 7,207 students in degree and certificate programs across all campuses for fall 2010, spring 2011 and summer 2011. National campus enrolled 2,944 students or 41%, Pohnpei campus enrolled 1,727 students or 24%, Chuuk campus enrolled 1,247 students or 17%, Kosrae campus enrolled 672 students or 9%, and Yap campus enrolled 617 students or 9%. The College enrollment is at about the same level as prior year.

FSM – FMI served 130 students for school year 2011, 49 students for fall 2010, 47 students for spring 2011 and 46 students for summer 2011. The enrollment of FSM – FMI for the fiscal year 2011 indicated an increase of 17 students or 15% compared with fiscal year 2010.

The financial resources for the operations of the College are derived from tuition and other fees, and a subsidy from the FSM National Government's Education Sector grant from U.S. Department of the Interior (Compact of Free Association II) . The College continues to administer the U.S. Department of Education's Federal Pell Grant Scholarship Aid (Pell Grant) Program, and about 85% of the students are beneficiaries of the Pell Grant. The College also receives from the U.S. Department of Education competitive grants for TRIO programs, and from the U.S. Department of Health and Human Services and U.S. Department of Agriculture for various programs.

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 Assets (SNA)

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

A Comparative Statement of Net Assets at September 30, 2011, 2010 and 2009 is summarized below:

	FY 2011 <u>(In 000's)</u>	FY 2010 <u>(In 000's)</u>	Difference <u>(In 000's)</u>	FY 2009 <u>(In 000's)</u>
Assets:				
Current assets	\$ 14,609	\$ 13,939	\$ 670	\$ 11,539
Noncurrent assets	<u>13,107</u>	<u>13,563</u>	<u>(456)</u>	<u>13,863</u>
Total assets	<u>27,716</u>	<u>27,502</u>	<u>214</u>	<u>25,402</u>

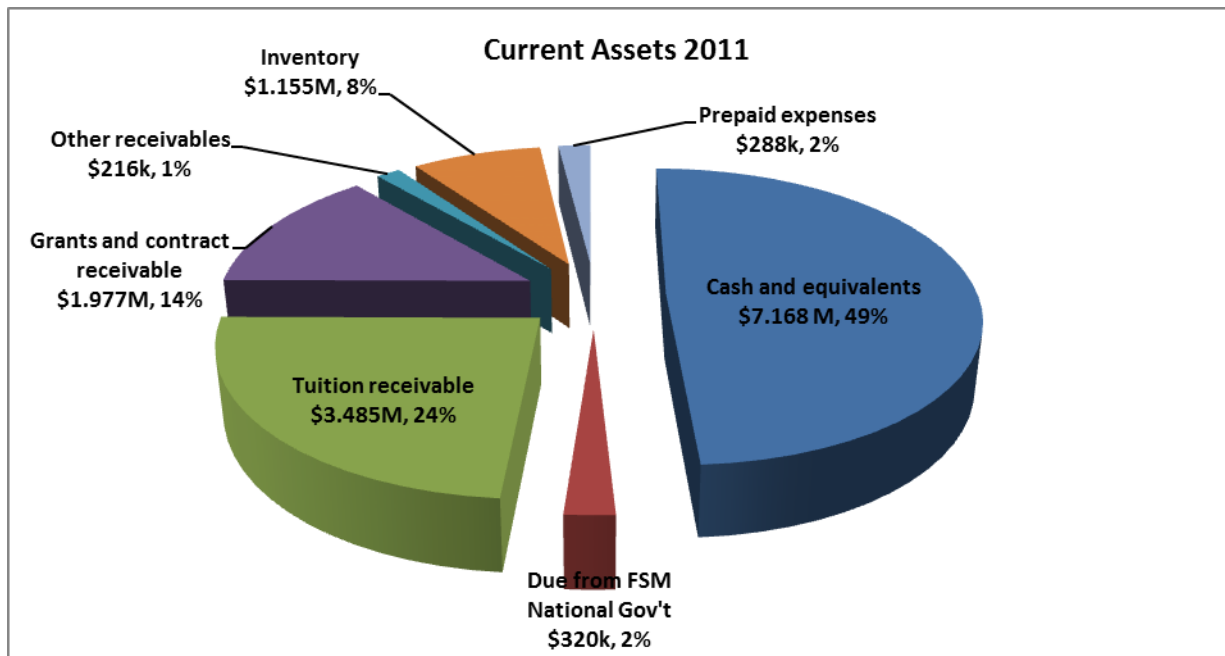
COLLEGE OF MICRONESIA-FSM

Management's Discussion and Analysis September 30, 2011 and 2010

	<u>FY 2011</u> <u>(In 000's)</u>	<u>FY 2010</u> <u>(In 000's)</u>	<u>Difference</u> <u>(In 000's)</u>	<u>FY 2009</u> <u>(In 000's)</u>
Liabilities:				
Current liabilities	4,555	4,420	135	4,052
Noncurrent liabilities	<u>266</u>	<u>263</u>	<u>3</u>	<u>258</u>
Total liabilities	<u>4,821</u>	<u>4,683</u>	<u>138</u>	<u>4,310</u>
Net assets	\$ <u>22,895</u>	\$ <u>22,819</u>	\$ <u>76</u>	\$ <u>21,092</u>

The comparison of the statement of net assets for fiscal year 2011 with prior year shows a slight increase in net assets of \$76k.

Current assets: The total of current assets has increased by \$670k, from \$13.939 million in fiscal year 2010 to \$14.609 million in current fiscal year 2011. Below is the composition of current assets for fiscal year 2011:



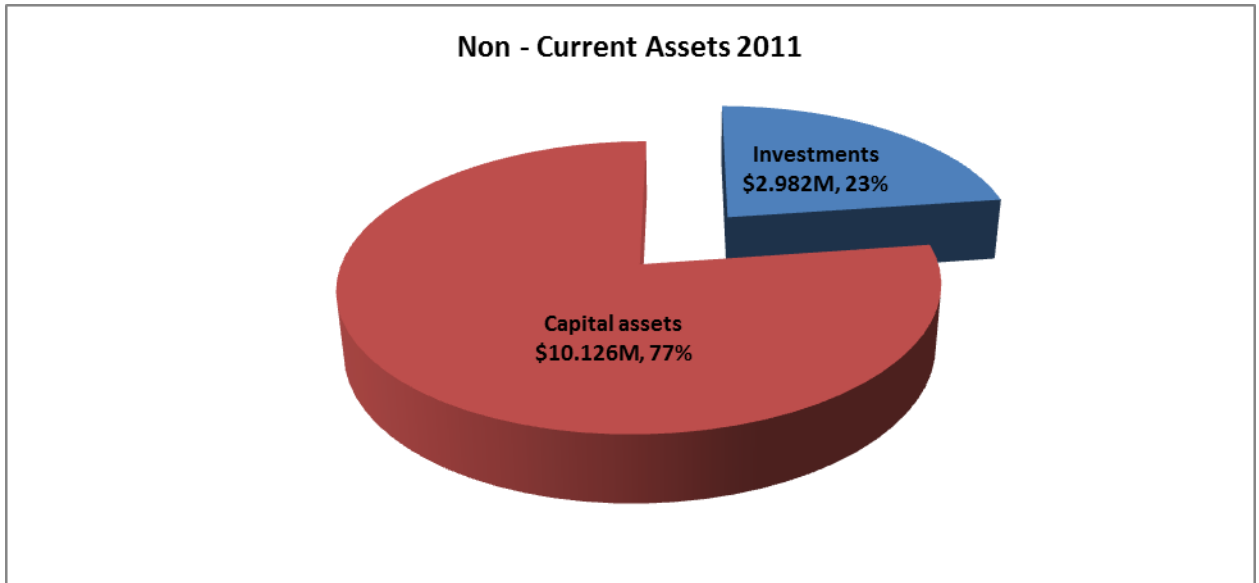
The net increase of \$670k in current assets consists of the following changes:

- Increase in tuition receivable by \$1.163 million or 50%, from \$2.322 million to \$3.485 million;
- Increase in inventory by \$499k or 76%, from \$656K to \$1.55 million;
- Increase in other receivables by \$58k or 37%, from \$158k to \$216k;
- Decrease in due from FSM National Government by \$489k or -60%, from \$809k to \$320k;
- Decrease in cash and equivalents by \$481k or -6%, from \$7.649 million to \$7.168 million;
- Decrease in prepaid expenses by \$44k or -13%, from \$332k to \$288 k;
- Decrease in grants and contract receivable by \$37k or -2%, from \$2.014 million to \$1.977 million

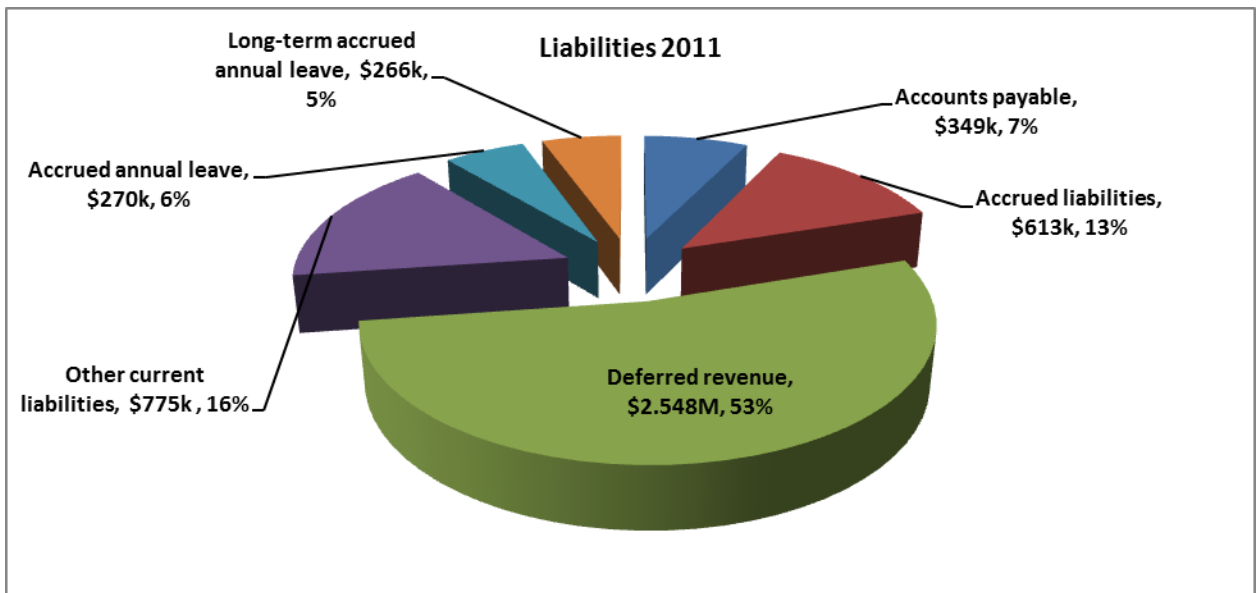
Noncurrent assets: The total noncurrent assets decreased by \$455k from \$13.563 million in fiscal year 2010 to \$13.108 million in current fiscal year 2011. The reduction consists of \$337k from capital assets and \$118k from investments for endowment fund. Below is the graph for the breakdown of noncurrent assets:

COLLEGE OF MICRONESIA-FSM

Management's Discussion and Analysis
September 30, 2011 and 2010



Liabilities: The liabilities provided a net increase of \$138k or 3%, from \$4.683 million to \$4.821 million. About 95% of the liabilities are current and only 5% is non – current. The composition of the total liabilities is presented in the following graph:



The net increase in liabilities consists of the following:

- Increase in accounts payable by \$107k or 44%, from \$242k to \$349k;
- Increase in accrued liabilities by \$91k or 17%, from \$522k to \$613k;
- Increase in other current liabilities by \$73k or 10%, from \$702k to \$775k;
- Decrease in deferred revenue by \$126k or -5%, from \$2.673 million to \$2.547 million;
- Decrease in accrued annual leave by \$10k or -4%, from \$281k to \$271k;
- Increase in non – current liability consisting of long – term accrued annual leave by \$3k or 1%, from \$263k to \$266k.

COLLEGE OF MICRONESIA-FSM

Management's Discussion and Analysis
September 30, 2011 and 2010

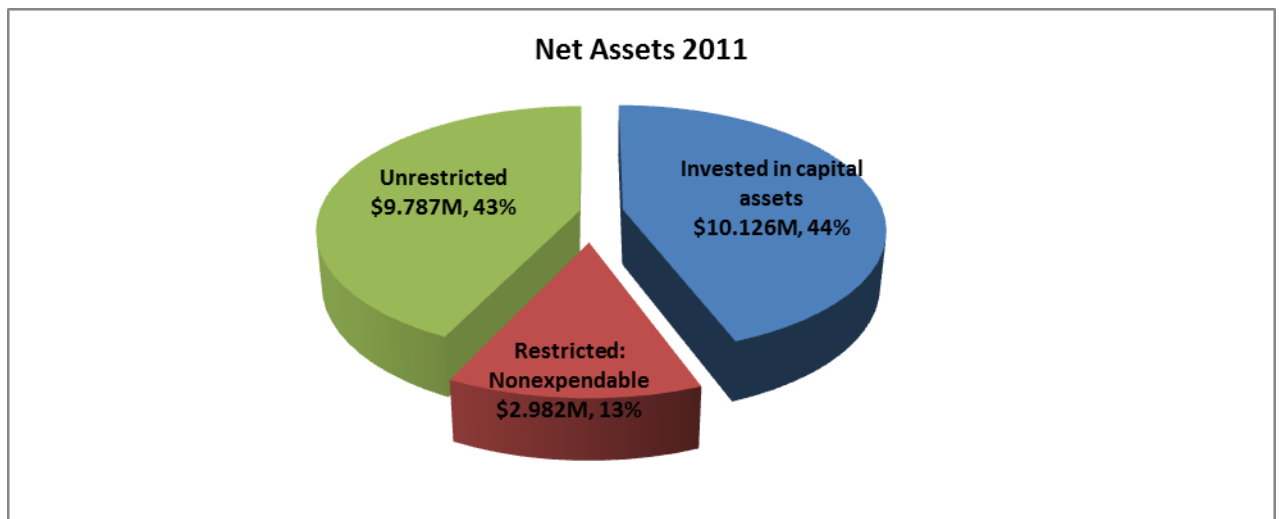
Net Assets: Net assets represents the residual interest in the College's assets after liabilities are deducted. The College's net assets for fiscal year 2011 are \$22.895 million which is slightly higher by \$76k compared with \$22.819 million in fiscal year 2010. Below is the breakdown of the College's net assets categorized according to the reporting model of GASB:

	FY 2011 (In 000's)	FY 2010 (In 000's)	Difference (In 000's)	FY 2009 (In 000's)
Invested in capital assets	\$ 10,126	\$ 10,463	\$ (337)	\$ 10,988
Restricted:				
Nonexpendable	2,982	3,100	(118)	2,874
Unrestricted	<u>9,787</u>	<u>9,256</u>	<u>531</u>	<u>7,229</u>
Total	\$ <u>22,895</u>	\$ <u>22,819</u>	\$ <u>76</u>	\$ <u>21,091</u>

The net change in net assets of \$76k consists of the following:

1. The decrease in capital assets of \$337k or -3% represents the net amount of the wear and tear of physical assets and procurement of computer and equipment;
2. The drop in restricted assets of \$118k or -4% represents the unrealized market loss from the endowment fund;
3. The increase in unrestricted net assets by \$531k or 6% which represents the positive fund balance change from the operations of the College.

The graph for the breakdown of net assets for fiscal year 2011 is illustrated below:



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

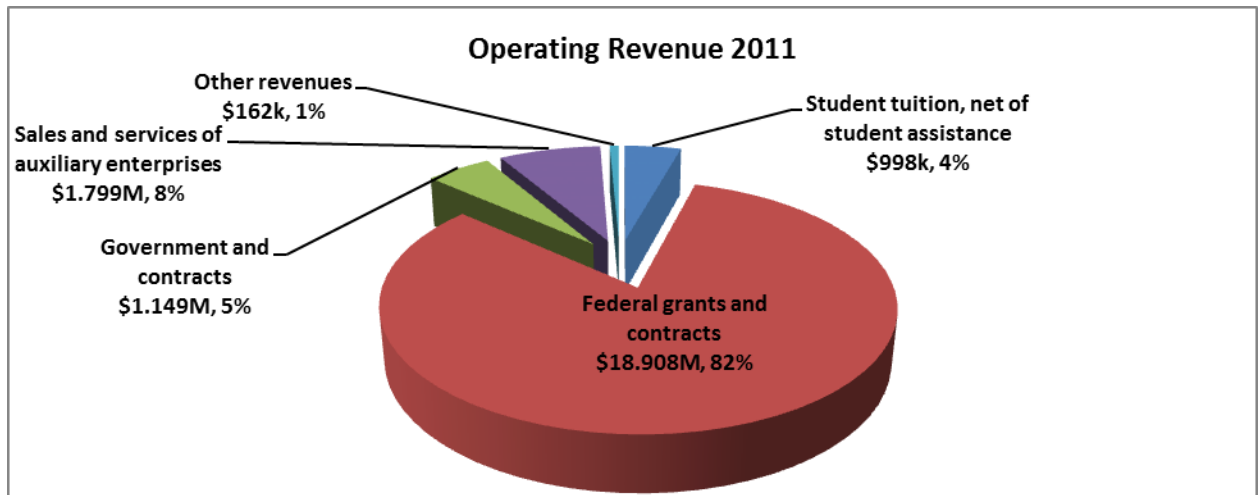
The SRECNA provides information on the College's financial performance for the current fiscal year in terms of revenues and expenses. It presents the operating revenues and expenses and the corresponding net operating results, as well as non-operating revenues and expenses and net change in net assets. Below is the comparative summary of SRECNA for fiscal years ended September 30, 2011, 2010 and 2009:

COLLEGE OF MICRONESIA-FSM

Management's Discussion and Analysis September 30, 2011 and 2010

	FY 2011 (In 000's)	FY 2010 (In 000's)	Difference (In 000's)	FY 2009 (In 000's)
Operating revenues	\$ 23,016	\$ 25,137	\$ (2,121)	\$ 23,299
Operating expenses	<u>22,728</u>	<u>23,635</u>	<u>(907)</u>	<u>22,311</u>
Operating earnings	288	1,502	(1,214)	988
Nonoperating revenue (loss)	<u>(212)</u>	<u>226</u>	<u>(438)</u>	<u>76</u>
Net increase in net assets	76	1,728	(1,652)	1,064
Net assets at beginning of year	<u>22,819</u>	<u>21,091</u>	<u>1,728</u>	<u>20,027</u>
Net assets at end of year	\$ <u>22,895</u>	\$ <u>22,819</u>	\$ <u>76</u>	\$ <u>21,091</u>

Operating revenues: The composition of the operating revenue amounting to \$23.016 million for fiscal year 2011 is presented in the following graph:



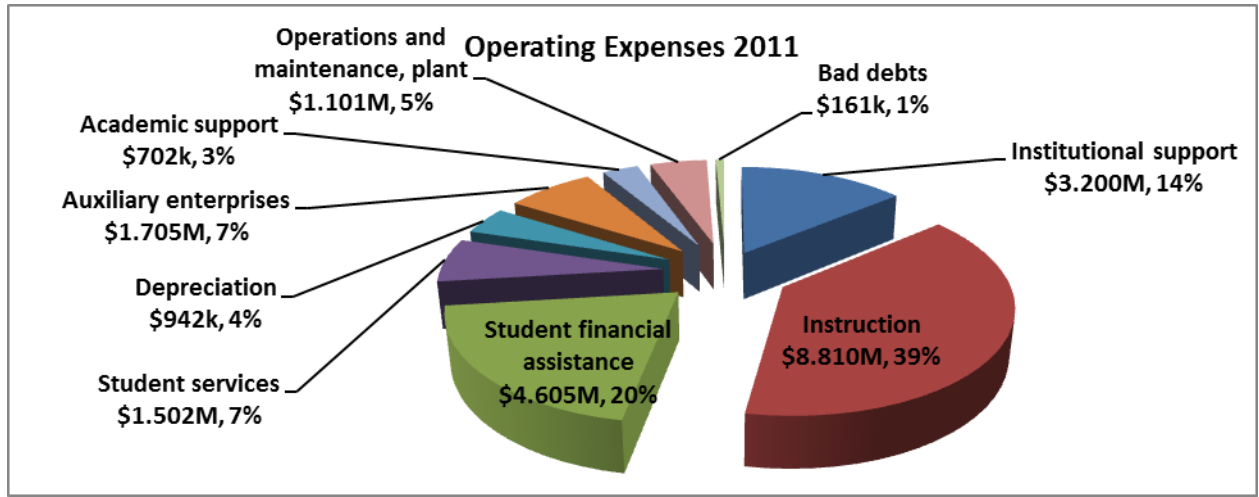
Compared with fiscal year 2010, the operating revenue for fiscal year 2011 indicated a decrease of \$2.121 million or 8% consisting of the following changes:

- Increase in student tuition by \$430k or 76%, from \$568k to \$998k;
- Increase in sales and services of auxiliary enterprises by \$285k or 19%, from \$1.513 million to \$1.798 million;
- Increase in government and contracts by \$69k or 6%, from \$1.080 million to \$1.149 million;
- Decrease in federal grants and contracts by \$2.450 million or -11%, from \$21.358 million to \$18.908 million; and
- Decrease in other revenues by \$456k or -74%, from \$618k to \$162k.

Operating expenses: The College's operating expenses for fiscal year 2011 are \$22.728 million presented in the following graph:

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The total operating expenses indicated a net reduction by \$907k consisting of the following changes:

- Increase in instruction by \$1.332 million or 18%, from \$7.478 million to \$8.810 million;
- Increase in auxiliary enterprises by \$103k or 6%, from \$1.602 million to \$1.705 million;
- Increase in academic support by \$60k or 9%, from \$642k to \$702k;
- Increase in institutional support by \$55k or 2%, from \$3.145k to \$3.200k;
- Decrease in student financial assistance by \$1.740 million or -27%, from \$6.345 million to \$4.605 million;
- Decrease in bad debts by \$346k or -68%, from \$507k to \$161k;
- Decrease in operations and maintenance, plant by \$188k or -15%, from \$1.289 million to \$1.101 million;
- Decrease in student services by \$164k or -10%, from \$1.666 million to \$1.502 million;
- Decrease in depreciation by \$18k or -2%, from \$960k to \$942k.

Nonoperating loss: The College endowment fund performance for the current fiscal year showed an unrealized market loss of \$212k.

Net change in net assets: The result of the College's financial performance for fiscal year 2011 is a net increase in net assets by only \$76k. It only reflected a slight increase because the prior year 2010 level has provided a huge increase by \$1.727 million in fiscal year 2010 compared with fiscal year 2009.

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, capital and related financing, and investing.

The SCF indicates a balance in cash and equivalents of \$7.167 million at end of fiscal year 2011. The fiscal year - end balance reflects a decrement by \$481k or -6% compared with fiscal year 2010 balance of \$7.648 million.

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Management's Discussion and Analysis
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Below is the summary Statement of Cash Flows:

	FY 2011 (In 000's)	FY 2010 (In 000's)	Difference (In 000's)	FY 2009 (In 000's)
Used in operating activities	\$ 217	\$ 1,141	\$ (924)	\$ 2,762
Used in capital and related financing activities	(605)	(434)	(171)	(374)
Used in investing activities	<u>(93)</u>	<u>-</u>	<u>(93)</u>	<u>(21)</u>
Net change in cash and equivalents	(481)	707	(1,188)	2,367
Cash and cash equivalents at beginning of year	<u>7,648</u>	<u>6,941</u>	<u>707</u>	<u>4,574</u>
Cash and cash equivalents at end of year	\$ <u>7,167</u>	\$ <u>7,648</u>	\$ <u>(481)</u>	\$ <u>6,941</u>

The net reduction in cash and equivalents was from the decrement of the operating earnings for the current fiscal year.

BUDGET INFORMATION

In fiscal year 2011, Planning and Resources Committee handled the development of the College's budgets in coordination with departments, campuses and offices. Budgets are approved by the board, and those that are funded by the FSM National government are transmitted to FSM Executive Budget Review Committee and FSM Congress for approval and appropriation.

The budgets of the College include the following:

1. \$10.940 million – for the administration and management of the College wherein \$3.800 million is appropriation from the FSM National Government funded by the Education Sector Grant of the Compact of Free Association II.
2. \$658k – for the administration and management of the FSM – FMI at Yap State funded by the FSM National Government.
3. \$684k – for work study, supplemental education opportunity grant and teacher corps programs funded by the Compact of Free Association II through FSM National Government.
4. \$75k – for the operations of the Board of Regents of the College funded by FSM National Government.
5. \$286k – for the operating expenditures of auxiliary enterprises funded from service charges.

CAPITAL ASSETS AND LONG-TERM DEBT ACTIVITY

At September 30, 2011, the College's net investment in capital assets is \$10.126 million, net of accumulated depreciation. Depreciation for the current year totaled \$942k, and capital additions for furniture, equipment and vehicles totaled \$605k. For additional information concerning capital assets, please refer to Note 6 to the financial statements.

The College's long-term obligation is the \$266k representing the long – term portion of the accrued annual leave. The College provides accumulation of annual leave balance, wherein accumulated leave of not exceeding 240 hours shall be paid to the employee upon resignation/termination of employment. The College has no other long-term debt as of the end of fiscal year 2011.

COLLEGE OF MICRONESIA-FSM

Management's Discussion and Analysis September 30, 2011 and 2010

Management's Discussion and Analysis for the years ended September 30, 2010 and 2009, is set forth in the College's report on the audit of the financial statements, which is dated June 14, 2011, and that Discussion and Analysis explains the major factors impacting 2010 and 2009. To learn more about the College or to clarify matters in the Management's Discussion and Analysis, please contact Mr. Joseph M. Daisy, President or Danilo V. Dumantay, Comptroller at email addresses jdaisy@comfsm.fm or comptroller@comfsm.fm, respectively or please write us at P.O. Box 159, Kolonia, Pohnpei, FSM 96941.

ECONOMIC OUTLOOK

The College's sources of revenue are tuition and other fees from students receiving financial assistance from U.S. Federal Student Aid programs, and from the annual subsidy from FSM National Government. The subsidy is under the Education Sector Grant of the Compact of Free Association (ESG) between the Government of the United States of America and the Government of the 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 March 31, 2014. In school year 2010 – 2011, about 88% 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 be at the range of 85% to 95% in the next couple of years. In addition, students are receiving financial assistance from state and national government scholarship programs.

The College is accredited by the Accrediting Commission for Community and Junior Colleges (ACCJC) of the Western Association of Schools and Colleges (WASC). On June 30, 2011, the College was placed on "probation" for four recommendations, and as a consequence was required to submit a Follow-Up report on March, 15, 2012 preceded by an ACCJC team visit on April 23-25, 2012. The College has further submitted a Supplemental report and will appear before the Commission at their June 6-8, 2012 hearings. The College will receive an action letter from the Commission following the June hearings as to future status. As there is no such thing as being partially accredited, the College is currently accredited, and continues to receive and administer U.S. Federal Student Aid programs for eligible students.

The College is expected to receive continued support of funding assistance in succeeding years from the FSM National Government through the ESG. However, the ESG's level of support will be reduced by \$700k, for each year for the next four years beginning in fiscal year 2013 up to 2016. Specifically, the funding support from ESG will be reduced from \$3.800 million to \$3.100 million in fiscal year 2013, \$2.400 million in fiscal year 2014, \$1.700 million in fiscal year 2015 and \$1.000 million in fiscal year 2016 and beyond. Nevertheless, the FSM Government has made commitment to fund the ESG's decrement from the local revenue of the nation.

The College has also considered increasing tuition and fees for three consecutive fiscal years from 2014 to 2016. The board has approved structured increases of tuition and fees by \$10 per credit for the next three years.

With the continued funding support of U.S. Federal Student Aid programs (PELL Grant) to FSM students and FSM National Government and the structure tuition fee increases, the College has developed a sustainable Five – Year Financial Plan from 2013 to 2017.

COLLEGE OF MICRONESIA-FSM

Management's Discussion and Analysis September 30, 2011 and 2010

The College has completed 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.

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 started 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, and on campuses student fundraising events contribute to the growth of the endowment fund. The College is in the process of creating a foundation for the College's endowment.

The College will hold a vision summit in August 2012 to define its direction vis – a – vis the financial challenges facing the College. Alternative scenarios will be developed in the event that the combination of tuition fee increases and modest enrollment growth will not be sufficient to achieve an offset of the loss of funding from ESG and that the FSM National Government cannot completely assume the total decrement of the ESG funding.

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

Statements of Net Assets
September 30, 2011 and 2010

<u>ASSETS</u>	<u>2011</u>	<u>2010</u>
Current assets:		
Cash and cash equivalents	\$ 7,167,689	\$ 7,648,568
Due from FSM National Government	319,799	808,546
Tuition receivable, net	3,485,235	2,321,790
Grants and contracts receivable, net	1,977,107	2,013,761
Other receivables, net	216,069	157,674
Inventory	1,155,571	656,662
Prepaid expenses	287,649	331,917
Total current assets	<u>14,609,119</u>	<u>13,938,918</u>
Noncurrent assets:		
Investments	2,981,912	3,100,271
Capital assets, net of accumulated depreciation	10,125,687	10,462,881
Total noncurrent assets	<u>13,107,599</u>	<u>13,563,152</u>
Total assets	<u>\$ 27,716,718</u>	<u>\$ 27,502,070</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Accounts payable	\$ 349,360	\$ 241,841
Accrued liabilities	613,280	522,550
Accrued annual leave	270,503	280,917
Deferred revenue	2,547,086	2,672,736
Other current liabilities	775,194	702,052
Total current liabilities	<u>4,555,423</u>	<u>4,420,096</u>
Noncurrent liabilities:		
Long-term portion of accrued annual leave	266,184	263,249
Total liabilities	<u>4,821,607</u>	<u>4,683,345</u>
Commitments and contingencies		
Net assets:		
Invested in capital assets	10,125,687	10,462,881
Restricted:		
Nonexpendable	2,981,912	3,100,271
Unrestricted	9,787,512	9,255,573
Total net assets	<u>22,895,111</u>	<u>22,818,725</u>
Total liabilities and net assets	<u>\$ 27,716,718</u>	<u>\$ 27,502,070</u>

See accompanying notes to financial statements.

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

Statements of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2011 and 2010

	2011	2010
Operating revenues:		
Student tuition and fees	\$ 8,169,566	\$ 8,787,074
Less: Scholarship discounts and allowances	(7,171,774)	(8,219,499)
	997,792	567,575
Federal grants and contracts	18,907,617	21,358,231
Government grants and contracts	1,148,951	1,079,808
Sales and services of auxiliary enterprises	1,798,834	1,513,480
Other revenues	162,495	618,029
Total operating revenues	23,015,689	25,137,123
Less bad debts	(161,196)	(507,473)
Net operating revenues	22,854,493	24,629,650
Operating expenses:		
Institutional support	3,199,944	3,145,306
Instruction	8,810,218	7,478,232
Student financial assistance	4,604,912	6,345,270
Student services	1,501,833	1,666,403
Depreciation	942,211	959,521
Auxiliary enterprises	1,704,703	1,601,957
Academic support	702,074	641,995
Operations and maintenance, plant	1,100,696	1,289,471
Total operating expenses	22,566,591	23,128,155
Operating earnings	287,902	1,501,495
Nonoperating revenues:		
Net investment income (loss)	(211,516)	225,883
Net nonoperating revenues	(211,516)	225,883
Net change in net assets	76,386	1,727,378
Net assets:		
Net assets at beginning of year	22,818,725	21,091,347
Net assets at end of year	\$ 22,895,111	\$ 22,818,725

See accompanying notes to financial statements.

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

Statements of Cash Flows
Years Ended September 30, 2011 and 2010

	2011	2010
Cash flows from operating activities:		
Grants and contracts	\$ 20,227,605	\$ 20,560,079
Auxiliary services	1,798,834	1,517,927
Other receipts	38,146	674,978
Payments to employees for salaries and benefits	(8,116,767)	(7,875,157)
Payments to suppliers and others	(13,730,523)	(13,736,425)
Net cash provided by operating activities	217,295	1,141,402
Cash flows from capital and related financing activities:		
Purchases of capital assets	(605,017)	(434,271)
Net cash used in capital and related financing activities	(605,017)	(434,271)
Cash flows from investing activities:		
Purchase of investments	(93,157)	-
Net cash used in investing activities	(93,157)	-
Net change in cash and cash equivalents	(480,879)	707,131
Cash and cash equivalents at beginning of year	7,648,568	6,941,437
Cash and cash equivalents at end of year	\$ 7,167,689	\$ 7,648,568
Reconciliation of operating earnings to net cash provided by operating activities:		
Operating earnings	\$ 287,902	\$ 1,501,495
Adjustments to reconcile operating earnings to net cash provided by operating activities:		
Depreciation	942,211	959,521
Bad debts	161,196	507,473
Due from FSM	488,747	(351,297)
Tuition receivable	(1,224,496)	(302,550)
Grants and contracts receivable	34,643	(1,526,663)
Other receivables	(124,349)	4,447
Inventories	(531,089)	96,644
Prepaid expenses	44,268	(120,614)
Accounts payable	107,519	(10,949)
Accrued liabilities	83,251	42,993
Deferred revenue	(125,650)	(107,904)
Other current liabilities	73,142	448,806
Net cash provided by operating activities	\$ 217,295	\$ 1,141,402

See accompanying notes to financial statements.

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

Notes to Financial Statements
September 30, 2011 and 2010

(1) Organization

The College of Micronesia-FSM (COM-FSM or the College), formerly Community College of Micronesia or CCM, was one of the three component campuses of the College of Micronesia (COM) prior to April 1, 1993. The COM was established on March 29, 1977, by the treaty among the governments of the Republic of the Marshall Islands, the Federated States of Micronesia (FSM), and the Republic of Palau. The treaty ended on March 31, 1993, and the COM was restructured to render autonomy to each of the three nations.

CCM and the centers for continuing education (CE) in Pohnpei, Chuuk, Yap and Kosrae were merged to form COM-FSM, a FSM public corporation established by Public Law 7-79 on September 25, 1992, under the general management and control of a seven-member Board of Regents, appointed by the FSM President with the advice and consent of the FSM Congress. This law was subsequently amended to reduce the number of Board members to five. The term of all board members is 3 years and limited to 2 consecutive terms. However, a member may serve beyond the expiration date of his/her term until a successor has been appointed. The purpose of COM-FSM is to serve the varied post-secondary and adult educational needs of the FSM.

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

(2) Basis of Presentation

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

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

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

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

Notes to Financial Statements
September 30, 2011 and 2010

(2) Basis of Presentation, Continued

B. Basis of Accounting, Continued.

COM-FSM has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. COM-FSM has elected to not apply FASB pronouncements issued after the applicable date.

(3) Summary of Significant Accounting Policies

A. Cash and Cash Equivalents. Cash and cash equivalents are defined as cash on hand, cash in bank and time certificates of deposit with initial maturities of three months or less. Time certificates of deposit with initial maturities in excess of three months are classified as investments.

GASB Statement No. 3 previously required government entities to present deposit risks in terms of whether the deposits fell into the following categories:

Category 1 Deposits that are federally insured or collateralized with securities held by the College or its agent in the College's name;

Category 2 Deposits that are uninsured but fully collateralized with securities held by the pledging financial institution's trust department or agent in the College's name;
or

Category 3 Deposits that are collateralized with securities held by the pledging financial institution's trust department or agent but not in the College's name and non-collateralized deposits.

GASB Statement No. 40 amended GASB Statement No. 3 to in effect eliminate disclosure for deposits falling into categories 1 and 2 but retained disclosures for deposits falling under category 3. Category 3 deposits are those deposits that have exposure to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the College's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized, or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name. The College does not have a deposit policy for custodial credit risk.

At September 30, 2011 and 2010, COM-FSM has recorded cash balances of \$7,167,689 and \$7,648,568, respectively, with corresponding bank balances of \$7,704,042 and \$8,713,844, respectively. Of these amounts, \$2,738,421 in 2011 and \$500,000 in 2010 are insured by the Federal Deposit Insurance Corporation (FDIC) and \$250,000 in each year is subject to coverage by the Securities Investor Protection Corporation. The remaining balances are not insured or collateralized by securities held by a trustee in the name of the financial institution. Management elected not to require insurance or collateralization on the remaining balances based on confidence in the financial health of the banking institutions. No losses as a result of this practice were incurred during the years ended September 30, 2011 and 2010.

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

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

Notes to Financial Statements
September 30, 2011 and 2010

(3) Summary of Significant Accounting Policies, Continued

- C. Accounts Receivable. Accounts receivable tuition and fees and accounts receivable employees, net of an allowance for uncollectible accounts as of September 30, 2011, follows:

	<u>National Campus</u>	<u>State Campuses</u>	<u>Totals</u>
Accounts receivable, gross	\$ 2,696,237	\$ 1,844,262	\$ 4,540,499
Allowance for uncollectible accounts	<u>(561,947)</u>	<u>(493,317)</u>	<u>(1,055,264)</u>
Accounts receivable, net	\$ <u>2,134,290</u>	\$ <u>1,350,945</u>	\$ <u>3,485,235</u>

Accounts receivable tuition and fees and accounts receivable employees net of an allowance for uncollectible accounts as of September 30, 2010, follow:

	<u>National Campus</u>	<u>State Campuses</u>	<u>Totals</u>
Accounts receivable, gross	\$ 3,708,949	\$ 2,828,088	\$ 6,537,037
Allowance for uncollectible accounts	<u>(2,347,256)</u>	<u>(1,867,991)</u>	<u>(4,215,247)</u>
Accounts receivable, net	\$ <u>1,361,693</u>	\$ <u>960,097</u>	\$ <u>2,321,790</u>

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

Other receivables are net of an allowance for doubtful accounts of \$153,778 and \$278,393 as of September 30, 2011 and 2010, respectively.

- D. Inventory. Inventory is stated at the lower of cost (first-in, first-out) or market (net realizable value).
- E. Prepaid Expenses. Payments made to vendors for goods and services that will benefit periods beyond September 30, 2011 and 2010, 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 been recorded neither as in-kind contributions nor expenses.

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

Notes to Financial Statements
September 30, 2011 and 2010

(3) Summary of Significant Accounting Policies, Continued

- G. Deferred Revenue. Deferred revenues include amounts received for tuition and fees and certain grants prior to the end of the fiscal year but relate to the subsequent accounting period. Deferred revenues also include amounts received from grant and contract sponsors that have not yet been earned.
- H. 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.
- I. Noncurrent Liabilities. Noncurrent liabilities include estimated amounts for accrued compensated absences that will not be paid within the next fiscal year.

The change in accrued compensated absences during fiscal years 2011 and 2010 is as follows:

<u>Balance,</u> <u>Oct. 1, 2010</u>	<u>Addition</u>	<u>Reduction</u>	<u>Balance,</u> <u>Sept. 30, 2011</u>	<u>Current</u>
\$ <u>544,166</u>	\$ <u>292,858</u>	\$ <u>(300,337)</u>	\$ <u>536,687</u>	\$ <u>270,503</u>
<u>Balance,</u> <u>Oct. 1, 2009</u>	<u>Addition</u>	<u>Reduction</u>	<u>Balance,</u> <u>Sept. 30, 2010</u>	<u>Current</u>
\$ <u>526,495</u>	\$ <u>275,169</u>	\$ <u>(257,498)</u>	\$ <u>544,166</u>	\$ <u>280,917</u>

- J. Net Assets. COM-FSM net assets are classified as follows:

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

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

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

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

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

Notes to Financial Statements
September 30, 2011 and 2010

(3) Summary of Significant Accounting Policies, Continued

K. Classification of Revenues and Expenses, Continued

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.

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

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

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

O. New Accounting Standards.

During fiscal year 2011, the College implemented the following pronouncements:

- GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions.
- GASB Statement No. 59, *Financial Instruments Omnibus*, which updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools.

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

Notes to Financial Statements
September 30, 2011 and 2010

(3) Summary of Significant Accounting Policies, Continued

O. New Accounting Standards, Continued

The implementation of these pronouncements did not have a material effect on the accompanying financial statements.

In December 2009, GASB issued Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which amends Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and addresses issues related to measurement of OPEB obligations by certain employers participating in agent multiple-employer OPEB plans. The provisions of Statement 57 related to the use and reporting of the alternative measurement method are effective immediately. The provisions related to the frequency and timing of measurements are effective for actuarial valuations first used to report funded status information in OPEB plan financial statements for periods beginning after June 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the College.

In December 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which addresses how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the College.

In December 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus*, which is designed to improve financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity*, and No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively. The provisions of this statement are effective for periods beginning after June 15, 2012. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the College.

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the College.

In July 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which establishes guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the College.

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

Notes to Financial Statements
September 30, 2011 and 2010

(3) Summary of Significant Accounting Policies, Continued

O. New Accounting Standards, Continued

In July 2011, GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions (an amendment of GASB Statement No. 53)*, which will improve financial reporting by state and local governments by clarifying the circumstances in which hedge accounting continues to be applied when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The provisions of this statement are effective for periods beginning after June 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the College.

P. Reclassifications

Certain account balances in the 2010 financial statements have been reclassified to correspond with the 2011 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.

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 assets invested with the above Endowment funds. Therefore, the College is of the opinion that such investments and related investments income are appropriately classified as non expendable restricted net assets.

In December 1997, COM-FSM adopted an investment policy, which guides current investment decisions. This policy is to be reviewed after 10 years. The policy provides that investment earnings may not be obligated until the principal has aggregated to a market value of \$20 million. During the Board of Regents meeting in March 2005, an updated investment policy recommended by the Investment Consultant and reviewed by the Administration was approved by the Board. The investments are classified as restricted nonexpendable net assets in the accompanying Statement of Net Assets.

The composition of investments as of September 30, 2011 and 2010, by funding source, is as follows:

<u>Donor</u>	<u>2011</u>	<u>2010</u>
FSM Telecommunications Corporation (FSMTC)	\$ 165,000	\$ 165,000
U.S. Department of Education and local match (Challenge)	<u>2,816,912</u>	<u>2,935,271</u>
	<u>\$ 2,981,912</u>	<u>\$ 3,100,271</u>

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

Notes to Financial Statements
September 30, 2011 and 2010

(4) Investments, Continued

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

GASB Statement No. 3 previously required government entities to present investment risks in terms of whether the investments fell into the following categories:

- Category 1 Investments that are insured or registered, or securities held by the College or its agent in the College's name;
- Category 2 Investments that are uninsured and unregistered for which the securities are held by the counterparty's trust department or agent in the College's name; or
- Category 3 Investments that are uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the College's name.

GASB Statement No. 40 amended GASB Statement No. 3 to in effect eliminate disclosure for investments falling into categories 1 and 2, and provided for disclosure requirements addressing other common risks of investments such as credit risk, interest rate risk, concentration of credit risk, and foreign currency risk. GASB Statement No. 40 did retain and expand the element of custodial credit risk in GASB Statement No. 3.

As of September 30, 2011 and 2010, investments at fair value are as follows:

	<u>2011</u>	<u>2010</u>
Fixed income securities:		
Domestic fixed income	\$ 735,548	\$ 704,028
International fixed income	<u>28,162</u>	<u>36,767</u>
	<u>763,710</u>	<u>740,795</u>
Other investments:		
Common equities	2,072,279	2,285,412
Money market funds	<u>145,923</u>	<u>74,064</u>
	<u>2,218,202</u>	<u>2,359,476</u>
	\$ <u>2,981,912</u>	\$ <u>3,100,271</u>

As of September 30, 2011, the College's fixed income securities had the following maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in years)</u>			
		<u>Less than 1</u>	<u>1-5</u>	<u>5-10</u>	<u>more than 10</u>
Mortgage and asset backed	\$ 281	\$ -	\$ -	\$ -	\$ 281
International bond	28,162	9,208	-	18,954	-
Corporate bond	258,026	-	101,556	84,540	71,930
Government bond	<u>477,241</u>	<u>141,528</u>	<u>117,313</u>	<u>139,919</u>	<u>78,481</u>
	<u>\$ 763,710</u>	<u>\$ 150,736</u>	<u>\$ 218,869</u>	<u>\$ 243,413</u>	<u>\$ 150,692</u>

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

Notes to Financial Statements
September 30, 2011 and 2010

(4) Investments, Continued

As of September 30, 2010, the College's fixed income securities had the following maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in years)</u>			
		<u>Less than 1</u>	<u>1-5</u>	<u>5-10</u>	<u>more than 10</u>
International bond	\$ 36,767	\$ 8,397	\$ 28,370	\$ -	\$ -
Corporate bond	284,764	-	111,957	95,989	76,818
Government bond	<u>419,264</u>	<u>116,762</u>	<u>122,728</u>	<u>138,746</u>	<u>41,028</u>
	\$ <u>740,795</u>	\$ <u>125,159</u>	\$ <u>263,055</u>	\$ <u>234,735</u>	\$ <u>117,846</u>

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

The College's exposure to credit risk at September 30, 2011, was as follows:

<u>Moody's Rating</u>	<u>Domestic</u>	<u>International</u>	<u>Total</u>
AAA/AAA	\$ 477,241	\$ -	\$ 477,241
AA1/AA	11,051	-	11,051
AA2/AA+	16,892	-	16,892
AA2/AA	10,675	-	10,675
AA2/AA-	9,194	-	9,194
AA3/A+	9,272	-	9,272
AA3/AA	18,491	-	18,491
A1/A+	10,488	-	10,488
A1/A	9,744	-	9,744
A2/AA-	8,292	-	8,292
A2/A	27,975	-	27,975
A2/A-	10,471	-	10,471
A3/A	8,134	-	8,134
A3/A-	19,385	9,208	28,593
A3/BBB+	-	9,136	9,136
BAA1/A-	-	9,818	9,818
BAA1/BBB+	30,380	-	30,380
BAA2/A-	7,984	-	7,984
BAA2/BBB	17,186	-	17,186
BAA2/BBB-	3,141	-	3,141
BAA3/BBB-	19,090	-	19,090
BA2/BBB	10,181	-	10,181
Not Rated	<u>281</u>	<u>-</u>	<u>281</u>
Total credit risk debt securities	\$ <u>735,548</u>	\$ <u>28,162</u>	\$ <u>763,710</u>

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

Notes to Financial Statements
September 30, 2011 and 2010

(4) Investments, Continued

The College's exposure to credit risk at September 30, 2010, was as follows:

<u>Moody's Rating</u>	<u>Domestic</u>	<u>International</u>	<u>Total</u>
AAA/AAA	\$ 419,264	\$ -	\$ 419,264
AA2/A-	9,972	-	9,972
AA2/AA	45,435	-	45,435
AA3/A+	18,512	-	18,512
AA3/A-	8,996	-	8,996
AA3/AA-	9,067	-	9,067
A1/A+	19,023	-	19,023
A2/A	48,061	-	48,061
A3/A-	28,282	17,923	46,205
BAA1/A-	-	18,844	18,844
BAA1/BBB+	30,161	-	30,161
BAA2/BBB	19,013	-	19,013
BAA2/BBB-	19,714	-	19,714
BAA3/BBB	9,527	-	9,527
BAA3/BBB-	<u>19,001</u>	<u>-</u>	<u>19,001</u>
Total credit risk debt securities	\$ <u>704,028</u>	\$ <u>36,767</u>	\$ <u>740,795</u>

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, the College will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The College's investments are held and administered by trustees. Based on negotiated trust and custody contracts, all of these investments were held in the College's name by the College's custodial financial institutions at September 30, 2011 and 2010.

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, 2011 and 2010.

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.

COLLEGE OF MICRONESIA-FSM
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Notes to Financial Statements
September 30, 2011 and 2010

(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. The net grants and contracts receivable – U.S. Government (net of respective allowances of \$21,090 in both 2011 and in 2010) comprised the following uncollected grants as of September 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Due from U.S. Department of Education	\$ 956,109	\$ 1,455,704
Due from COM-Land Grant, net	441,266	243,330
Due from University of Guam	404,457	211,773
Due from other grantor agencies, net	<u>175,275</u>	<u>102,954</u>
	<u>\$ 1,977,107</u>	<u>\$ 2,013,761</u>

(6) Capital Assets

Capital assets at September 30, 2011 and 2010 consist of the following:

	Balance October 1, <u>2010</u>	<u>Additions</u>	<u>Retirements</u>	Balance September 30, <u>2011</u>
Depreciable assets:				
Buildings	\$ 14,209,215	\$ -	\$ -	\$ 14,209,215
Furniture and equipment	8,175,219	495,318	-	8,670,537
Vehicles/boats	1,085,747	109,699	-	1,195,446
Library books	<u>706,402</u>	<u>-</u>	<u>-</u>	<u>706,402</u>
	24,176,583	605,017	-	24,781,600
Less accumulated depreciation	<u>(15,169,387)</u>	<u>(942,211)</u>	<u>-</u>	<u>(16,111,598)</u>
	<u>9,007,196</u>	<u>(337,194)</u>	<u>-</u>	<u>8,670,002</u>
Non-depreciable assets:				
Land	<u>1,455,685</u>	<u>-</u>	<u>-</u>	<u>1,455,685</u>
Net investment in capital assets	<u>\$ 10,462,881</u>	<u>\$ (337,194)</u>	<u>\$ -</u>	<u>\$ 10,125,687</u>
	Balance October 1, <u>2009</u>	<u>Additions</u>	<u>Retirements</u>	Balance September 30, <u>2010</u>
Depreciable assets:				
Buildings	\$ 14,209,215	\$ -	\$ -	\$ 14,209,215
Furniture and equipment	7,894,415	280,804	-	8,175,219
Vehicles/boats	932,280	153,467	-	1,085,747
Library books	<u>706,402</u>	<u>-</u>	<u>-</u>	<u>706,402</u>
	23,742,312	434,271	-	24,176,583
Less accumulated depreciation	<u>(14,209,866)</u>	<u>(959,521)</u>	<u>-</u>	<u>(15,169,387)</u>
	<u>9,532,446</u>	<u>(525,250)</u>	<u>-</u>	<u>9,007,196</u>
Non-depreciable assets:				
Land	<u>1,455,685</u>	<u>-</u>	<u>-</u>	<u>1,455,685</u>
Net investment in capital assets	<u>\$ 10,988,131</u>	<u>\$ (525,250)</u>	<u>\$ -</u>	<u>\$ 10,462,881</u>

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

Notes to Financial Statements
September 30, 2011 and 2010

(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, 2011 and 2010, receivables from the FSM National Government amounted to \$319,799 and \$808,546, 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 \$97,500) 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 for the past three years.

Accreditation

The College is accredited by the Accrediting Commission for Community and Junior Colleges (ACCJC) of the Western Association of Schools and Colleges (WASC). On June 30, 2011, the College was placed on "probation" for four recommendations, and as a consequence was required to submit a follow-up report on March, 15, 2012 succeeded by an ACCJC team visit on April 23-25, 2012. The College has further submitted a supplemental report and will appear before the Commission at their June 6-9, 2012 hearings. The College will receive an action letter from the Commission following the June hearing as to future status. Even with the current probation status, the College remains accredited and continues to receive and administer U.S. Federal Student Aid programs for eligible students.

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, 2011 and 2010 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, 2011, 2010 and 2009, the College incurred an expense of \$105,320, \$101,194 and \$100,101, respectively, for matching contributions. For the years ended September 30, 2011, 2010 and 2009, plan assets were \$2,072,488, \$1,943,134 and \$1,555,941, respectively.

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

Notes to Financial Statements
September 30, 2011 and 2010

(10) Lease

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

<u>Year Ending</u> <u>September 30,</u>	<u>Total</u>
2012	\$ 78,731
2013	84,636
2014	86,604
2015	86,604
2016	86,604
2017-2021	456,495
2022	<u>119,080</u>
	\$ <u>998,754</u>

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Regents
College of Micronesia-FSM:

We have audited the financial statements of the College of Micronesia-FSM as of and for the year ended September 30, 2011, and have issued our report thereon dated June 29, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the College is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the College's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

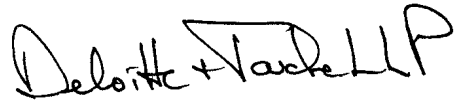
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College of Micronesia-FSM's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the College of Micronesia-FSM in a separate letter dated June 29, 2012.

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

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

June 29, 2012

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 AND ON THE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Board of Regents
College of Micronesia-FSM:

Compliance

We have audited the College of Micronesia-FSM's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on the College of Micronesia - FSM's major federal program for the year ended September 30, 2011. College of Micronesia-FSM's major federal program is identified in the Summary of Auditors' Results Section of the accompanying Schedule of Findings and Responses (page 32). Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of College of Micronesia-FSM's management. Our responsibility is to express an opinion on College of Micronesia-FSM's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the College of Micronesia-FSM's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the College of Micronesia-FSM's compliance with those requirements.

In our opinion, the College of Micronesia – FSM complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended September 30, 2011.

Internal Control Over Compliance

Management of the College of Micronesia-FSM is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the College of Micronesia-FSM's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the College of Micronesia-FSM's internal control over compliance.

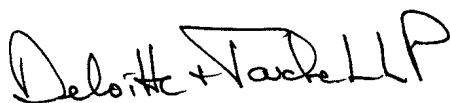
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the College of Micronesia-FSM as of and for the year ended September 30, 2011, and have issued our report thereon dated June 29, 2012. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards (page 31) is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. This schedule is the responsibility of the management of College of Micronesia-FSM. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, when considered in relation to the basic financial statements taken as a whole.

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



June 29, 2012

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

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2011

<u>Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Expenditures</u>
<u>U.S. Department of Agriculture:</u>		
Resident Instruction Grants for Insular Area Activities	10.308	\$ 42,836
Outreach and Assistance for Socially Disadvantaged Farmers and Ranchers	10.443	117,035
Cooperative Extension Service	10.500	<u>25,265</u>
Total U.S. Department of Agriculture		<u>185,136</u>
<u>U.S. Department of the Interior:</u>		
Compact of Free Association II, Amended	15.875	3,800,000
Compact of Free Association II, Amended (SEG)	15.875	876,742
Operation and Maintenance Technical Assistance	15.875	112,609
Infrastructure Maintenance Fund	15.875	<u>38,818</u>
Total U.S. Department of the Interior		<u>4,828,169</u>
<u>U.S. Department of Education:</u>		
TRIO: Student Support Services	84.042	14,430
TRIO: Talent Search	84.044	263,373
TRIO: Upward Bound	84.047	1,184,763
Federal Pell Grant Program	84.063	11,776,686
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	<u>192,662</u>
Total U.S. Department of Education		<u>13,431,914</u>
<u>U.S. Department of Health and Human Services:</u>		
Area Health Education Centers Point of Service Maintenance and Enhancement Awards	93.107	<u>385,382</u>
Total U.S. Department of Health and Human Services		<u>385,382</u>
Total Federal Awards		\$ <u>18,830,601</u>

Notes: The above grants are received in a subrecipient capacity through the FSM National Government and the University of Guam with the exception of Federal Pell Grant Program and TRIO, which are received in a direct capacity from the U.S. Department of Education. The Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting.

Reconciliation to financial statements:

Total federal awards expenditures:	\$ 18,830,601
Depreciation	942,211
Non-federal awards	<u>2,793,779</u>
Total expenditures per financial statements	\$ <u>22,566,591</u>

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

Schedule of Findings and Responses
Year Ended September 30, 2011

Part I - Summary of Auditors' Results

Financial Statements

- | | |
|--|---------------|
| 1. Type of auditors' report issued: | Unqualified |
| Internal control over financial reporting: | |
| 2. Material weakness(es) identified? | No |
| 3. Significant deficiency(ies) identified? | None reported |
| 4. Noncompliance material to the financial statements noted? | No |

Federal Awards

Internal control over major programs:

- | | |
|---|---------------|
| 5. Material weakness(es) identified? | No |
| 6. Significant deficiency(ies) identified? | None reported |
| 7. Type of auditors' report issued on compliance for major programs: | Unqualified |
| 8. Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? | No |
| 9. COM-FSM's major programs were as follows: | |

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
84.063	Federal Student Aid Cluster: Federal Pell Grant Program

- | | |
|--|-----------|
| 10. Dollar threshold used to distinguish between Type A and Type B Programs, as those terms are defined in OMB Circular A-133: | \$564,918 |
| 11. The College qualified as a low-risk auditee, as that term is defined in OMB Circular A-133? | Yes |

Part II – Financial Statement Findings Section

No matters are reported.

Part III - Federal Award Findings and Questioned Cost Section

No matters are reported.

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

Schedule of Unresolved Prior Year Findings
Year Ended September 30, 2011

There are no unresolved prior year internal control findings.