COLLEGE OF MICRONESIA-FSM

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

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2016 AND 2015

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

Tel: +1 (671) 646-3884
Fax: +1 (671) 649-4265

www.deloitte.com

INDEPENDENT AUDITORS' REPORT

Board of Regents
College of Micronesia-FSM:

Report on the Financial Statements

We have audited the accompanying financial statements of College of Micronesia-FSM (the College) and its discretely presented component unit, collectively a component unit of the FSM National Government, which comprise the statements of net position as of September 30, 2016 and 2015, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Deloitte.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respectively, financial position of College of Micronesia-FSM and its discretely presented component unit as of September 30, 2016 and 2015, and the respective changes in financial position and cash flows, where applicable, for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Implementation of New Accounting Standards

As discussed in Note 3 to the financial statements, the College adopted Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, effective October 1, 2015.

Other Matters

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2017, 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 28, 2017

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)

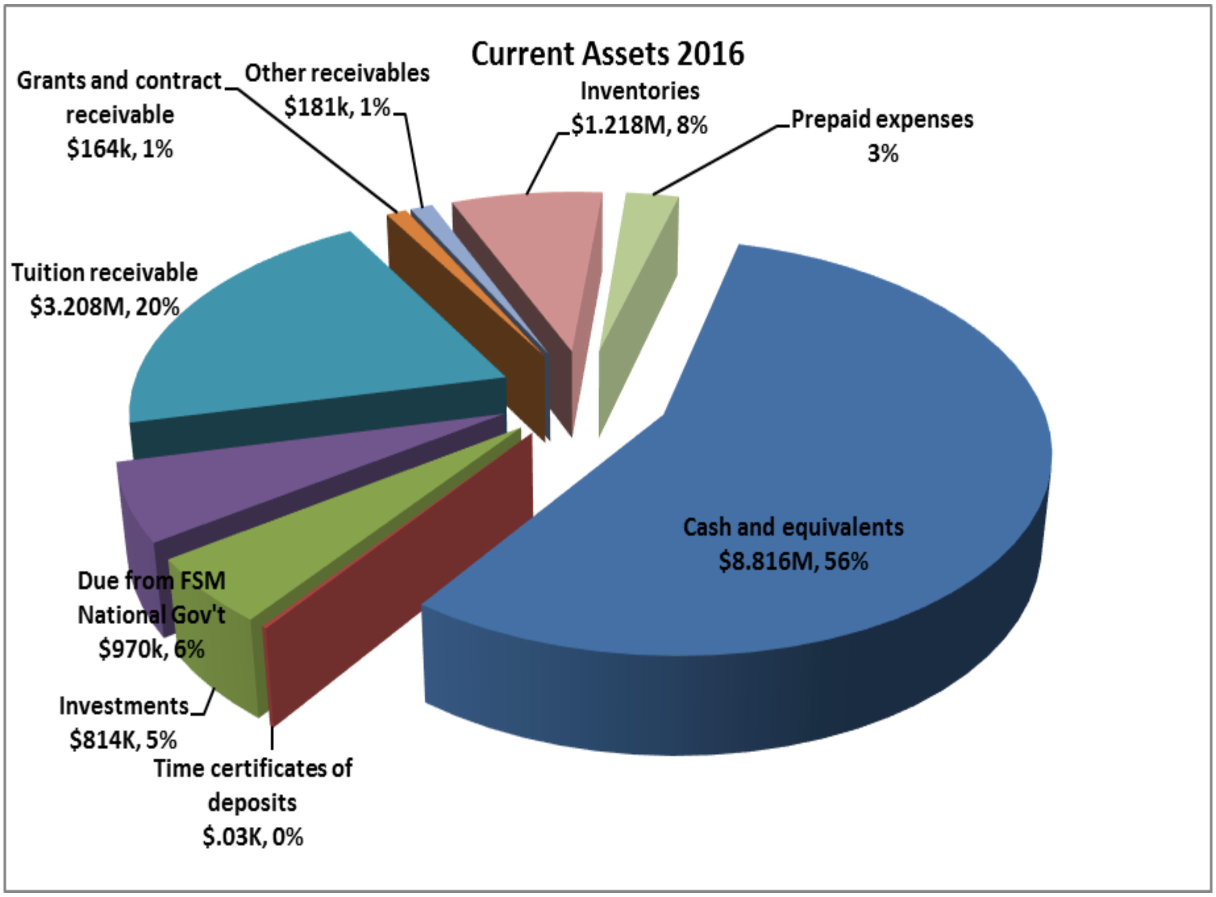
The SNP presents what the College owns (assets), owes (liabilities) and the net position (the difference between total assets and total liabilities) at the end of the fiscal year. The net position is one indicator of the current financial condition of the College, while the change in net position is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

A Comparative Statement of Net Position at September 30, 2016, 2015 and 2014 is summarized below:

	FY 2016 (In 000's)	FY 2015 (In 000's)	Difference (In 000's)	FY 2014 (In 000's)
Assets:				
Current assets	$ 15,829	$ 15,744	$ 85	$ 14,638
Noncurrent assets	12,912	12,535	377	13,263
Total assets	$ 28,741	$ 28,279	$ 462	$ 27,901
Liabilities:				
Current liabilities	$ 3,996	$ 4,414	$ (418)	$ 4,627
Noncurrent liabilities	317	270	47	336
Total liabilities	4,313	4,684	(371)	4,963
Net position	24,428	23,595	833	22,938
Total liabilities and net position	$ 28,741	$ 28,279	$ 462	$ 27,901

The comparison of the statement of net position for fiscal year 2016 with prior year indicates an increase in net position by $833k or 4%.

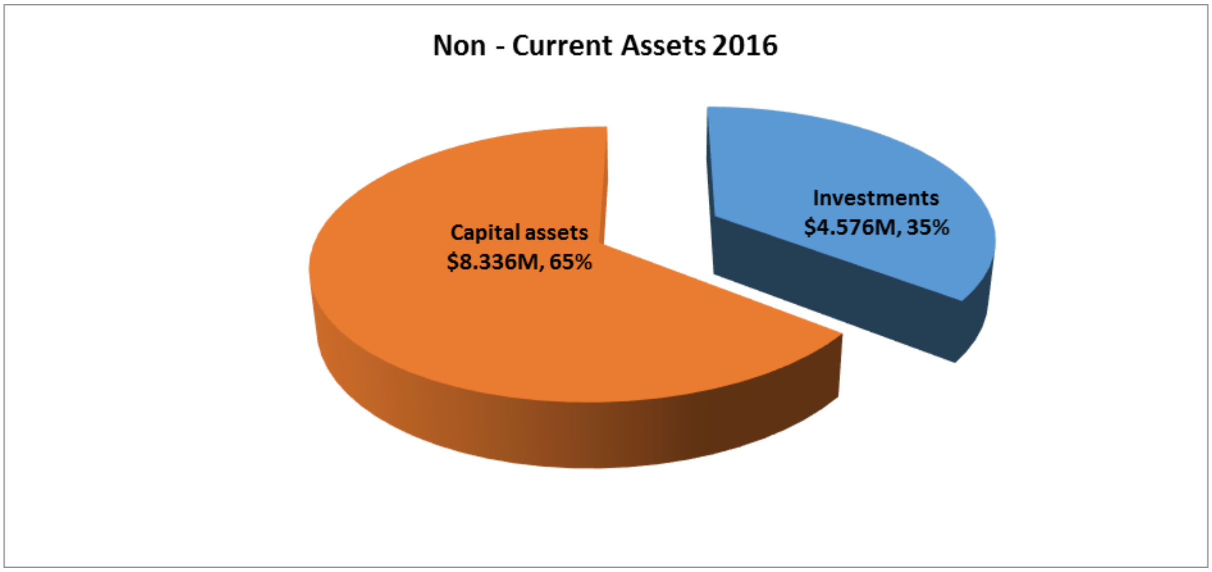
Current assets: The total current assets increased by $85K or 1%, from $15.744 Million in fiscal year 2015 to $15.829 Million in fiscal year 2016. Below is the composition of current assets for fiscal year 2016:



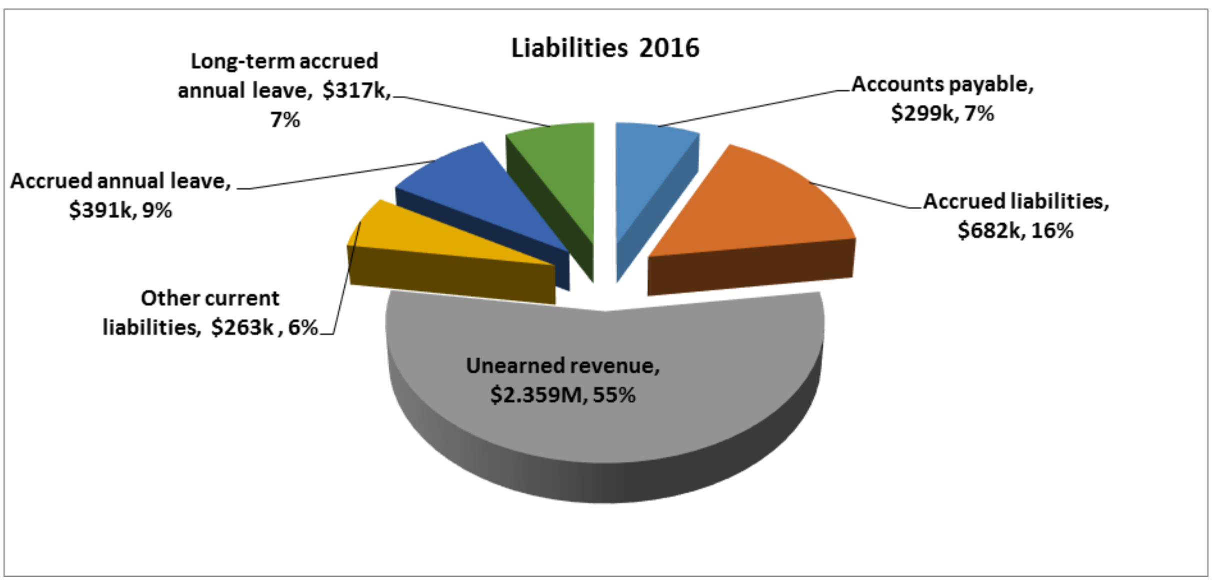
The net increase by $85K in current assets consists of the following changes:

- Increase in cash and equivalents by $2.374M or 37%, from $6.442 Million to $8.816 Million;
- Decrease in due from FSM National Government by $291k or 23%, from $1.26 Million to $970K;
- Decrease in tuition receivable by $1.134 Million or 26%, from $4.342 Million to $3.208 Million;
- Decrease in grants and contract receivable by $133k or 45%, from $296K to $164k;
- Increase in other receivables by $10k or 6%, from $172k to $182k;
- Decrease in inventories by $112k or 8%, from $1.330 Million to $1.218 Million;
- Decrease in prepaid expenses by $689k or 62%, from $1.116 Million to $427k;

Noncurrent assets: The total noncurrent assets increased by $377k or 3% from $12.535 Million in fiscal year 2015 to $12.912 Million in current fiscal year 2016. The increase in non-current assets is due to the increase in investments by $453k or 11% and decrease in capital assets by $76k or 1%. Below is the graph for the allocation of noncurrent assets:



Liabilities: The liabilities decreased by $371k or 8%, from $4.684 Million to $4.313 Million. Current liabilities comprise 93% of the total liabilities and 7% are non – current from long – term accrued annual leave. The allocation of liabilities is presented in the following graph:



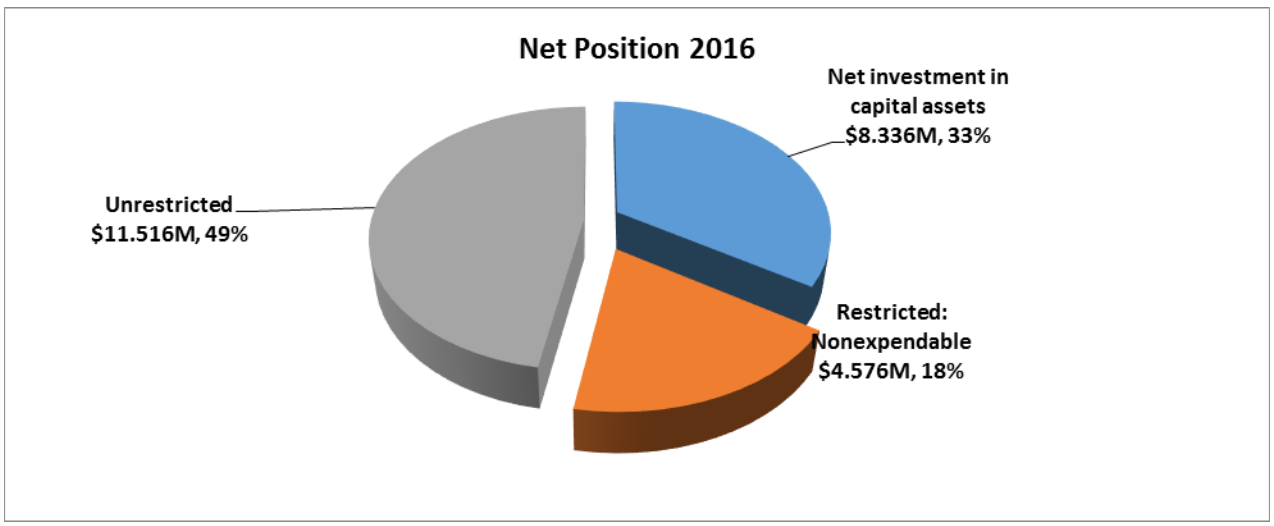
The net decrease in liabilities consists of the following:

- Increase in accounts payable by $129k or 76%, from $170k to $299k;
- Increase in accrued liabilities by $57k or 9%, from $625k to $682k;
- Increase in accrued annual leave by $31k or 8%, from $360k to $391k;
- Decrease in unearned revenue by $581k or 20%, from $2.940 Million to $2.359 Million;
- Decrease in other current liabilities by $54k or 17%, from $320k to $265k; and
- Increase in non – current portion of accrued annual leave by $48k or 18%, from $270k to $317k.

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 2016 is $24.428 Million, which is higher by $833k or 3.5% compared to $23.595 Million in fiscal year 2015. Below is the breakdown of the College's net position categorized according to the reporting model of GASB:

	FY 2016 (In 000's)	FY 2015 (In 000's)	Difference (In 000's)	FY 2014 (In 000's)
Net investment in capital assets	$ 8,336	$ 8,412	$ (76)	$ 8,887
Restricted:				
Nonexpendable	4,576	4,123	453	4,376
Unrestricted	11,516	11,060	456	9,675
Total	$ 24,428	$ 23,595	$ 833	$ 22,938

The allocation of net position for fiscal year 2016 is illustrated below:

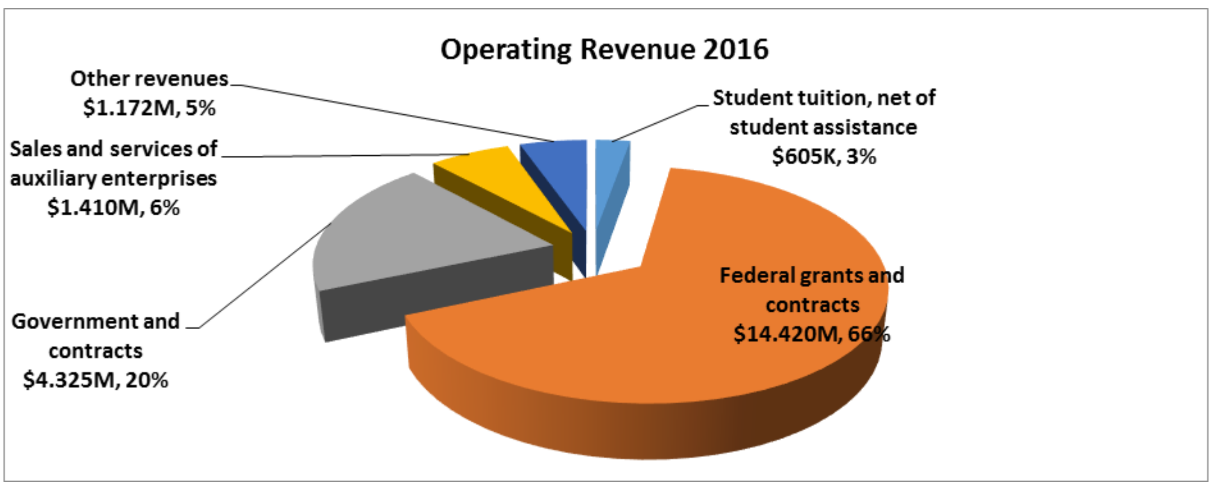


2. Statement of Revenues, Expenses and Changes in Net Position (SRECNP)

The SRECNP provides information on the College's financial performance for the current fiscal year in terms of revenues and expenses. It presents the operating revenues and expenses and the corresponding net operating results, as well as non-operating revenues and expenses and net change in net position. Below is the comparative summary of SRECNP for fiscal years ended September 30, 2016, 2015 and 2014:

	FY 2016 (In 000's)	FY 2015 (In 000's)	Difference (In 000's)	FY 2014 (In 000's)
Operating revenues	$ 21,276	$ 19,388	$ 1,582	$ 20,674
Operating expenses	20,959	18,365	1,419	20,544
Operating income	317	1,023	163	130
Non-operating revenue (expense)	516	(366)	882	(274)
Net increase (decrease) in net position	833	657	1,045	(144)
Net position at beginning of year	23,595	22,938	657	23,082
Net position at end of year	$ 24,428	$ 23,595	$ 1,702	$ 22,938

Operating revenues: The composition of the operating revenues amounting to $21.932 Million for fiscal year 2016 is presented in the following graph:

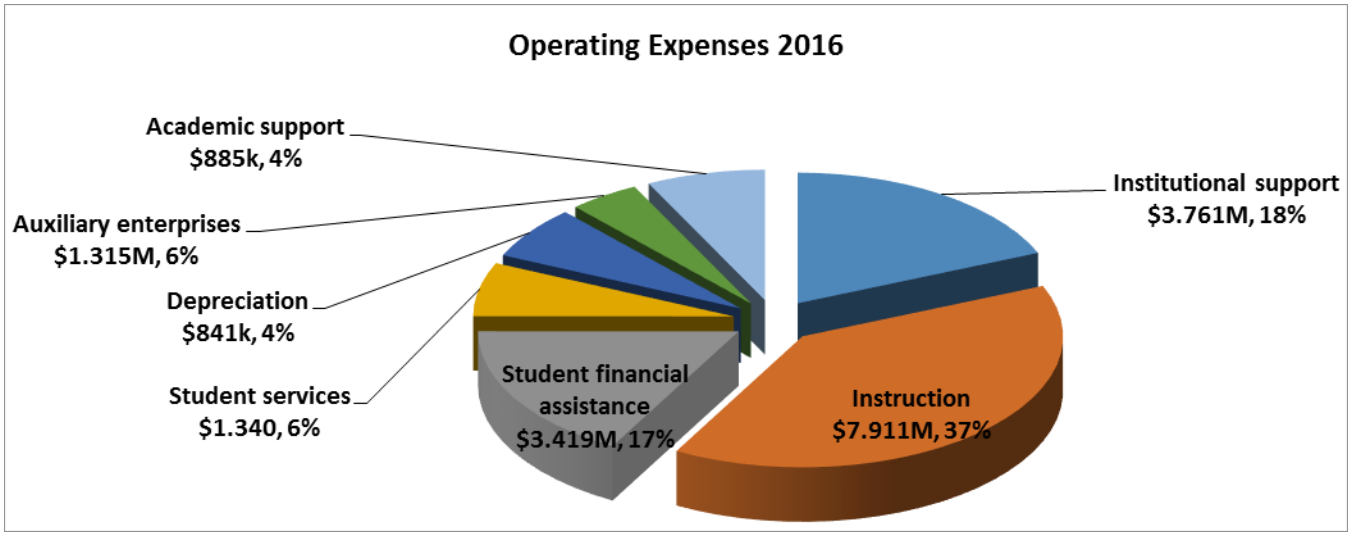


Below are the details of the changes for each classification of operating revenues:

- Increase in other revenues by $785k or 203%, from $387k to $1.172M;
- Decrease in sales and services of auxiliary enterprises by $62k or 4%, from $1.472 Million to $1.410 Million;
- Increase in government and contracts by $722k or 20%, from $3.603 Million to $4.325 Million;
- Decrease in student tuition by $674k or 53%, from $1.279M to $605k; and
- Increase in federal grants and contracts by $811K or 6%, from $13.609 Million to $14.420 Million.

Operating expenses: The College's operating expenses inclusive of bad debts for fiscal year 2016 increased by $2.288 Million or 12%, from $19.327 Million in 2015 to $21.615 Million in 2016. The operating expenses are presented in both functional and natural classifications.

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



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

<u>On Cash Items</u>

- Increase in institutional support by $79k or 2%, from $3.682 Million to $3.762 Million;
- Increase in instruction by $1.246M or 19%, from $6.665 Million to $7.911 Million.
- Increase in student financial assistance by $676k or 25%, from $2.742 Million to $3.419 Million;
- Increase in student services by $178k or 15%, from $1.162 Million to $1.340 Million;
- Increase in auxiliary enterprises by $91k or 7%, from $1.225 Million to $1.315 Million;
- Increase in academic support by $214k or 32%, from $671k to $886k;
- Increase in operations and maintenance by $44k or 3%, from $1.441 Million to $1.484 Million;

<u>On Non-cash Items</u>

- Decrease in the provision of bad debts by $307k or 32%, from $963k to $656k;
- Increase in depreciation by $65k or 8%, from $776k to $841k.

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 $8.816 Million at end of fiscal year 2016. The fiscal year - end balance is higher by $2.374 Million or 37% compared with fiscal year 2015 balance of $6.442 Million.

Below is the summary Statement of Cash Flows:

	FY 2016 (In 000's)	FY 2015 (In 000's)	Difference (In 000's)	FY 2014 (In 000's)
Provided by (used in) operating activities	$ 2,894	$ 2,103	$ 791	$ (62)
Used in capital and related financing activities	(523)	(301)	(222)	(257)
Provided by (used in) investing activities	3	(868)	871	(715)
Net change in cash and equivalents	2,374	934	1,440	(1,034)
Cash and cash equivalents at beginning of year	6,442	5,508	934	6,542
Cash and cash equivalents at end of year	$ 8,816	$ 6,442	$ 2,374	$ 5,508

Budget Information

The budget was developed by departments, campuses and offices, and approved by the Board of Regents. The budget of the College for fiscal year 2016 included the following:

1. $12.422 Million for the administration and management of the College wherein the sources of revenue are from tuition and fees of $8.402 Million, and $1.000 Million from the appropriation from FSM National Government from the Education Sector Grant of the Compact of Free Association II, $2.800 Million from the General Fund of FSM National Government, $120k from Dormitory and other fess, and $100k from indirect cost recovery;
2. $834k for the administration and management of the FSM – FMI at Yap State and 100% funded by FSM National Government;
3. $690k for work study, supplemental education opportunity grant and teacher corps programs funded by Compact of Free Association II through FSM National Government;
4. $105k for the operations of the Board of Regents of the College funded by FSM National Government; and
5. $345k for the operating expenditures of auxiliary enterprises funded from service charges.

Capital Assets and Long-term Debt Activity

At September 30, 2016, the College's net investment in capital assets was $8.336 Million, with gross amount of $21.001 Million for depreciable and non – depreciable assets net of accumulated depreciation of $12.665 Million. Depreciation for the current year amounted to $841k. For additional information concerning capital assets, please refer to Note 6 to the financial statements.

The College's long-term obligation of $317k represents the long – term portion of employee accrued annual leave. The College provides accumulation of annual leave balances, wherein accumulated leave of not exceeding 240 hours shall be paid to the employee upon resignation/termination of employment. The College has no other long-term debt as of the end of fiscal year 2016.

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 September 30, 2017. In school year 2016 – 2017, about 89% of the students at the College received financial assistance from U.S. Federal Student Aid programs. The College's projection of the percentage of students receiving financial assistance from U.S. Federal Student Aid programs will remain at the range of 85% to 95% in the next couple of years.

The College is accredited by the Accrediting Commission for Community and Junior Colleges (ACCJC), Western Association of Schools and Colleges (WASC). Accreditation was reaffirmed for 18 months in an *Action Letter* issued on July 8, 2016. The College is scheduled to submit a Follow-Up Report on October 1, 2017.

The College is expected to receive continued support of funding assistance in succeeding years from the FSM National Government through the ESG and FSM local revenue. The level of support from ESG was reduced by $700k in fiscal year 2013, and was reduced by $700k for each year up to fiscal year 2016. Accordingly, the funding support from ESG was reduced from $3.800 Million to $3.100 Million in fiscal year 2013. For the next three years, the ESG level of $3.800 Million was reduced by $1.400 Million in fiscal year 2014, by $2.100 Million in fiscal year 2015 and by $2.800 Million in fiscal year 2016 and beyond. The FSM Government provided its commitment to absorb the funding decrements from ESG fund through the local revenue of the FSM. FSM President Letter dated February 27, 2014 communicated the government support to continue to fund the decrement from its domestic revenues in the future. FSM Government provided $2.8 million dollars for the FY2016 Budget and $1 million from the Compact Educational Sector Grant. The College also received a letter dated March 1, 2016 from the FSM Secretary of Education expressing support for the College's Long-Term Facilities Development Master Plan from arrears of IDP fund and other sources.

The College provided structured tuition fee increases for three consecutive fiscal years from 2014 to 2016. The College Board of Regents approved the fiscal year 2016 budget that provided additional revenues from tuition and fee increase by $10 per credit, from $125 to $135, and facility fee of $175 to $200 per student effective fall 2015. For the fiscal year 2017, the tuition was maintained at $135 per credit and facility fee was at the level of $200 per student. The tuition and fees will continue to be at the same level for FY2018.

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

FEE	Fall 2013	Spring 2014	Summer 2014	Fall 2014	Spring 2015	Summer 2015	Fall 2015	Spring 2016	Summer 2016	Fall 2016
Tuition Fee	115	115	115	125	125	125	135	135	135	135
Facility Fee Full Time	150	150	150	175	175	175	200	200	200	200
Facility Fee Part Time	50	50	50	60	0	60	70	70	70	70

The College is implementing its Integrated Educational Master Plan which has taken into consideration program prioritization and cost savings measures. The College's Five-Year Integrated Educational Master Plan is linked to its Five-Year Financial Plan. These plans have given the College a clear picture of its financial outlook for the next five years. The College's next Five-Year Financial Plan will commence in FY2018 until 2022.

With the College's *Facilities Master Plan*, COM-FSM intends to move forward with 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 has secured permission from the FSM to use the FSM Project Management Unit to carry out its project's implementations. 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. The college reviews its student enrollment trends and adjust its plan for projects construction as needed.

The FSM submitted its "Infrastructure Development Plan 2016-2025" to the US Government in October 2015. The JEMCO acknowledged receipt of the plan and concurred in 15 projects from the FSM FY2016 Annual Implementation Plan in which Compact funding would be utilized. Submittal of the IDP obviated Resolution 2011-2 freeze on IDP. The College can now follow its new plan for facilities construction based on the *College of Micronesia-FSM Space Utilization and Facilities Master Plan Study.* On May 23, 2014, State and National Leadership Council adopted a communique expressing support for the outcome of the study and requested COM- FSM to provide plans to address the funding of the infrastructure projects to the government. The College can now submit annual funding requests through the budget process to the FSM for projects constructions. The FSM appropriated $8 million dollars in FY2017 for project construction for Pohnpei Campus vocational classrooms and multipurpose facilities and the National Campus Student Services two level building. For FY2018, the College submitted $4.2 million dollars for Kosrae Campus design of Multi-Purpose building, new Chuuk Campus Design for onsite power, water supply, sewer system, and parking and walkways. New Health Clinic and Infrastructure upgrades for the National campus were included in the package.

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

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

Management's Discussion and Analysis for the year ended September 30, 2015 is set forth in the College's report on the audit of financial statements, which was dated June 20, 2016. That Discussion and Analysis explains the major factors impacting the 2015 financial statements and can be obtained from the FSM office of the National Public Auditor's website at www.fsmopa.fm.

FINANCIAL MANAGEMENT CONTACT

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

COLLEGE OF MICRONESIA-FSM

(A COMPONENT UNIT OF THE FSM NATIONAL GOVERNMENT)

Statements of Net Position - College Only

September 30, 2016 and 2015

ASSETS	2016	2015
Current assets:		
Cash and cash equivalents	$ 8,815,747	$ 6,441,899
Time certificate of deposits	30,551	30,533
Investments	814,987	754,669
Due from FSM National Government	969,532	1,260,411
Tuition receivable, net	3,207,891	4,341,705
Grants and contracts receivable, net	163,889	296,498
Other receivables, net	181,614	171,897
Inventories	1,218,169	1,330,208
Prepaid expenses	427,134	1,116,336
Total current assets	15,829,514	15,744,156
Noncurrent assets:		
Endowment investments	4,575,892	4,122,830
Capital assets:		
Nondepreciable capital assets	1,455,685	1,455,685
Capital assets, net of accumulated depreciation	6,880,183	6,956,052
Total noncurrent assets	12,911,760	12,534,567
Total assets	$ 28,741,274	$ 28,278,723
LIABILITIES AND NET POSITION		
Current liabilities:		
Accounts payable	$ 298,655	$ 169,817
Accrued liabilities	682,050	624,923
Accrued annual leave, current portion	390,841	360,250
Unearned revenue	2,359,186	2,939,913
Other current liabilities	265,288	319,639
Total current liabilities	3,996,020	4,414,542
Noncurrent liabilities:		
Long-term portion of accrued annual leave	317,148	269,542
Total liabilities	4,313,168	4,684,084
Commitments and contingencies		
Net position:		
Net investment in capital assets	8,335,868	8,411,737
Restricted:		
Nonexpendable	4,575,892	4,122,830
Unrestricted	11,516,346	11,060,072
Total net position	24,428,106	23,594,639
Total liabilities and net position	$ 28,741,274	$ 28,278,723

See accompanying notes to financial statements.

FRIENDS OF THE COLLEGE OF MICRONESIA-FSM, INC.

Statements of Financial Position
December 31, 2015 and 2014

ASSETS		2015		2014
Cash and cash equivalents	$	15,088	$	68,885
Investments		512,867		526,293
	$	527,955	$	595,178
NET ASSETS				
Net assets:				
Unrestricted	$	431,107	$	495,733
Temporarily restricted		96,848		99,445
Total net assets		527,955		595,178
	$	527,955	$	595,178

See accompanying notes to financial statements.

COLLEGE OF MICRONESIA-FSM

(A COMPONENT UNIT OF THE FSM NATIONAL GOVERNMENT)

Statements of Revenues, Expenses and Changes in Net Position - College Only
Years Ended September 30, 2016 and 2015

	2016	2015
Operating revenues:		
Student tuition and fees	$ 8,372,659	$ 8,528,524
Less: Scholarship discounts and allowances	(7,767,751)	(7,249,700)
	604,908	1,278,824
Federal grants and contracts	14,420,489	13,609,445
Government grants and contracts	4,324,846	3,602,989
Sales and services of auxiliary enterprises	1,409,692	1,471,736
Other revenues	1,172,340	387,274
Total operating revenues	21,932,275	20,350,268
Less bad debts	(655,592)	(962,513)
Net operating revenues	21,276,683	19,387,755
Operating expenses:		
Institutional support	3,761,699	3,682,452
Instruction	7,911,494	6,665,382
Student financial assistance	3,418,625	2,742,160
Student services	1,340,056	1,161,687
Depreciation	841,199	776,497
Auxiliary enterprises	1,315,904	1,224,667
Academic support	885,826	671,327
Operations and maintenance, plant	1,484,386	1,440,543
Total operating expenses	20,959,189	18,364,715
Operating income	317,494	1,023,040
Nonoperating revenues (expense):		
Net investment income (loss)	515,973	(366,380)
Total nonoperating (expense) revenues:	515,973	(366,380)
Change in net position	833,467	656,660
Net position:		
Net position at beginning of year	23,594,639	22,937,979
Net position at end of year	$ 24,428,106	$ 23,594,639

See accompanying notes to financial statements.

FRIENDS OF THE COLLEGE OF MICRONESIA-FSM, INC.

Statements of Activities
Years Ended December 31, 2015 and 2014

	Unrestricted	Temporarily Restricted	Total
Revenues, gains and other income (losses):			
Net investment losses	$ (5,715)	$ (2,597)	$ (8,312)
Contributions	-	-	-
Other income	-	-	-
Total revenues	(5,715)	(2,597)	(8,312)
Expenses:			
Support services:			
Management and other fees	58,911	-	58,911
Total expenses	58,911	-	58,911
Change in net assets	(64,626)	(2,597)	(67,223)
Net assets at beginning of year	495,733	99,445	595,178
Net assets at end of year	$ 431,107	$ 96,848	$ 527,955

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

See accompanying notes to financial statements.

COLLEGE OF MICRONESIA-FSM

(A COMPONENT UNIT OF THE FSM NATIONAL GOVERNMENT)

Statements of Cash Flows - College Only
Years Ended September 30, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Grants and contracts	$ 20,251,952	$ 18,198,122
Auxiliary services	1,409,692	1,471,736
Other receipts	920,200	405,044
Payments to employees for salaries and benefits	(8,547,329)	(8,125,679)
Payments to suppliers and others	(11,140,263)	(9,846,578)
Net cash provided by operating activities	2,894,252	2,102,645
Cash flows from capital and related financing activities:		
Purchases of capital assets	(522,998)	(300,897)
Cash flows from investing activities:		
Sale (purchase) of investments	2,594	(868,051)
Net cash provided by (used in) investing activities	2,594	(868,051)
Net change in cash and cash equivalents	2,373,848	933,697
Cash and cash equivalents at beginning of year	6,441,899	5,508,202
Cash and cash equivalents at end of year	$ 8,815,747	$ 6,441,899
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 317,494	$ 1,023,040
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	841,199	776,497
Bad debts	655,592	962,513
Provision for inventory obsolescence	30,737	24,281
Other revenue	(242,404)	-
Changes in assets and liabilities:		
Due from FSM National Government	290,879	109,623
Tuition receivable	745,438	(1,155,296)
Grants and contracts receivable	(134,606)	752,537
Other receivables	(9,717)	17,771
Inventories	81,302	82,353
Prepaid expenses	689,202	(211,541)
Accounts payable	128,837	(153,473)
Accrued liabilities	135,381	(8,787)
Unearned revenue	(580,727)	58,764
Other current liabilities	(54,355)	(175,637)
Net cash provided by operating activities	$ 2,894,252	$ 2,102,645
Noncash activity:		
Increase in capital assets donated equipment	242,404	-
Increase in other revenue	(242,404)	-

See accompanying notes to financial statements.

(1) Organization

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

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

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

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

(2) Basis of Presentation

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

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

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

(2) Basis of Presentation, Continued

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

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

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

(3) Summary of Significant Accounting Policies

A. Cash and Cash Equivalents and Time Certificates of Deposit. Cash and cash equivalents are defined as cash on hand, cash in bank and time certificates of deposit with initial maturities of three months or less. Time certificates of deposit with initial maturities of more than three months are separately presented.

Custodial credit risk is the risk that in the event of a bank failure, the College's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized, or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name. The College does not have a deposit policy for custodial credit risk.

At September 30, 2016 and 2015, COM-FSM has recorded cash and cash equivalents and time certificates of deposit of $8,846,298 and $6,472,432, respectively, with corresponding bank balances of $10,166,677 and $7,646,981, respectively. Of these amounts, $2,559,979 and $500,000 in 2016 and 2015, respectively, are insured by the Federal Deposit Insurance Corporation (FDIC). The remaining balances are not insured or collateralized by securities held by a trustee in the name of the financial institution. Management elected not to require insurance or collateralization on the remaining balances based on confidence in the financial health of the banking institutions.

(3) Summary of Significant Accounting Policies, Continued

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

No losses as a result of this practice were incurred during the years ended September 30, 2016 and 2015.

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

C. Accounts Receivable. Accounts receivable tuition and fees and accounts receivable employees, net of an allowance for uncollectible accounts as of September 30, 2016, follows:

	National Campus	State Campuses	Totals
Accounts receivable, gross	$ 5,027,386	$ 2,061,464	$ 7,079,850
Allowance for uncollectible accounts	(2,468,698)	(1,403,261)	(3,871,959)
Accounts receivable, net	$ 2,558,688	$ 649,203	$ 3,207,891

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

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

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

Other receivables are net of an allowance for doubtful accounts of $153,778 as of September 30, 2016 and 2015.

D. Inventory. Inventory is stated at the lower of cost (first-in, first-out) or market (net realizable value). At September 30, 2016 and 2015, inventory is net of an allowance for obsolescence of $30,737 and $24,281, respectively.

E. Prepaid Expenses. Payments made to vendors for goods and services that will benefit periods beyond September 30, 2016 and 2015, are recorded as prepaid expenses. Prepaid expenses represent prepayments for office supplies, textbooks and computers.

(3) Summary of Significant Accounting Policies, Continued

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

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

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

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

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

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

The change in accrued compensated absences during fiscal years 2016 and 2015 is as follows:

Balance, Oct. 1, 2015	Addition	Reduction	Balance, Sept. 30, 2016	Current
$ 629,792	$ 78,197	$ -	$ 707,989	$ 390,841

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

(3) Summary of Significant Accounting Policies, Continued

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

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

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

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

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

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

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

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

(3) Summary of Significant Accounting Policies, Continued

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

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

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

Q. Foundation Investments. Investments are carried at fair market values based on quoted market prices. Gains and losses on investments are reported in the statements of activities as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or by law. The composition of investments as of December 31, 2015 and 2014 is as follows:

	2015	2014
Cash, money funds and bank deposits	$ 22,428	$ 16,653
Mutual funds	35,268	39,947
Exchange-traded products	455,171	469,693
	$ 512,867	$ 526,293

The composition of net gains (losses) on investments for the years ended December 31, 2015 and 2014 is as follows:

	2015	2014
Net change in value	$ (13,486)	$ (9,183)
Interest and dividends	10,118	9,039
Fees	(4,944)	(3,563)
	$ (8,312)	$ (3,707)

R. Reclassifications. Certain 2015 balances were reclassified to conform with 2016 presentation.

(3) Summary of Significant Accounting Policies, Continued

S. New Accounting Standards.

During fiscal year 2016, the College implemented the following pronouncements:

- GASB Statement No. 72, *Fair Value Measurement and Application*, which addresses accounting and financial reporting issues related to fair value measurements and requires entities to expand their fair value disclosures by determining major categories of debt and equity securities within the fair value hierarchy on the basis of the nature and risk of the investment. The implementation of this statement required additional disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques.

- GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which eliminates two of the four categories of authoritative GAAP that exist under the existing hierarchy prescribed by Statement No. 55. The two categories that will remain under the new standard are (1) GASB Statements and (2) GASB technical bulletins and implementation guides in addition to AICPA guidance that the GASB clears. The implementation of this statement did not have a material effect on the accompanying financial statements.

- GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, which addresses for certain external investment pools and their participants the accounting and financial reporting implications that result from changes in the regulatory provisions referenced by previous accounting and financial reporting standards. Those provisions were based on the Investment Company Act of 1940, Rule 2a7. Rule 2a7 contains the Securities and Exchange Commission's regulations that apply to money market funds and were significantly amended in 2014. The implementation of this statement did not have a material effect on the accompanying financial statements.

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

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

(3) Summary of Significant Accounting Policies, Continued

S. New Accounting Standards, Continued

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

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

In December 2015, GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, which addresses a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The provisions in Statement No. 78 are effective for fiscal years beginning after December 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14*, which improves financial reporting by clarifying the financial statement presentation requirements for certain component units. The provisions in Statement No. 80 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*, which improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The provisions in Statement No. 81 are effective for fiscal years beginning after December 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In March 2016, GASB issued Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*, which addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The provisions in Statement No. 82 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

(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 nonexpendable restricted net position.

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

The composition of investments as of September 30, 2016 and 2015, by funding source, is as follows:

	2016	2015
Donor		
FSM Telecommunications Corporation (FSMTC)	$ 165,000	$ 165,000
U.S. Department of Education and local match (Challenge)	4,410,892	3,957,830
	$ 4,575,892	$ 4,122,830

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

(4) Investments, Continued

As of September 30, 2016 and 2015, investments at fair value are as follows:

	2016	2015
Fixed income securities:		
Domestic fixed income	$ 766,384	$ 725,448
International fixed income	261,980	260,218
	1,028,364	985,666
Other investments:		
Common equities	4,007,404	3,625,691
Exchange traded funds	161,548	136,139
Money market funds	193,563	130,003
	4,362,515	3,891,833
	$ 5,390,879	$ 4,877,499

As of September 30, 2016, 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
Mortgage and asset-backed securities	$ 126,674	$ -	$ 126,674	$ -	$ -
Corporate bond	340,020	-	22,579	268,510	48,931
International bond	261,980	261,980	-	-	-
Government bond	299,690	-	99,390	121,484	78,816
	$ 1,028,364	$ 261,980	$ 248,643	$ 389,994	$ 127,747

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

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

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, 2016, was as follows:

Moody's Rating	Domestic	International	Total
AAA/AAA	$ 426,364	$ -	$ 426,364
AA1/AA+	24,107	-	24,107
A1/AA+	46,342	-	46,342
A1/A	48,514	-	48,514
A1/AA-	46,579	-	46,579
A3/A	46,413	-	46,413
A3/A-	46,382	-	46,382
A3/BBB+	23,949	-	23,949
BA1/BBB+	24,134	-	24,134
BAA1/A-	33,600	-	33,600
BAA1/BBB+	-	261,980	261,980
Total credit risk debt securities	$ 766,384	$ 261,980	$ 1,028,364

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

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

(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, 2016 and 2015.

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, 2016 and 2015.

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

The College categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. The College has the following recurring fair value measurements as of September 30, 2016 and 2015:

		Fair Value Measurements Using		
	September 30, 2016	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level:				
Fixed income securities	$ 1,028,363	$ -	$ 1,028,363	-
Equity securities	4,007,404	4,007,404	-	-
Mutual funds	161,548	161,548	-	-
Total investments by fair value level	5,197,316	4,168,952	1,028,363	-
Investments measured at amortized cost:				
Money market funds	193,563	-	-	-
	193,563	-	-	-
	$ 5,390,879	$ 4,168,952	$ 1,028,363	$ -

(4) Investments, Continued

		Fair Value Measurements Using		
	September 30, 2015	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level:				
Fixed income securities	$ 985,666	$ -	$ 985,666	
Equity securities	3,625,690	3,625,690	-	-
Mutual funds	136,140	136,140	-	-
Total investments by fair value level	4,747,496	3,007,161	985,666	-
Investments measured at amortized cost:				
Money market funds	130,003	-	-	-
	130,003	-	-	-
	$ 4,877,499	$ 3,761,830	$ 985,666	$ -

(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, 2016 and 2015:

	2016	2015
Due from U.S. Department of Education	$ 1,322	$ 32,448
Due from COM-Land Grant	41,491	35,282
Due from University of Guam	224,003	163,433
Due from University of Hawaii	22,123	-
Due from other grantor agencies	41,553	153,676
	330,492	384,839
Less allowance for doubtful accounts	(166,603)	(88,341)
	$ 163,889	$ 296,498

(6) Capital Assets

Capital assets at September 30, 2016 and 2015 consist of the following:

	Balance October 1, 2015	Additions	Retirements	Balance September 30, 2016
Depreciable assets:				
Buildings	$ 14,704,659	$ -	$ -	$ 14,704,659
Furniture and equipment	2,976,969	724,864	-	3,701,833
Vehicles/boats	1,151,130	40,539	(52,473)	1,139,196
	18,832,758	765,403	(52,473)	19,545,688
Less accumulated depreciation	(11,876,706)	(841,199)	52,400	(12,665,505)
	6,956,052	(75,796)	(73)	6,880,183
Non-depreciable assets:				
Land	1,455,685	-	-	1,455,685
Capital assets, net	$ 8,411,737	$ (75,796)	$ (73)	$ 8,335,868

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

(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, 2016 and 2015, receivables from the FSM National Government amounted to $969,532 and $1,260,411, respectively. The College received $4,324,846 and $3,602,989 in appropriations for the years ended September 30, 2016 and 2015, respectively.

(8) Contingencies

Insurance

COM-FSM purchases commercial insurance to cover its potential risks from fire and property damage on some of its buildings and contents ($19,164,373 of coverage) and vehicles (up to $300,000 of coverage per vehicle per accident). Additionally, COM-FSM purchases fidelity insurance coverage for selected employees (total coverage of $460,000) and workmen's compensation insurance (coverage of up to $100,000 per employee). COM-FSM also purchases student personal insurance ($5,000 per student). There have been no settlements in excess of insurance coverage during the past three years.

(8) Contingencies, Continued

Federal Grants

The College participates in a number of federally assisted grant programs and other various U.S. Department of Education grants. These programs are subject to financial and compliance audits to ascertain if Federal laws and guidelines have been followed. No questioned costs relating to fiscal year 2016 have been set forth in the College's Single Audit Report for the year ended September 30, 2016. The ultimate disposition of any questioned costs can be determined only by final action of the respective grantor agencies. Therefore, no provision for any liability that may result upon resolution of this matter has been made in the accompanying financial statements.

Accreditation

The College is accredited by the Accrediting Commission for Community and Junior Colleges (ACCJC), Western Association of Schools and Colleges (WASC). Accreditation was reaffirmed for 18 months in an Action Letter issued on July 8, 2016. The College is scheduled to submit a Follow-Up Report on October 1, 2017.

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, 2016 and 2015 will not have a material effect on the accompanying financial statements.

Receivable

During the year ended September 30, 2016, the Congress of the FSM National Government (FSMNG) appropriated $316,000 to the College for the purpose of paying outstanding student tuition receivable. The appropriation has not been funded as of September 30, 2016. Due to uncertainty as to when funding will occur, the accompanying financial statements do not reflect any adjustments that may result that may impact the recoverability of this asset.

(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, 2016, 2015 and 2014, the College incurred an expense of $129,623, $128,836, and $113,951, respectively, for matching contributions. As of September 30, 2016, 2015 and 2014, plan assets were $3,561,364, $3,075,926, and $3,031,688, respectively. Management is of the opinion that the retirement plan assets do not constitute assets of the College.

(10) Leases

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

Year Ending September 30,	Total
2017	$ 78,650
2018	84,549
2019	86,515
2020	86,515
2021	86,515
2022-2023	108,144
	$ 530,888

(11) Functional Classifications with Natural Classifications

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

2016

	Salaries	Benefits	Services	Travel	Supplies	Insurance, Utilities and Rent	Depreciation	Student Assistance	Miscellaneous	Total
Institutional Support	$ 1,771,989	$ 310,430	$ 126,487	$ 184,192	$ 140,494	$ 397,282	$ -	$ 47,798	$ 783,027	$ 3,761,699
Instruction	4,200,398	931,918	2,657	280,103	299,994	8,370	-	580,086	1,607,968	7,911,494
Student Financial Assistance	-	-	-	-	-	-	-	3,418,625	-	3,418,625
Student Services	844,992	138,019	-	119,066	65,862	76	-	39,200	132,841	1,340,056
Depreciation	-	-	-	-	-	-	841,199	-	-	841,199
Auxiliary Enterprises	135,759	33,544	-	8,914	337,155	43	-	-	800,489	1,315,904
Academic Support	316,362	81,529	-	-	14,403	321,905	-	-	151,627	885,826
Operations and Maintenance	450,916	60,890	59,985	1,925	65,556	425,033	-	-	420,081	1,484,386
	$ 7,720,416	$ 1,556,330	$ 189,129	$ 594,200	$ 923,464	$ 1,152,709	$ 841,199	$ 4,085,709	$ 3,896,033	$ 20,959,189

2015

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