# COLLEGE OF MICRONESIA-FSM

**(A COMPONENT UNIT OF THE FEDERATED STATES OF MICRONESIA NATIONAL GOVERNMENT)**

---

**FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT**

---

**SEPTEMBER 30, 2013 AND 2012**

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), a component unit of the FSM National Government, which comprise the statements of net position as of September 30, 2013 and 2012, 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. 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 opinion.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of College of Micronesia-FSM as of September 30, 2013 and 2012, and the results of its operations and its cash flows 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 10 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, 2014, 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, 2014

## Financial Statements Analysis

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

### 1. Statement of Net Position (SNP)

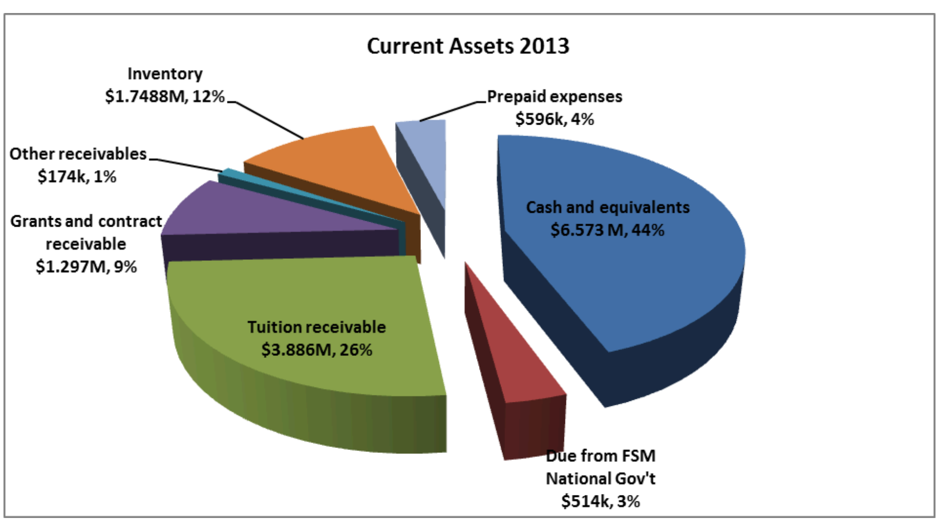
The SNP presents what the College owns (assets), owes (liabilities) and the net position (the difference between total assets and total liabilities) at the end of the fiscal year. The net position is one indicator of the current financial condition of the College, while the change in net position is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

A Comparative Statement of Net Position at September 30, 2013, 2012 and 2011 is summarized below:

| | FY 2013 (In 000's) | FY 2012 (In 000's) | Difference (In 000's) | FY 2011 (In 000's) |
|---|---|---|---|---|
| Assets: | | | | |
| Current assets | $ 14,789 | $ 13,780 | $ 1,009 | $ 14,609 |
| Noncurrent assets | 13,432 | 13,566 | (134) | 13,107 |
| Total assets | 28,221 | 27,346 | 875 | 27,716 |
| Liabilities: | | | | |
| Current liabilities | 4,837 | 4,289 | 548 | 4,555 |
| Noncurrent liabilities | 302 | 304 | (2) | 266 |
| Total liabilities | 5,139 | 4,593 | 546 | 4,821 |
| Net position | $ 23,082 | $ 22,753 | $ 329 | $ 22,895 |

The comparison of the statement of net position for fiscal year 2013 with prior year indicates a slight increase in net position by $329k or 1.4%.

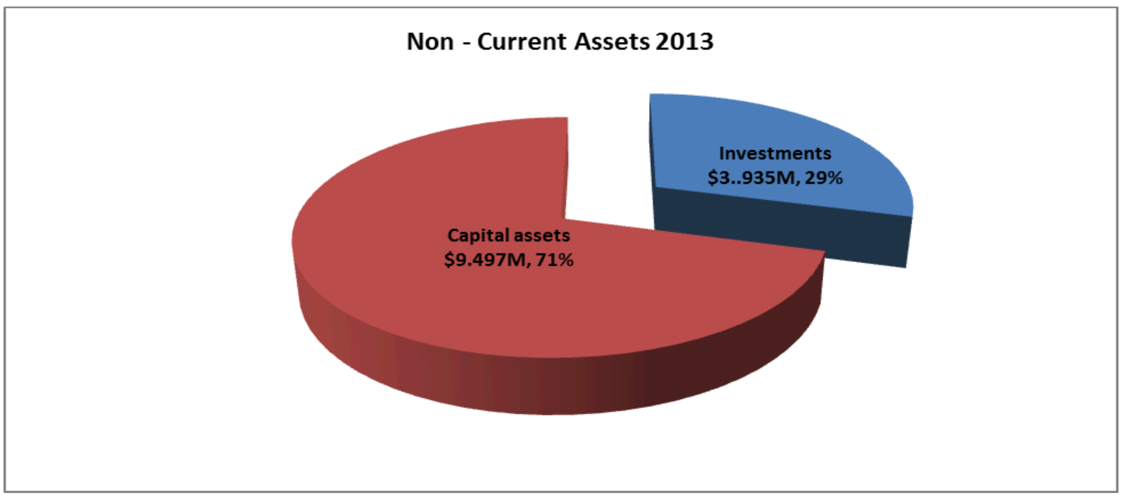
**Current assets**: The total current assets provided a 7% increase or $1.009 Million, from $13.780 Million in fiscal year 2012 to $14.789 Million in current fiscal year 2013. Below is the composition of current assets for fiscal year 2013:



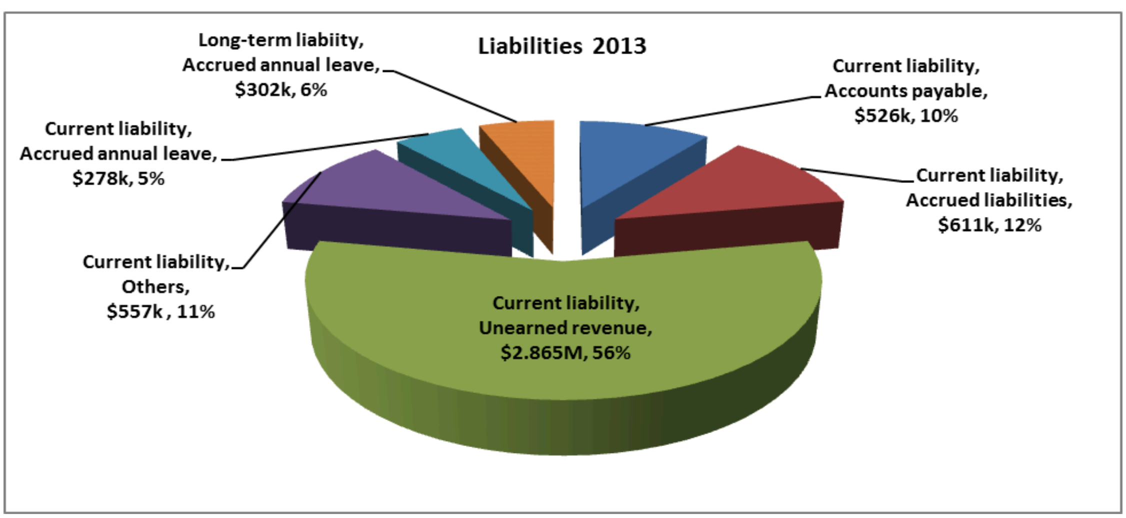
The net increase by $1.009 Million in current assets consists of the following changes:

- Increase in tuition receivable by $443k or 13%, from $3.443 Million to $3.886 Million;
- Increase in inventory by $360k or 26%, from $1.388 Million to $1.748 Million;
- Increase in due from FSM National government by $331k or 181%, from $183k to $514k;
- Increase in cash and equivalents by $187k or 3%, from $6.386 Million to $6.573 Million;
- Increase in prepaid expenses by $176k or 42%, from $420k to $596k;
- Decrease in grants and contract receivable by $437k or -25%, from $1.734 Million to $1.297 Million;
- Decrease in other receivables by $52k or -23%, from $226k to $174k.

**Noncurrent assets:** The total noncurrent assets dropped by $134k from $13.566 Million in fiscal year 2012 to $13.432 Million in current fiscal year 2013. The decline in noncurrent assets is net of the increase in investments by $496k or 14% and the decrease in capital assets by $630k or -6%. Below is the graph for the breakdown of noncurrent assets:




**Liabilities:** The liabilities have increased by $546k or 12%, from $4.593 Million to $5.139 Million. The ratio of current liabilities and non – current liabilities is at 94% and 6%, respectively, for fiscal year 2013. The pie graph on the details of liabilities is as follows:



The net increase in liabilities consists of the following:

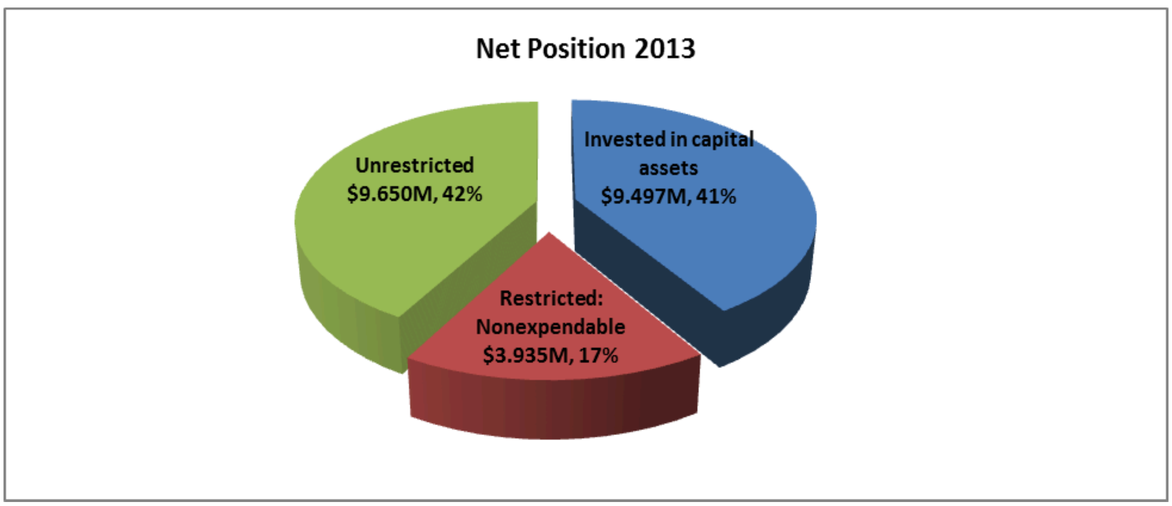
- Increase in unearned revenue by $308k or 12%, from $2.557 Million to $2.865 Million;
- Increase in accounts payable by $150k or 40%, from $376k to $526k;
- Increase in other current liabilities by $55k or 11%, from $501k to $557k;
- Increase in accrued liabilities by $41k or 7%, from $570k to $611k;
- Decreases in accrued annual leave and long – term accrued annual leave by $9k or -2% from $589k to $580k;

The majority of the liabilities at 56% represent the unearned portion of the revenue from tuition and fees for fall 2013.

**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 2013 is $23.082 Million which is 1% or $329k higher compared with $22.753 Million in fiscal year 2012. Below is the breakdown of the College's net position categorized according to the reporting model of GASB:

| | FY 2013 (In 000's) | FY 2012 (In 000's) | Difference (In 000's) | FY 2011 (In 000's) |
|---|---|---|---|---|
| Net investment in capital assets | $ 9,497 | $ 10,128 | $ (631) | $ 10,126 |
| Restricted: | | | | |
| Nonexpendable | 3,935 | 3,439 | 496 | 2,982 |
| Unrestricted | 9,650 | 9,186 | 464 | 9,787 |
| Total | $ 23,082 | $ 22,753 | $ 329 | $ 22,895 |

The pie graph for the breakdown of net position for fiscal year 2013 is illustrated below:



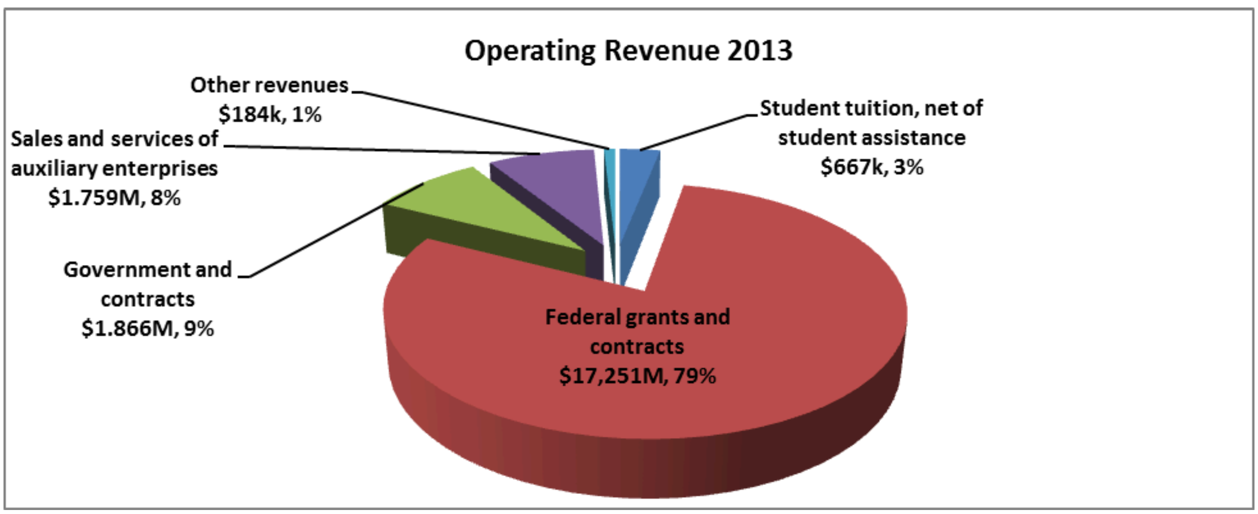

## 2. Statement of Revenues, Expenses and Changes in Net Position (SRECNP)

The SRECNP provides information on the College's financial performance for the current fiscal year in terms of revenues and expenses. It presents the operating revenues and expenses and the corresponding net operating results, as well as non-operating revenues and expenses and changes in net position.

Below is the comparative summary of SRECNP for fiscal years ended September 30, 2013, 2012 and 2011:

| | FY 2013 (In 000's) | FY 2012 (In 000's) | Difference (In 000's) | FY 2011 (In 000's) |
|---|---|---|---|---|
| Operating revenues | $ 21,727 | $ 22,998 | $ (1,271) | $ 23,016 |
| Operating expenses | 21,861 | 23,549 | 1,688 | 22,728 |
| Operating loss | (134) | (551) | 417 | 288 |
| Nonoperating revenue | 463 | 409 | 54 | (212) |
| Net increase (decrease) in net position | 329 | (142) | 471 | 76 |
| Net position at beginning of year | 22,753 | 22,895 | (142) | 22,819 |
| Net position at end of year | $ 23,082 | $ 22,753 | $ 329 | $ 22,895 |

Operating revenues: The composition of the operating revenue amounting to $21.727 Million for fiscal year 2013 is presented in the following pie graph:

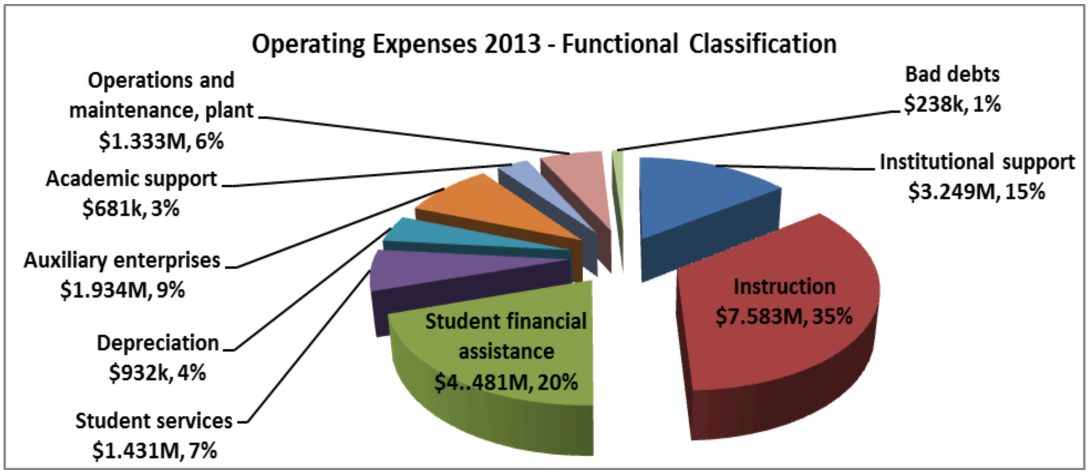



Below are details of the changes for each classification of operating revenue:

- Increase in government and contracts by $673k or 56%, from $1.193 Million to $1.866 Million;
- Decrease in federal grants and contracts by $1.415 Million or -8%, from $18.666 Million to $17.251 Million;
- Decrease in other revenues by $227k or -55%, from $411k to $184k;
- Decrease in student tuition (net of student assistance) by $188k or -22%, from $855k to $667k;
- Decrease in sales and services of auxiliary enterprises by $114k or -6%, from $1.874 Million to $1.760 Million.

**Operating expenses:** The College's operating expenses for fiscal year 2013 indicated a decrease by $1.688 Million or -7%, from $23.549 Million to $21.861 Million. The operating expenses are presented in both functional and natural classifications.

Pie graph for functional classification of operating expenses:




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

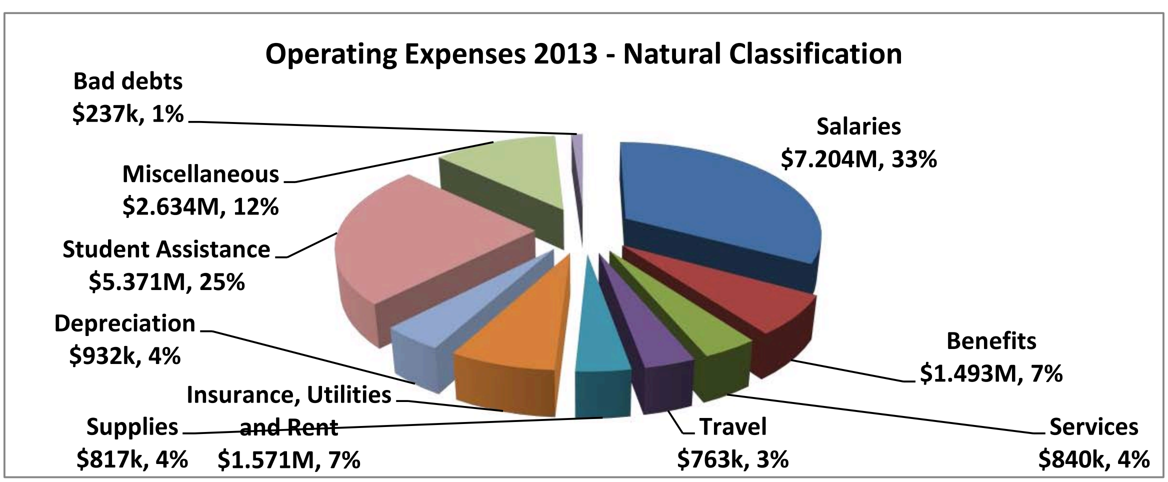
<u>On Cash Items</u>

- Increase in institutional support by $410k or 14%, from $2.839 Million to $3.249 Million;
- Increase in auxiliary enterprises by $266k or 16%, from $1.668 Million to $1.934 Million;
- Increase in operations and maintenance by $43k or 3%, from $1.290 Million to $1.333 Million;
- Decrease in instruction by $1.169 Million or -13%, from $8.752 Million to $7.583 Million;
- Decrease in student financial assistance by $207k or -4%, from $4.688 Million to $4.481 Million.
- Decrease in student services by $174k or -11%, from $1.605 Million to $1.431 Million;
- Decrease in academic support by $68k or -9%, from $749k to $681k.

<u>On Non – cash Items</u>

- Decrease in bad debts by $732k or -75%, from $969k to $237k;
- Decrease in depreciation by $56k or -6%, from $988k to $932k.

Pie graph for natural classification of operating expenses:



The increases and decreases of operating expenses on natural classifications are as follows:

On Cash Items

- Increase in services by $226k or 37%, from $614k to $840k;
- Increase in insurance, utilities and rent by $58k or 4%, from $1.513 Million to $1.571 Million;
- Increase in benefits by $12k or 1%, from $1.481 Million to $1.493 Million;
- Decrease in miscellaneous by $566k or -18%, from $3.200 Million to $2.634 Million;
- Decrease in salaries by $239k or -3%, from $7.443 Million to $7.204 Million;
- Decrease in travel by $163k or -18%, from $926k to $763k;
- Decrease in supplies by $139k or -15%, from $956k to $817k;
- Decrease in student assistance by $89k or -2%, from $5.460 Million to $5.371 Million.

On non-cash items, the decreases and increases are similar with functional classifications.

**Nonoperating revenue:** The College generated non-operating revenue from the unrealized market gain from endowment fund of $463k for fiscal year 2013. The unrealized market gain is higher by $54k or 13% compared with prior fiscal year.

**Net change in net position:** The result of the College's financial performance for fiscal year 2013 is a net increase in net position by $329k. Accordingly, the financial condition of the college has improved compared with prior fiscal year.

### 3. Statement of Cash Flows (SCF)

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

The SCF indicates a balance in cash and equivalents of $6.573 Million at end of fiscal year 2013. The fiscal year - end balance is higher by $187k or 3% compared with fiscal year 2012 balance of $6.386 Million.

Below is the summary Statement of Cash Flows:

| | FY 2013 (In 000's) | FY 2012 (In 000's) | Difference (In 000's) | FY 2011 (In 000's) |
|---|---|---|---|---|
| Provided by operating activities | $ 662 | $ 256 | $ 39 | $ 217 |
| Used in capital and related financing activities | (442) | (990) | (385) | (605) |
| Used in investing activities | (33) | (47) | 45 | (93) |
| Net decrease in cash and equivalents | 187 | (781) | (301) | (481) |
| Cash and cash equivalents at beginning of year | 6,386 | 7,167 | (481) | 7,648 |
| Cash and cash equivalents at end of year | $ 6,573 | $ 6,386 | $ (782) | $ 7,167 |

## Budget Information

The budgets are developed by departments, campuses and offices, and are approved by the Board of Regents. The budgets of the College for fiscal year 2013 include the following:

1. $10.884 Million – for the administration and management of the college wherein the sources of revenue are from tuition and fees of $6.931 Million, and $3.100 Million from the Education Sector Grant of the Compact of Free Association II, $700k from the General Fund of FSM National Government, and $152k from the College's fund balance.
2. $655k – for the administration and management of the FSM – FMI at Yap State which is 100% funded by FSM National Government.
3. $690k – for work study, supplemental education opportunity grant and teacher corps programs funded by Compact of Free Association II through FSM National Government.
4. $75k – for the operations of the Board of Regents of the college funded by FSM National Government.
5. $1.437 Million – for the cost of goods sold and operating expenditures of auxiliary enterprises funded from service charges.

## Capital Assets and Long-term Debt Activity

At September 30, 2013, the College's net investment in capital assets is $9.497 Million, with gross amount of $19.731 Million for depreciable and non – depreciable assets, less accumulated depreciation of $10.234 Million. Depreciation for the current year totaled to $932k, and capital additions for furniture, equipment and vehicles totaled to $442k. In fiscal year 2013, the College conducted inventory and reconciliation of fixed assets and recorded the retirement of $7.938 Million capital assets from the fixed asset records. The retired assets consist of obsolete, damaged and fully depreciated assets which were acquired prior 2005. Please refer to note 6 to the accompanying financial statements for additional information on capital assets.

The College's long-term obligation is $302k 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 years 2013 and 2012.

Management's Discussion and Analysis for the year ended September 30, 2012, is set forth in the College's report on the audit of the financial statements, which is dated June 12, 2013, and that Discussion and Analysis explains the major factors impacting 2012 and 2011. 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), and from the local revenue of FSM National Government. The level of support from ESG was reduced by $700k in fiscal year 2013, from $3.800 Million to $3.100 Million. Further, it will be reduced by $700k for each year for the next three years up to fiscal year 2016. The FSM Government provided its commitment to absorb the funding decrements from ESG fund through the local revenue of the FSM. On May 30th Congress Resolution, the FSM Congress provided the funding assistance of $1.400 Million to cover the decrement from ESG for fiscal year 2014. FSM President's letter dated February 27, 2014 communicated the government support to continue to fund the decrement from its domestic revenues in the future.

The College Five – Year Financial Plan (5YFP) provided a 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 tuition and fee increase by $10 per credit, from $115 to $125, and facility fee of $150 to $175 per student effective fall 2015. For the next fiscal year 2016, the tuition will likewise increase by an additional $10 per credit and the facility fee will be at the level of $200 per student.

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 the *Facilities Study by Beca*, 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 USD, and the difference from the sum of the five tranches will be funded by alternative sources. COM-FSM has requested Beca continue providing professional engineering support to maintenance personnel for effective implementation of college projects through a subcontract agreement with the FSM.

On May 23, 2014, State and National Leadership Council adopted a communique expressing support for the outcome of the study and requested the College to provide plans to address the funding of the infrastructure projects to the government. In line with this request, formal support is being sought from the Infrastructure Planning and Implementation Council (IPIC). In August of 2014, the College will present the facilities study to JEMCO and will request to lift the freeze on compact IDP fund.

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 College has formally organized the Friends of COM – FSM Foundation to boost the fund raising activities for the college's endowment fund. Initial operating capital of $25,000 was transferred from the College to the Foundation. In addition, the College transferred to the Foundation a start – up funds of $500,000 and $100,000 for the endowment and scholarship, respectively. The new foundation established by the College is a US based 501c3 foundation and IRS designated as a public charity.

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

Statements of Net Position
September 30, 2013 and 2012

| ASSETS | 2013 | 2012 |
|---|---|---|
| Current assets: | | |
| Cash and cash equivalents | $ 6,572,749 | $ 6,385,567 |
| Due from FSM National Government | 514,217 | 182,993 |
| Tuition receivable, net | 3,886,250 | 3,443,380 |
| Grants and contracts receivable, net | 1,297,101 | 1,734,449 |
| Other receivables, net | 173,915 | 225,801 |
| Inventories | 1,748,451 | 1,388,192 |
| Prepaid expenses | 595,793 | 419,568 |
| Total current assets | 14,788,476 | 13,779,950 |
| Noncurrent assets: | | |
| Investments | 3,934,929 | 3,438,961 |
| Capital assets: | | |
| Nondepreciable capital assets | 1,455,685 | 1,455,685 |
| Capital assets, net of accumulated depreciation | 8,041,710 | 8,672,024 |
| Total noncurrent assets | 13,432,324 | 13,566,670 |
| Total assets | $ 28,220,800 | $ 27,346,620 |
| LIABILITIES AND NET POSITION | | |
| Current liabilities: | | |
| Accounts payable | $ 525,762 | $ 375,893 |
| Accrued liabilities | 611,489 | 570,005 |
| Accrued annual leave, current portion | 278,346 | 285,580 |
| Unearned revenue | 2,864,662 | 2,556,902 |
| Other current liabilities | 556,581 | 501,090 |
| Total current liabilities | 4,836,840 | 4,289,470 |
| Noncurrent liabilities: | | |
| Long-term portion of accrued annual leave | 302,115 | 303,820 |
| Total liabilities | 5,138,955 | 4,593,290 |
| Commitments and contingencies | | |
| Net position: | | |
| Net investment in capital assets | 9,497,395 | 10,127,709 |
| Restricted: | | |
| Nonexpendable | 3,934,929 | 3,438,961 |
| Unrestricted | 9,649,521 | 9,186,660 |
| Total net position | 23,081,845 | 22,753,330 |
| Total liabilities and net position | $ 28,220,800 | $ 27,346,620 |

See accompanying notes to financial statements.

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

Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2013 and 2012

| | 2013 | 2012 |
|---|---|---|
| Operating revenues: | | |
| Student tuition and fees | $ 7,965,660 | $ 8,224,997 |
| Less: Scholarship discounts and allowances | (7,299,133) | (7,370,291) |
| | 666,527 | 854,706 |
| Federal grants and contracts | 17,250,714 | 18,666,048 |
| Government grants and contracts | 1,866,269 | 1,192,803 |
| Sales and services of auxiliary enterprises | 1,759,771 | 1,873,502 |
| Other revenues | 184,162 | 411,542 |
| Total operating revenues | 21,727,443 | 22,998,601 |
| Less bad debts | (237,595) | (969,320) |
| Net operating revenues | 21,489,848 | 22,029,281 |
| Operating expenses: | | |
| Institutional support | 3,249,009 | 2,838,993 |
| Instruction | 7,582,631 | 8,751,543 |
| Student financial assistance | 4,481,190 | 4,688,553 |
| Student services | 1,431,440 | 1,605,684 |
| Depreciation | 931,807 | 988,117 |
| Auxiliary enterprises | 1,933,972 | 1,667,815 |
| Academic support | 681,285 | 749,454 |
| Operations and maintenance, plant | 1,333,017 | 1,290,002 |
| Total operating expenses | 21,624,351 | 22,580,161 |
| Operating loss | (134,503) | (550,880) |
| Nonoperating revenues: | | |
| Net investment income | 463,018 | 409,099 |
| Change in net position | 328,515 | (141,781) |
| Net position: | | |
| Net position at beginning of year | 22,753,330 | 22,895,111 |
| Net position at end of year | $ 23,081,845 | $ 22,753,330 |

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, 2013 and 2012

| | 2013 | 2012 |
|---|---|---|
| Cash flows from operating activities: | | |
| Grants and contracts | $ 19,209,169 | $ 20,188,604 |
| Auxiliary services | 1,759,771 | 1,873,502 |
| Other receipts | 236,049 | 401,810 |
| Payments to employees for salaries and benefits | (8,061,604) | (8,282,247) |
| Payments to suppliers and others | (12,481,377) | (13,925,702) |
| Net cash provided by operating activities | 662,008 | 255,967 |
| Cash flows from capital and related financing activities: | | |
| Purchases of capital assets | (441,876) | (990,139) |
| Cash flows from investing activities: | | |
| Purchase of investments | (32,950) | (47,950) |
| Net change in cash and cash equivalents | 187,182 | (782,122) |
| Cash and cash equivalents at beginning of year | 6,385,567 | 7,167,689 |
| Cash and cash equivalents at end of year | $ 6,572,749 | $ 6,385,567 |
| Reconciliation of operating loss to net cash provided by operating activities: | | |
| Operating loss | $ (134,503) | $ (550,880) |
| Adjustments to reconcile operating loss to net cash provided by operating activities: | | |
| Depreciation | 931,807 | 988,117 |
| Bad debts | 237,595 | 969,320 |
| Loss on disposal | 140,383 | - |
| Provision for inventory obsolescence | 59,651 | - |
| Changes in assets and liabilities: | | |
| Due from FSM National Government | (331,224) | 136,806 |
| Tuition receivable | (680,465) | (904,417) |
| Grants and contracts receivable | 437,348 | 242,658 |
| Other receivables | 51,886 | (9,732) |
| Inventories | (419,910) | (255,669) |
| Prepaid expenses | (176,225) | (131,919) |
| Accounts payable | 149,869 | 26,534 |
| Accrued liabilities | 32,545 | 9,438 |
| Unearned revenue | 307,760 | 9,815 |
| Other current liabilities | 55,491 | (274,104) |
| Net cash provided by operating activities | $ 662,008 | $ 255,967 |

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

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

(2) Basis of Presentation

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

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

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

(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.

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, 2013 and 2012, COM-FSM has recorded cash balances of $6,572,749 and $6,385,567, respectively, with corresponding bank balances of $6,892,846 and $6,766,927, respectively. Of these amounts, $500,000 in 2013 and $2,040,528 in 2012 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, 2013 and 2012.

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 Position.

C. Accounts Receivable. Accounts receivable tuition and fees and accounts receivable employees, net of an allowance for uncollectible accounts as of September 30, 2013, follows:

| | National Campus | State Campuses | Totals |
|---|---|---|---|
| Accounts receivable, gross | $ 4,171,141 | $ 1,954,240 | $ 6,125,381 |
| Allowance for uncollectible accounts | (1,494,290) | (744,841) | (2,239,131) |
| Accounts receivable, net | $ 2,676,851 | $ 1,209,399 | $ 3,886,250 |

Accounts receivable tuition and fees and accounts receivable employees net of an allowance for uncollectible accounts as of September 30, 2012, follows:

| | National Campus | State Campuses | Totals |
|---|---|---|---|
| Accounts receivable, gross | $ 3,782,906 | $ 1,662,010 | $ 5,444,916 |
| Allowance for uncollectible accounts | (1,321,593) | (679,943) | (2,001,536) |
| Accounts receivable, net | $ 2,461,313 | $ 982,067 | $ 3,443,380 |

(3) Summary of Significant Accounting Policies, Continued

C. Accounts Receivable., Continued

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

Other receivables are net of an allowance for doubtful accounts of $153,778 as of September 30, 2013 and 2012.

D. Inventory. Inventory is stated at the lower of cost (first-in, first-out) or market (net realizable value). At September 30, 2013 and 2012, inventory is net of allowance for obsolescence of $59,651 and $23,049, respectively.

E. Prepaid Expenses. Payments made to vendors for goods and services that will benefit periods beyond September 30, 2013 and 2012, are recorded as prepaid expenses. Prepaid expenses represent prepayments for office supplies, textbooks and computers.

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

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

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

H. Unearned Revenue. Unearned revenue includes amounts received for tuition and fees and certain grants prior to the end of the fiscal year but 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.

(3) Summary of Significant Accounting Policies, Continued

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

The change in accrued compensated absences during fiscal years 2013 and 2012 is as follows:

| Balance, Oct. 1, 2012 | Addition | Reduction | Balance, Sept. 30, 2013 | Current |
|---|---|---|---|---|
| $ 589,400 | $ 282,325 | $ (291,264) | $ 580,461 | $ 278,346 |

| Balance, Oct. 1, 2011 | Addition | Reduction | Balance, Sept. 30, 2012 | Current |
|---|---|---|---|---|
| $ 536,687 | $ 262,488 | $ (209,775) | $ 589,400 | $ 285,580 |

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 student, 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.

(3) Summary of Significant Accounting Policies, Continued

M. Classification of Revenues and Expenses, Continued

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

N. Scholarship Discounts and Allowances. Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the Statement 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. New Accounting Standards.

During fiscal year 2013, the College implemented the following pronouncements:

- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements,* which addressed 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 implementation of this statement did not have a material effect on the accompanying financial statements.

- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus,* which improved 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 implementation of this statement did not have a material effect on the accompanying financial statements.

(3) Summary of Significant Accounting Policies, Continued

Q. New Accounting Standards., Continued

- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which enhanced 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 issued on or before November 30, 1989, which does not conflict or contradict GASB pronouncements. GASB Statement No. 62 superseded GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. The implementation of this statement did not have a material effect on the accompanying financial statements.

- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which established guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities,* which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. These Statements amend the net asset reporting requirements in Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments,* and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. With the implementation of GASB Statement No. 63 and Statement No. 65, the Statement of Net Assets was renamed the Statement of Net Position. In addition, the Statement of Net Position includes two new classifications separate from assets and liabilities. Amounts reported as deferred outflows of resources are reported in a separate section following assets. Likewise, amounts reported as deferred inflows of resources are reported in a separate section following liabilities.

In April 2012, GASB issued Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of the College.

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans,* which revises existing guidance for the financial reports of most pension plans, and Statement No. 68, *Accounting and Financial Reporting for Pensions,* which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 67 are effective for financial statements for periods beginning after June 15, 2013. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of these statements on the financial statements of the College.

(3) Summary of Significant Accounting Policies, Continued

Q. New Accounting Standards., Continued

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations,* which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The provisions in Statement 69 are effective for fiscal years beginning after December 15, 2013. Management has not yet determined the effect of implementation of these statements on the financial statements of the College.

In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. The provisions in Statement 70 are effective for fiscal years beginning after June 15, 2013. Management has not yet determined the effect of implementation of these statements on the financial statements of the College.

(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 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 non expendable restricted net position.

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. 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 Statement of Net Position.

## (4) Investments, Continued

The composition of investments as of September 30, 2013 and 2012, by funding source, is as follows:

| | 2013 | 2012 |
|---|---|---|
| Donor | | |
| FSM Telecommunications Corporation (FSMTC) | $ 165,000 | $ 165,000 |
| U.S. Department of Education and local match (Challenge) | 3,769,929 | 3,273,961 |
| | $ 3,934,929 | $ 3,438,961 |

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, 2013 and 2012, investments at fair value are as follows:

| | 2013 | 2012 |
|---|---|---|
| Fixed income securities: | | |
| Domestic fixed income | $ 609,028 | $ 829,454 |
| Other investments: | | |
| Common equities | 2,717,074 | 2,470,806 |
| Exchange traded funds | 194,271 | - |
| Money market funds | 414,556 | 138,701 |
| | 3,325,901 | 2,609,507 |
| | $ 3,934,929 | $ 3,438,961 |

As of September 30, 2013, 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 | $ 151,777 | $ - | $ 41,104 | $ 67,182 | $ 43,491 |
| Government bond | 457,251 | 39,095 | 278,530 | 59,625 | 80,001 |
| | $ 609,028 | $ 39,095 | $ 319,634 | $ 126,807 | $ 123,492 |

As of September 30, 2012, 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 | $ 273,324 | $ 38,725 | $ 52,831 | $ 86,922 | $ 94,846 |
| Government bond | 556,130 | - | 342,800 | 108,308 | 105,022 |
| | $ 829,454 | $ 38,725 | $ 395,631 | $ 195,230 | $ 199,868 |

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, 2013, was as follows:

| Moody's Rating | Domestic | International | Total |
|---|---|---|---|
| AAA/AAA | $ 419,367 | $ - | $ 419,367 |
| AA1/AA | 6,143 | - | 6,143 |
| AA2/AA | 7,287 | - | 7,287 |
| AA3/AA- | 8,936 | - | 8,936 |
| A1/A+ | 18,575 | - | 18,575 |
| A2/A | 17,020 | - | 17,020 |
| A3/A | 5,992 | - | 5,992 |
| A3/A- | 13,884 | - | 13,884 |
| BAA1/BBB+ | 19,893 | - | 19,893 |
| BAA2/A- | 6,137 | - | 6,137 |
| BAA2/BBB | 26,661 | - | 26,661 |
| BAA3/BBB | 6,319 | - | 6,319 |
| BAA3/BBB- | 7,166 | - | 7,166 |
| BA2/BBB | 7,764 | - | 7,764 |
| Not Rated | 37,884 | - | 37,884 |
| Total credit risk debt securities | $ 609,028 | $ - | $ 609,028 |

The College's exposure to credit risk at September 30, 2012, was as follows:

| Moody's Rating | Domestic | International | Total |
|---|---|---|---|
| AAA/AAA | $ 498,804 | $ - | $ 498,804 |
| AA1/AA | 11,642 | - | 11,642 |
| AA2/AA+ | 7,425 | - | 7,425 |
| AA2/AA | 11,461 | - | 11,461 |
| AA2/AA- | 9,435 | - | 9,435 |
| AA3/AA | 20,509 | - | 20,509 |
| A1/A+ | 30,840 | - | 30,840 |
| A2/AA- | 10,414 | - | 10,414 |
| A2/A | 17,105 | - | 17,105 |
| A2/A- | 10,918 | - | 10,918 |
| A2/A+ | 8,629 | - | 8,629 |
| A3/A- | 10,675 | - | 10,675 |
| BAA1/A- | 8,303 | - | 8,303 |
| BAA1/BBB+ | 51,486 | - | 51,486 |
| BAA2/A- | 8,268 | - | 8,268 |
| BAA2/BBB | 27,456 | - | 27,456 |
| BAA2/BBB+ | 3,071 | - | 3,071 |
| BAA3/BBB- | 11,026 | - | 11,026 |
| BA2/BBB | 9,925 | - | 9,925 |
| Not Rated | 62,062 | - | 62,062 |
| Total credit risk debt securities | $ 829,454 | $ - | $ 829,454 |

## (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, 2013 and 2012.

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, 2013 and 2012.

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, 2013 and 2012:

| | 2013 | 2012 |
|---|---|---|
| Due from U.S. Department of Education | $ 790,791 | $ 1,021,185 |
| Due from COM-Land Grant | 83,431 | 296,163 |
| Due from University of Guam | 145,347 | 355,793 |
| Due from other grantor agencies | 298,622 | 82,398 |
| | 1,318,191 | 1,755,539 |
| Less allowance for doubtful accounts | (21,090) | (21,090) |
| | $ 1,297,101 | $ 1,734,449 |

## (6) Capital Assets

Capital assets at September 30, 2013 and 2012 consist of the following:

| | Balance October 1, 2012 | Additions | Retirements | Balance September 30, 2013 |
|---|---|---|---|---|
| Depreciable assets: | | | | |
| Buildings | $ 14,704,659 | $ - | $ - | $ 14,704,659 |
| Furniture and equipment | 9,092,318 | 383,746 | (6,952,489) | 2,523,575 |
| Vehicles/boats | 1,268,360 | 58,130 | (279,597) | 1,046,893 |
| Library books | 706,402 | - | (706,402) | - |
| | 25,771,739 | 441,876 | (7,938,488) | 18,275,127 |
| Less accumulated depreciation | (17,099,715) | (931,807) | 7,798,105 | (10,233,417) |
| | 8,672,024 | (489,931) | (140,383) | 8,041,710 |
| Non-depreciable assets: | | | | |
| Land | 1,455,685 | - | - | 1,455,685 |
| Net investment in capital assets | $ 10,127,709 | $ (489,931) | $ (140,383) | $ 9,497,395 |

| | Balance October 1, 2011 | Additions | Retirements | Balance September 30, 2012 |
|---|---|---|---|---|
| Depreciable assets: | | | | |
| Buildings | $ 14,209,215 | $ 495,444 | $ - | $ 14,704,659 |
| Furniture and equipment | 8,670,537 | 421,781 | - | 9,092,318 |
| Vehicles/boats | 1,195,446 | 72,914 | - | 1,268,360 |
| Library books | 706,402 | - | - | 706,402 |
| | 24,781,600 | 990,139 | - | 25,771,739 |
| Less accumulated depreciation | (16,111,598) | (988,117) | - | (17,099,715) |
| | 8,670,002 | 2,022 | - | 8,672,024 |
| Non-depreciable assets: | | | | |
| Land | 1,455,685 | - | - | 1,455,685 |
| Net investment in capital assets | $ 10,125,687 | $ 2,022 | $ - | $ 10,127,709 |

## (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, 2013 and 2012, receivables from the FSM National Government amounted to $514,217 and $182,993, respectively. The College received $1,866,269 and $1,192,803 in appropriations for the years ended September 30, 2013 and 2012, 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 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. Questioned costs relating to fiscal year 2013 have been set forth in the College's Single Audit Report for the year ended September 30, 2013. The ultimate disposition of these 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. As required by the July 3, 2013 action letter, the College fully complied with the submission of the Follow-up Report on March 7, 2014 and 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, 2013 and 2012 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, 2013, 2012 and 2011, the College incurred an expense of $113,309, $112,474, and $105,320, respectively, for matching contributions. For the years ended September 30, 2013, 2012 and 2011, plan assets were $2,667,308, $2,572,211, and $2,072,488, respectively.

(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:

| Year Ending September 30, | Total |
|---|---|
| 2014 | $ 78,650 |
| 2015 | 78,650 |
| 2016 | 78,650 |
| 2017 | 78,650 |
| 2018 | 84,549 |
| 2019-2023 | 367,689 |
| | $ 766,838 |

## (11) Functional Classifications with Natural Classifications

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

2013

| | Salaries | Benefits | Services | Travel | Supplies | Insurance, Utilities and Rent | Depreciation | Student Assistance | Miscellaneous | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Institutional Support | $ 1,592,431 | $ 254,828 | $ 69,692 | $ 345,701 | $ 150,230 | $ 608,763 | $ - | $ 66,928 | $ 160,436 | $ 3,249,009 |
| Instruction | 3,949,805 | 942,942 | 504,821 | 266,236 | 406,001 | 116,234 | - | 756,235 | 640,357 | 7,582,631 |
| Student Financial Assistance | - | - | - | - | - | - | - | 4,481,190 | - | 4,481,190 |
| Student Services | 881,606 | 148,644 | 38,013 | 121,992 | 121,161 | 1,723 | - | 65,610 | 52,691 | 1,431,440 |
| Depreciation | - | - | - | - | - | - | 931,807 | - | - | 931,807 |
| Auxiliary Enterprises | 169,877 | 32,800 | - | 13,906 | 40,863 | 25,285 | - | 650 | 1,650,591 | 1,933,972 |
| Academic Support | 289,696 | 72,995 | - | 10,856 | 38,191 | 265,084 | - | - | 4,463 | 681,285 |
| Operations and Maintenance | 320,703 | 41,269 | 227,136 | 4,419 | 60,455 | 553,913 | - | - | 125,122 | 1,333,017 |
| | $ 7,204,118 | $ 1,493,478 | $ 839,662 | $ 763,110 | $ 816,901 | $ 1,571,002 | $ 931,807 | $ 5,370,613 | $ 2,633,660 | $ 21,624,351 |

2012

| | Salaries | Benefits | Services | Travel | Supplies | Insurance, Utilities and Rent | Depreciation | Student Assistance | Miscellaneous | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Institutional Support | $ 1,463,809 | $ 238,861 | $ 174,310 | $ 270,767 | $ 210,329 | $ 417,597 | $ - | $ 33,375 | $ 29,945 | $ 2,838,993 |
| Instruction | 4,330,359 | 952,738 | 353,589 | 459,955 | 433,158 | 150,374 | - | 696,694 | 1,374,676 | 8,751,543 |
| Student Financial Assistance | - | - | - | - | - | - | - | 4,688,553 | - | 4,688,553 |
| Student Services | 856,731 | 148,583 | 29,203 | 57,254 | 98,177 | 3,347 | - | 41,157 | 271,232 | 1,605,684 |
| Depreciation | - | - | - | - | - | - | 988,117 | - | - | 988,117 |
| Auxiliary Enterprises | 154,488 | 29,057 | - | 9,997 | 43,832 | 29,311 | - | - | 1,401,130 | 1,667,815 |
| Academic support | 307,735 | 73,602 | 360 | 23,714 | 108,232 | 208,452 | - | - | 27,359 | 749,454 |
| Operations and Maintenance | 330,072 | 38,373 | 56,370 | 4,037 | 61,974 | 703,861 | - | - | 95,315 | 1,290,002 |
| | $ 7,443,194 | $ 1,481,214 | $ 613,832 | $ 925,724 | $ 955,702 | $ 1,512,942 | $ 988,117 | $ 5,459,779 | $ 3,199,657 | $ 22,580,161 |

## (12) Subsequent Event

In November 2013 and February 2014, the College transferred $25,000 and $600,000, respectively, to the Friends of the College of Micronesia-FSM, Inc. (the Foundation), a newly established endowment foundation aimed to support and advance the charitable and educational purposes of the College.