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, 2017 and 2016

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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, 2017 and 2016, 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 did not audit the financial statements of the Friends of the College of Micronesia-FSM (the Foundation), the College's discretely presented component unit. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Friends of the College of Micronesia-FSM, is based solely on the reports of the other auditors. 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, 2017 and 2016, and the respective changes in financial position and cash flows, where applicable, for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 to 11 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 May 31, 2018, 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

May 31, 2018

Financial Statements Analysis

The College of Micronesia – FSM (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)

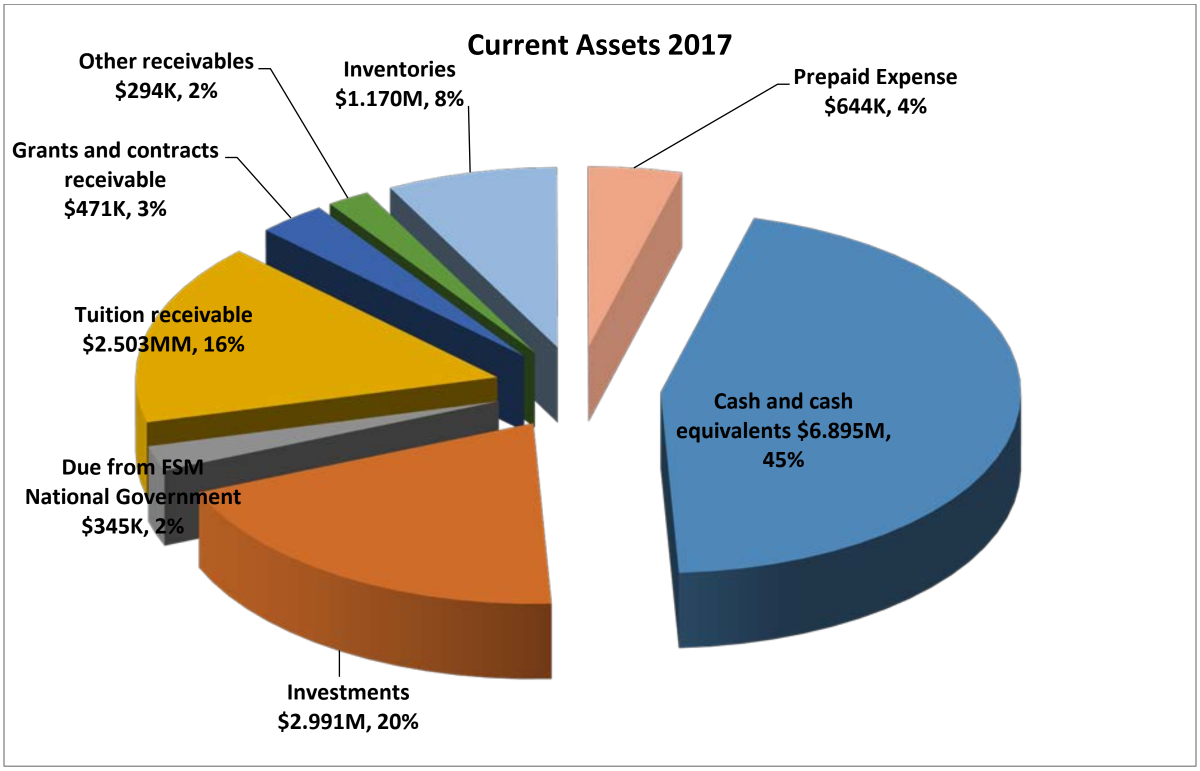
The SNP presents what the College owns (assets), owes (liabilities) and the net position (the difference between total assets and total liabilities) at the end of the fiscal year. The net position is one indicator of the current financial condition of the College, while the change in net position is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

A Comparative Statement of Net Position at September 30, 2017, 2016 and 2015 is summarized below:

	FY 2017 (In 000's)	FY 2016 (In 000's)	Difference (In 000's)	FY 2015 (In 000's)
Assets:				
Current assets	$ 15,313	$ 15,829	$ (516)	$ 15,744
Noncurrent assets	14,123	12,912	1,211	12,535
Total assets	$ 29,436	$ 28,741	$ 695	$ 28,279
Liabilities:				
Current liabilities	$ 4,151	$ 3,996	$ 248	$ 4,414
Noncurrent liabilities	410	317	-	270
Total liabilities	4,561	4,313	248	4,684
Net position	24,875	24,428	447	23,595
Total liabilities and net position	$ 29,436	$ 28,741	$ 695	$ 28,279

The comparison of the statement of net position for fiscal year 2017 with prior year indicates an increase in net position of $447k or 2%.

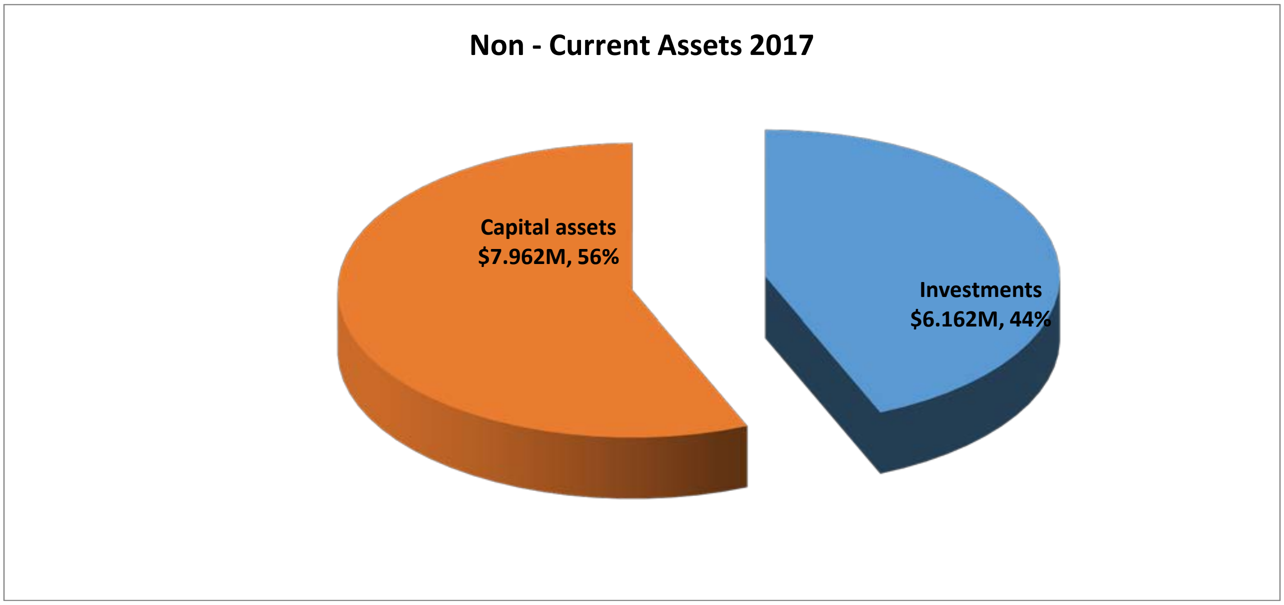
Current assets: Total current assets decreased by $517K or -3%, from $15.829 million in fiscal year 2016 to $15.313 million in fiscal year 2017. Below is the composition of current assets for fiscal year 2017:



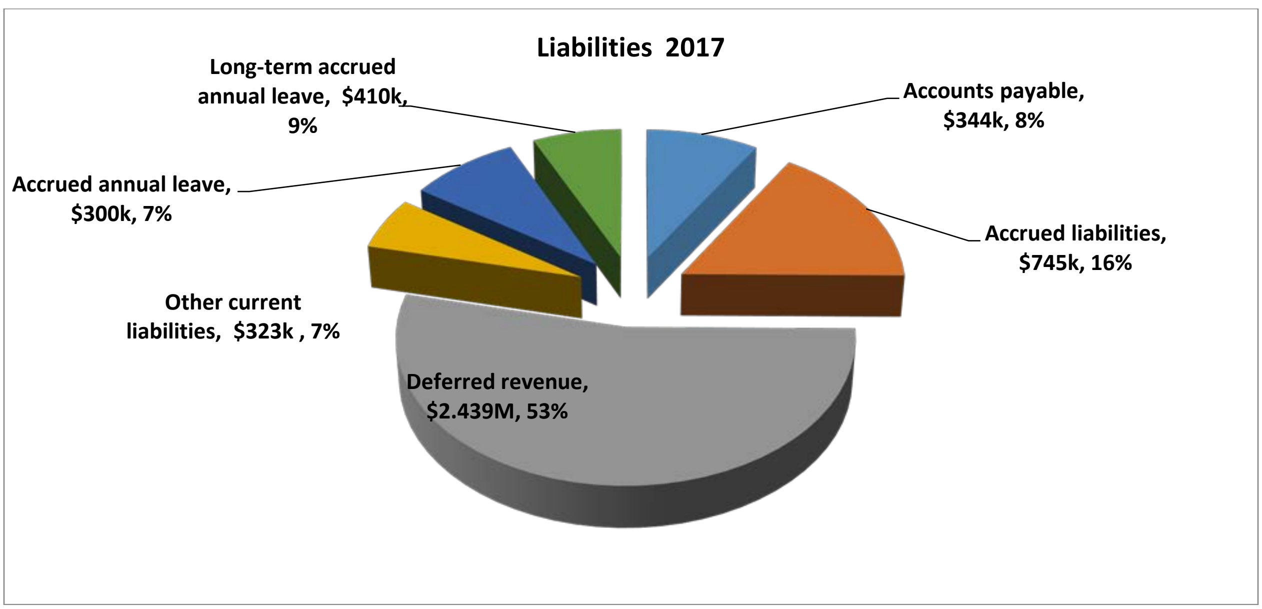
The net decrease of $517K in current assets consists of the following changes:

- Decrease in cash and equivalents by $1.921M or -22%, from $8.816 million to $6.895 million;
- Increase in short-term investments by $2.176M or 267% from $815K to $2.991 million;
- Decrease in due from FSM National Government by $625k or -64%, from $970K to $345K;
- Decrease in tuition receivable by $705K or -22%, from $3.208 million to $2.503 million;
- Increase in grants and contract receivable by $307k or 187%, from $164K to $471K;
- Increase in other receivables by $113k or 62%, from $182k to $294k;
- Decrease in inventories by $48k or -4%, from $1.218 million to $1.170 million;
- Increase in prepaid expenses by $217k or 51%, from $427K to $644K;

Noncurrent assets: The total noncurrent assets increased by $1.211 million or 9% from $12.912 million in fiscal year 2016 to $14.123 million in fiscal year 2017. The increase in non-current assets is due to the increase in investments by $1.586M or 35% and a decrease in capital assets by $374k or -4%. Below is the graph for the allocation of noncurrent assets:



Liabilities: Liabilities increased by $248k or 6%, from $4.313 million to $4.561 million. Current liabilities comprise 91% of total liabilities and 9% are non – current from long – term accrued annual leave. The allocation of liabilities is presented in the following graph:



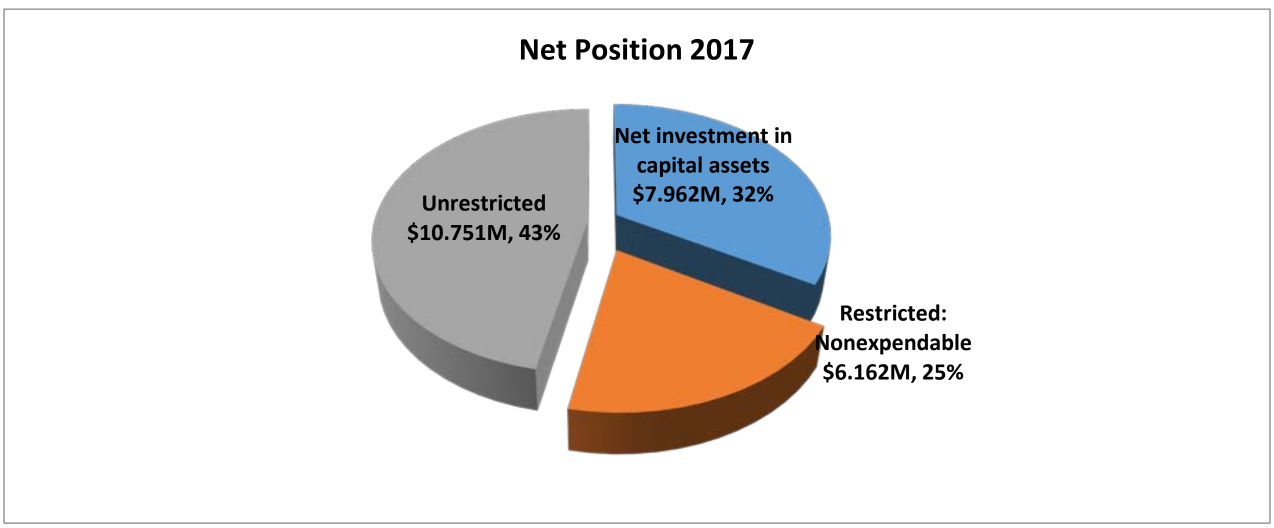
The net increase in liabilities consists of the following:

- Increase in accounts payable by $45k or 15%, from $299k to $344k;
- Increase in accrued liabilities by $63k or 9%, from $682k to $745k;
- Decrease in accrued annual leave by $91k or -23%, from $391k to $300k;
- Increase in unearned revenue by $79k or 3%, from $2.359 million to $2.439 million;
- Increase in other current liabilities by $58k or 22%, from $265k to $324k;

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 2017 is $24.875 million, which is higher by $447K or 2% compared to $24.428 million in fiscal year 2016. Below is the breakdown of the College's net position categorized according to the reporting model of GASB:

	FY 2017 (In 000's)	FY 2016 (In 000's)	Difference (In 000's)	FY 2015 (In 000's)
Net investment in capital assets	$ 7,962	$ 8,336	$ (374)	$ 8,412
Restricted:				
Nonexpendable	6,162	4,576	1,586	4,123
Unrestricted	10,751	11,516	(765)	11,060
Total	$ 24,875	$ 24,428	$ 447	$ 23,595

The allocation of net position for fiscal year 2017 is illustrated below:

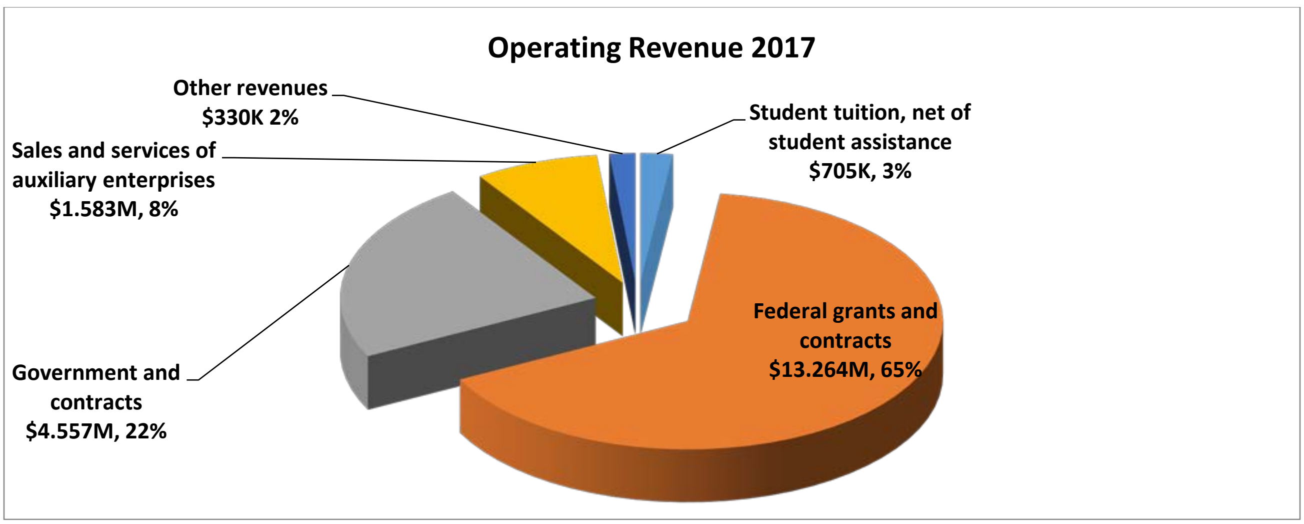


2. Statement of Revenues, Expenses and Changes in Net Position (SRECNP)

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 assets. Below is the comparative summary of SRECNP for fiscal years ended September 30, 2017, 2016 and 2015:

	FY 2017 (In 000's)	FY 2016 (In 000's)	Difference (In 000's)	FY 2015 (In 000's)
Operating revenues	$ 19,531	$ 21,276	$ 1,582	$ 19,388
Operating expenses	19,891	20,959	1,419	18,365
Operating (loss) income	(360)	317	163	1,023
Non-operating revenues (expenses)	807	516	882	(366)
Change in net position	447	833	1,045	657
Net position at beginning of year	24,428	23,595	657	22,938
Net position at end of year	$ 24,875	$ 24,428	$ 1,702	$ 23,595

Operating revenues: The composition of the operating revenues amounting to $20.219 million for fiscal year 2017 is presented in the following graph:

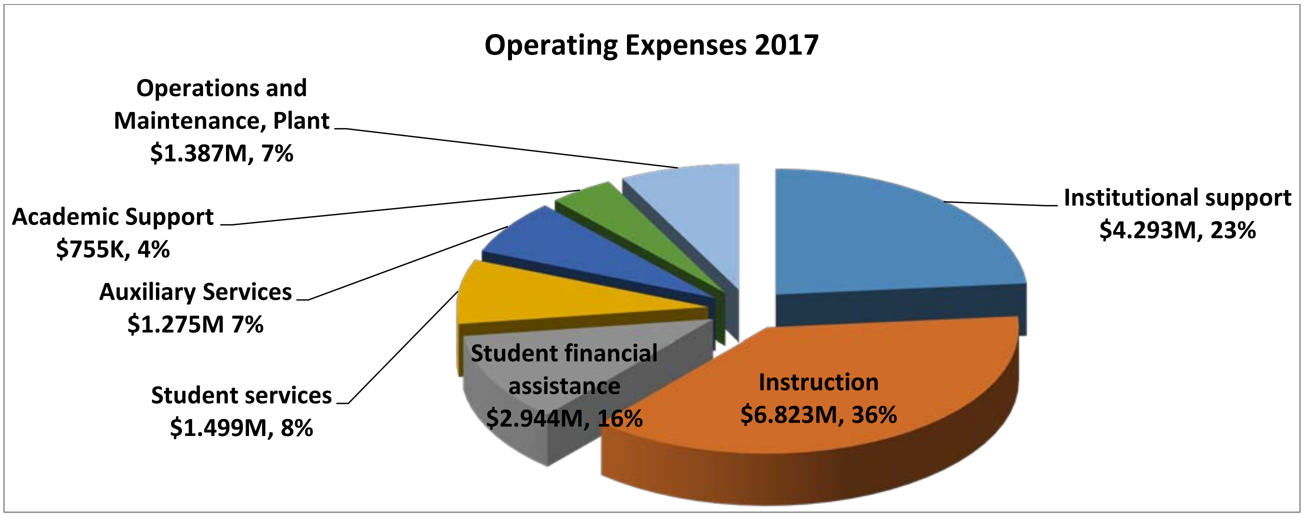


Below are the details of the changes for each classification of operating revenues:

- Decrease in other revenues by $842k or -72%, from $1.172M to $330K;
- Increase in sales and services of auxiliary enterprises by $173k or 12%, from $1.410 million to $1.583 million;
- Increase in government grants and contracts by $232k or 5%, from $4.325 million to $4.557 million;
- Increase in student tuition and fees by $100k or 17%, from $605K to $705k; and
- Decrease in federal grants and contracts by $1.157M or -8%, from $14.420 million to $13.264 million;

Operating expenses: The College's operating expenses inclusive of bad debts for fiscal year 2017 decreased by $815K or 4%, from $21.615 million in 2016 to $20.800 million in 2017. 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 $532K or 14%, from $3.761 million to $4.294 million;
- Decrease in instruction by $1.088 million or -14%, from $7.912 million to $6.823 million.
- Decrease in student financial assistance by $475K or -14%, from $3.419 million to $2.944 million;
- Increase in student services by $159k or 12%, from $1.340 million to $1.499 million;
- Decrease in auxiliary enterprises by $41k or -3%, from $1.316 million to $1.275 million;
- Decrease in academic support by $131k or -7%, from $886k to $755k;
- Decrease in operations and maintenance by $97K or -7%, from $1.484 million to $1.387M;

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

- Increase in the provision of bad debts by $253k or 39%, from $656k to $909k;
- Increase in depreciation by $73k or 9%, from $841k to $914k.

3. Statement of Cash Flows (SCF)

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

The SCF indicates a balance in cash and equivalents of $6.895 million at end of fiscal year 2017. The fiscal year - end balance is lower by $1.921 million or -22% compared to fiscal year 2016 balance of $8.816 million.

Below is the summary Statement of Cash Flows:

	FY 2017 (In 000's)	FY 2016 (In 000's)	Difference (In 000's)	FY 2015 (In 000's)
Provided by operating activities	$ 1,574	$ 2,894	$ 791	$ 2,103
Used in capital and related financing activities	(559)	(523)	(222)	(301)
(Used in) provided by investing activities	(2,936)	113	871	(868)
Net change in cash and equivalents	(1,921)	2,374	1,440	934
Cash and cash equivalents at beginning of year	8,816	6,442	934	5,508
Cash and cash equivalents at end of year	$ 6,895	$ 8,816	$ 2,374	$ 6,442

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 2017 included the following:

1. $12.749 million for the administration and management of the College wherein the sources of revenue are from tuition and fees of $8.853 million, and $1.000 million in appropriations from the FSM National Government through the Education Sector Grant of the Compact of Free Association II, $2.800 million from the General Fund of FSM National Government, $96k from Dormitory and other fees;
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 the 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, 2017, the College's net investment in capital assets was $7.962 million, with a gross amount of $21.410 million for depreciable and non – depreciable assets, net of accumulated depreciation of $13.448 million. Depreciation for the current year amounted to $914k. See Note 6 to the financial statements for additional information.

The College's long-term obligation of $410k represents the long – term portion of employee accrued annual leave. The College accumulates annual leave balance, wherein accumulated leave of not in excess of 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 2017.

Economic Outlook

The College's sources of revenue are tuition and other fees from students receiving financial assistance from the U.S. Federal Student Aid programs, and from the annual subsidy from the 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 90% of the students at the College received financial assistance from U.S. Federal Student Aid programs. The College's projection of the percentage of students receiving financial assistance from U.S. Federal Student Aid programs will remain in the range of 85% to 95% in the next couple of years. The reinstating of the Summer term Pell grant eligibility will increase the campus wide enrollment.

The College is accredited by the Accrediting Commission for Community and Junior Colleges (ACCJC), Western Association of Schools and Colleges (WASC). Accreditation was reaffirmed through Spring 2023 in an *Action Letter* issued on January 26, 2018. The College is scheduled to submit a Midterm Report on March 15, 2020.

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 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's 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 a structured tuition fee increases for three consecutive fiscal years from 2014 to 2016 and will remain at the same for the years beyond 2016. For the fiscal year 2018, 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	60	60	70	70	70	70

The College has undergone review of its Integrated Educational Master Plan (IEMP) which will take into consideration program prioritization and cost savings measures. The College's Five-Year Integrated Educational Master Plan must be linked to the newly approved College's Five-Year Financial Plan (2018-2022). 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 FY2023 until 2027.

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 College can now submit annual funding request through the budget process to the FSM for projects constructions. The FSM appropriated $8 million in FY2017 for projects constructions 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 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. For the FY2019 IDP submission, the College submitted to the FSM National Government an IDP budget of $8,799,000 to construct a multipurpose building facility at Kosrae campus, Kosrae Campus onsite paved access road, parking lots, and covered walkways. The funds will cover cost of Building No. 1 and furniture for the new Chuuk Campus at Nantaku, and onsite infrastructure.

The College's endowment fund started in 1997, has the goal of growing the size of its corpus to provide long-term financial stability of the College. The Board and the Administration, through the newly created Office for Institutional Advancement and External Affairs put in place plans to raise money for the Endowment Fund from businesses, private individuals and government entities within FSM including prospective donors and stakeholders abroad to meet the revised target goal of $10 million for a 5-year period 2023. Fundraising efforts will intensify for the remaining period, employing every conceivable ways including lucky draw or raffles, fundraising dinners, cocktails, walk-a-thon, bake sales, memorabilia and other on-campuses student fundraising events to contribute to the growth of the Endowment Fund. The College organized the Friends of COM-FSM Foundation along with a Board of Trustees and recently hired a new Administrator to serve as a fundraising arm for the College to secure its future long term funding. The College foundation is up and running for four years now. Recently a US fishing company based in Alaska donated $110,000 through the Friends of COM-FSM Foundation for facilities improvements at the COM-FSM National Campus. This new initiative will continue to target prospective donors from the United States and its jurisdictions that may be seeking tax deductions for their giving. With that kind of tax incentive, prospective donors will be attracted to donating funds to the Foundation.

Management's Discussion and Analysis for the year ended September 30, 2016 is set forth in the College's report on the audit of financial statements, which was dated June 28, 2017. That Discussion and Analysis explains the major factors impacting the 2016 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, 2017 and 2016

ASSETS	2017	2016
Current assets:		
Cash and cash equivalents	$ 6,895,203	$ 8,815,747
Time certificates of deposit	18	30,551
Investments	2,990,905	814,987
Due from FSM National Government, net	344,582	969,532
Tuition receivable, net	2,503,069	3,207,891
Grants and contracts receivable, net	470,962	163,889
Other receivables, net	294,496	181,614
Inventories	1,170,005	1,218,169
Prepaid expenses	643,658	427,134
Total current assets	15,312,898	15,829,514
Noncurrent assets:		
Endowment investments	6,161,678	4,575,892
Capital assets:		
Nondepreciable capital assets	1,455,685	1,455,685
Capital assets, net of accumulated depreciation	6,506,084	6,880,183
Total noncurrent assets	14,123,447	12,911,760
Total assets	$ 29,436,345	$ 28,741,274
LIABILITIES AND NET POSITION		
Current liabilities:		
Accounts payable	$ 343,790	$ 298,655
Accrued liabilities	745,235	682,050
Accrued annual leave, current portion	299,933	390,841
Unearned revenue	2,438,549	2,359,186
Other current liabilities	323,718	265,288
Total current liabilities	4,151,225	3,996,020
Noncurrent liabilities:		
Long-term portion of accrued annual leave	410,028	317,148
Total liabilities	4,561,253	4,313,168
Commitments and contingencies		
Net position:		
Net investment in capital assets	7,961,769	8,335,868
Restricted:		
Nonexpendable	6,161,678	4,575,892
Unrestricted	10,751,645	11,516,346
Total net position	24,875,092	24,428,106
Total liabilities and net position	$ 29,436,345	$ 28,741,274

See accompanying notes to financial statements.

FRIENDS OF THE COLLEGE OF MICRONESIA-FSM, INC.

Statements of Financial Position
December 31, 2016 and 2015

ASSETS		2016		2015
Cash	$	166	$	15,088
Investments		449,758		416,019
Investments restricted for scholarships		104,594		96,848
	$	554,518	$	527,955
NET ASSETS				
Net assets:				
Unrestricted	$	454,518	$	427,955
Temporarily restricted for scholarships		100,000		100,000
Total net assets	$	554,518	$	527,955

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, 2017 and 2016

	2017	2016
Operating revenues:		
Student tuition and fees	$ 8,180,727	$ 8,372,659
Less: Scholarship discounts and allowances	(7,475,463)	(7,767,751)
	705,264	604,908
Federal grants and contracts	13,263,625	14,420,489
Government grants and contracts	4,557,116	4,324,846
Sales and services of auxiliary enterprises	1,583,180	1,409,692
Other revenues	330,176	1,172,340
Total operating revenues	20,439,361	21,932,275
Less bad debts	(908,506)	(655,592)
Net operating revenues	19,530,855	21,276,683
Operating expenses:		
Institutional support	4,293,953	3,761,699
Instruction	6,823,163	7,911,494
Student financial assistance	2,943,606	3,418,625
Student services	1,498,678	1,340,056
Depreciation	914,174	841,199
Auxiliary enterprises	1,275,019	1,315,904
Academic support	755,266	885,826
Operations and maintenance, plant	1,387,199	1,484,386
Total operating expenses	19,891,058	20,959,189
Operating (loss) income	(360,203)	317,494
Nonoperating revenues (expense):		
Loss on capital asset disposal	(18,308)	-
Net investment income	825,497	515,973
Total nonoperating (expense) revenues	807,189	515,973
Change in net position	446,986	833,467
Net position:		
Net position at beginning of year	24,428,106	23,594,639
Net position at end of year	$ 24,875,092	$ 24,428,106

See accompanying notes to financial statements.

FRIENDS OF THE COLLEGE OF MICRONESIA-FSM, INC.

Statements of Activities
Years Ended December 31, 2016 and 2015

	Unrestricted	Temporarily Restricted	Total
2016			
Revenues:			
Net investment income	$ 46,423	$ -	$ 46,423
Total revenues	46,423	-	46,423
Expenses:			
Management and general:			
Travel	11,337	-	11,337
Investment fees	4,937	-	4,937
Accounting fees	1,649	-	1,649
Other expenses	1,937	-	1,937
Total expenses	19,860	-	19,860
Change in net assets	26,563	-	26,563
Net assets at beginning of year	427,955	100,000	527,955
Net assets at end of year	$ 454,518	$ 100,000	$ 554,518

	Unrestricted	Temporarily Restricted	Total
2015			
Revenues, gains and other income (losses):			
Net investment losses	$ (8,482)	$ -	$ (8,482)
Total revenues	(8,482)	-	(8,482)
Expenses:			
Management and general:			
Travel	7,667	-	7,667
Investment fees	4,944	-	4,944
Accounting fees	1,859	-	1,859
Consultant fees	24,000	-	24,000
Legal fees	7,156	-	7,156
Other expenses	1,285	-	1,285
Total expenses	46,911	-	46,911
Change in net assets	(55,393)	-	(55,393)
Net assets at beginning of year	483,348	100,000	583,348
Net assets at end of year	$ 427,955	$ 100,000	$ 527,955

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, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Grants and contracts	$ 18,712,063	$ 20,251,952
Auxiliary services	1,583,180	1,409,692
Other receipts	247,826	920,200
Payments to employees for salaries and benefits	(8,611,880)	(8,547,329)
Payments to suppliers and others	(10,357,143)	(11,140,263)
Net cash provided by operating activities	1,574,046	2,894,252
Cash flows from capital and related financing activities:		
Purchases of capital assets	(558,383)	(522,998)
Cash flows from investing activities:		
(Purchase) sale of investments	(2,936,207)	2,594
Net change in cash and cash equivalents	(1,920,544)	2,373,848
Cash and cash equivalents at beginning of year	8,815,747	6,441,899
Cash and cash equivalents at end of year	$ 6,895,203	$ 8,815,747
Reconciliation of operating (loss) income to net cash provided by operating activities:		
Operating (loss) income	$ (360,203)	$ 317,494
Adjustments to reconcile operating (loss) income to net cash provided by operating activities:		
Depreciation	914,174	841,199
Bad debts	908,506	655,592
Provision for inventory obsolescence	38,174	30,737
Other revenue	-	(242,404)
Changes in assets and liabilities:		
Due from FSM National Government	(80,297)	290,879
Tuition receivable	501,564	745,438
Grants and contracts receivable	(307,073)	(134,606)
Other receivables	(112,882)	(9,717)
Inventories	40,727	81,302
Prepaid expenses	(216,524)	689,202
Accounts payable	45,136	128,837
Accrued liabilities	64,952	135,381
Unearned revenue	79,363	(580,727)
Other current liabilities	58,429	(54,355)
Net cash provided by operating activities	$ 1,574,046	$ 2,894,252
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

A. Financial Statement 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 Certificate of Deposits. 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, 2017 and 2016, COM-FSM has recorded cash and cash equivalents and time certificates of deposit of $6,895,221 and $8,846,298, respectively, with corresponding bank balances of $7,129,657 and $10,166,677, respectively. Of these amounts, $547,298 and $2,559,979 in 2017 and 2016, 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.

(3) Summary of Significant Accounting Policies, Continued

A. Cash and Cash Equivalents and Time Certificate of Deposits., Continued

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, 2017 and 2016.

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, 2017, follows:

	National Campus	State Campuses	Totals
Accounts receivable, gross	$ 4,019,297	$ 2,240,858	$ 6,260,155
Allowance for uncollectible accounts	(2,481,564)	(1,275,522)	(3,757,086)
Accounts receivable, net	$ 1,537,733	$ 965,336	$ 2,503,069

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

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, 2017 and 2016.

D. Inventory. Inventory is stated at the lower of cost (first-in, first-out) or market (net realizable value). At September 30, 2017 and 2016, inventory is net of an allowance for obsolescence of $38,174 and $30,737, respectively.

E. Prepaid Expenses. Payments made to vendors for goods and services that will benefit periods beyond September 30, 2017 and 2016, 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 relating 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 2017 and 2016 is as follows:

Balance, Oct. 1, 2016	Addition	Reduction	Balance, Sept. 30, 2017	Current
$ 707,989	$ 1,972	$ -	$ 709,961	$ 299,933

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

(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, 2016 and 2015 is as follows:

		Fair Value Measurements Using		
	December 31, 2016	(Level 1)	(Level 2)	(Level 3)
Exchange traded funds	$ 488,885	$ 488,885	$ -	-
Mutual funds	36,677	36,677	-	-
Money market funds	28,790	-	28,790	-
	$ 554,352	$ 525,562	$ 28,790	$ -

		Fair Value Measurements Using		
	December 31, 2015	(Level 1)	(Level 2)	(Level 3)
Exchange traded funds	$ 455,171	$ 455,171	$ -	-
Mutual funds	35,268	35,268	-	-
Money market funds	22,428	-	22,428	-
	$ 512,867	$ 490,439	$ 22,428	$ -

(3) Summary of Significant Accounting Policies, Continued

Q. Foundation Investments., Continued

The composition of net gains (losses) on investments for the years ended December 31, 2016 and 2015 is as follows:

	2016	2015
Net change in fair value	$ 35,123	$ (18,600)
Interest and dividends	16,237	15,062
Fees	(4,937)	(4,944)
	$ 46,423	$ (8,482)

R. Reclassifications. Certain 2016 balances were reclassified to conform with 2017 presentation.

S. New Accounting Standards.

During fiscal year 2017, the College implemented the following pronouncements:

- GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements 67 and 68 with the reporting requirements in Statement 68.

- GASB 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).

- GASB Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements.

- GASB 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*.

- GASB 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.

- GASB 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.

(3) Summary of Significant Accounting Policies, Continued

S. New Accounting Standards., Continued

The implementation of these statements did not have a material effect on the College's financial statements.

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

In 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 November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs) associated with the retirement of a tangible capital asset. The provisions in Statement No. 83 are effective for fiscal years beginning after June 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In January 2017, GASB issued Statement No. 84, Fiduciary Activities, which establishes criteria for identifying fiduciary activities of all state and local governments. The provisions in Statement No. 84 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In March 2017, GASB issued Statement No. 85, *Omnibus 2017*, which address practice issues that have been identified during implementation and application of certain GASB Statements including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). The provisions in Statement No. 85 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 May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*, which improves consistency in accounting and financial reporting for in-substance defeasance of debt. The provisions in Statement No. 86 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.

(3) Summary of Significant Accounting Policies, Continued

S. New Accounting Standards, Continued

In June 2017, GASB issued Statement No. 87, *Leases*, which establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The provisions in Statement No. 87 are effective for fiscal years beginning after December 15, 2019. Management has yet to determine whether 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 investment 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 March 2017 to incorporate the amendments adopted by the Board during the March 2017 meeting. The investments are classified as restricted nonexpendable net position in the accompanying Statements of Net Position.

The composition of endowment investments as of September 30, 2017 and 2016, by funding source, is as follows:

	2017	2016
Donor		
FSM Telecommunications Corporation (FSMTC)	$ 165,000	$ 165,000
U.S. Department of Education and local match (Challenge)	5,996,678	4,410,892
	$ 6,161,678	$ 4,575,892

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, 2017 and 2016, investments at fair value are as follows:

	2017	2016
Fixed income securities:		
Domestic fixed income	$ 3,046,948	$ 766,384
International fixed income	471,055	261,980
	3,518,003	1,028,364
Other investments:		
Common equities	5,140,148	4,007,404
Exchange traded funds	157,845	161,548
Money market funds	336,587	193,563
	5,634,580	4,362,515
	$ 9,152,583	$ 5,390,879

As of September 30, 2017, 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	$ 260,197	$ -	$ 159,263	$ -	$ 100,934
Corporate bond	1,391,363	94,533	508,288	724,187	64,355
International bond	471,055	471,055	-	-	-
Government bond	1,395,388	110,278	739,229	463,489	82,392
	$ 3,518,003	$ 675,866	$ 1,406,780	$ 1,187,677	$ 247,680

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

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, 2017, was as follows:

Moody's Rating	Domestic	International	Total
AAA/AAA	$ 1,554,650	$ -	$ 1,554,650
AA2/AA	19,938	-	19,938
AA3/A	43,397	-	43,397
A1/A+	71,314	-	71,314
A1/A-	24,607	-	24,607
A1/AA-	58,282	-	58,282
A2/A+	49,482	-	49,482
A2/A	103,663	-	103,663
A2/A-	20,166	-	20,166
A3/A	96,967	-	96,967
A3/A-	158,926	-	158,926
A3/BBB+	135,757	-	135,757
BAA1/A	31,640	-	31,640
BAA1/BBB+	356,777	-	356,777
BAA1/BBB	25,697	-	25,697
BAA2/A-	20,424	-	20,424
BAA2/BBB+	25,030	-	25,030
BAA2/BBB	77,021	-	77,021
BAA3/BBB	72,276	-	72,276
Not rated	100,935	471,055	571,989
Total	$ 3,046,948	$ 471,055	$ 3,518,003

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

(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, 2017 and 2016.

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, 2017 and 2016.

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, 2017 and 2016:

		Fair Value Measurements Using		
	September 30, 2017	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level:				
Fixed income securities	$ 3,518,003	$ -	$ 3,518,003	$ -
Equity securities	5,140,148	5,140,148	-	-
Exchange traded funds	157,845	157,845	-	-
Total investments by fair value level	8,815,996	5,297,993	3,518,003	-
Investments measured at amortized cost:				
Money market funds	336,587	-	-	-
	336,587	-	-	-
	$ 9,152,583	$ 5,297,993	$ 3,518,003	$ -

(4) Investments, Continued

	September 30, 2016	Fair Value Measurements Using: 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	$ 1,028,364	$ -	$ 1,028,364	$ -
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	1,028,364	-
Investments measured at amortized cost:				
Money market funds	193,563	-	-	-
	193,563	-	-	-
	$ 5,390,879	$ 4,168,952	$ 1,028,364	$ -

(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, 2017 and 2016:

	2017	2016
Due from U.S. Department of Education	$ 59,338	$ 1,322
Due from COM-Land Grant	221,732	41,491
Due from University of Guam	127,860	224,003
Due from University of Hawaii	22,124	22,123
CARIPAC	165,738	-
Due from other grantor agencies	229,726	41,553
	826,518	330,492
Less allowance for doubtful accounts	(355,556)	(166,603)
	$ 470,962	$ 163,889

(6) Capital Assets

Capital assets at September 30, 2017 and 2016 consist of the following:

	Balance October 1, 2016	Additions	Retirements	Balance September 30, 2017
Depreciable assets:				
Buildings	$ 14,704,659	$ -	$ -	$ 14,704,659
Furniture and equipment	3,701,833	495,599	(131,602)	4,065,830
Vehicles/boats	1,139,196	62,784	(18,500)	1,183,480
	19,545,688	558,383	(150,102)	19,953,969
Less accumulated depreciation	(12,665,505)	(914,174)	131,794	(13,447,885)
	6,880,183	(355,791)	(18,308)	6,506,084
Non-depreciable assets:				
Land	1,455,685	-	-	1,455,685
Capital assets, net	$ 8,335,868	$ (355,791)	$ (18,308)	$ 7,961,769

	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

(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, 2017 and 2016, receivables from the FSM National Government amounted to $344,582 and $969,532, respectively. The College received $4,628,981 and $4,324,846 in appropriations for the years ended September 30, 2017 and 2016, 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 ($19,904,291 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 2017 have been set forth in the College's Single Audit Report for the year ended September 30, 2017. 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 in an Action Letter issued on January 26, 2018. The College is scheduled to submit its next Midterm Report on March 15, 2020 and the next comprehensive review will occur in Spring 2023.

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, 2017 and 2016 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, 2017, 2016 and 2015, the College incurred an expense of $143,151, $129,623, and $128,836, respectively, for matching contributions. As of September 30, 2017, 2016 and 2015, plan assets were $4,111,461, $3,561,364, and $3,075,926, respectively. Management is of the opinion that the retirement plan assets do not constitute assets of the College.

(10) Leases

The College leases land and building with terms ranging from three to five years. The future minimum lease payments are as follows:

Year Ending September 30,	Total
2018	$ 110,949
2019	112,915
2020	101,915
2021	86,515
2022	86,515
Thereafter	21,629
	$ 520,438

(11) Functional Classifications with Natural Classifications

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

2017

	Salaries	Benefits	Services	Travel	Supplies	Insurance, Utilities and Rent	Depreciation	Student Assistance	Miscellaneous	Total
Institutional Support	$1,856,511	$ 391,937	$ 86,881	$ 359,577	$ 210,893	$ 412,837	$ -	$ -	$ 975,316	$ 4,293,953
Instruction	4,194,513	797,578	19,657	239,897	277,723	6,115	-	665,803	621,877	6,823,163
Student Financial Assistance	-	-	-	-	-	-	-	2,943,606	-	2,943,606
Student Services	884,083	165,268	-	60,693	78,526	1,173	-	-	308,935	1,498,678
Depreciation	-	-	-	-	-	-	914,174	-	-	914,174
Auxiliary Enterprises	152,694	24,524	93	18,229	367,525	533	-	-	711,421	1,275,019
Academic Support	319,790	78,999	312	20,294	24,897	282,293	-	-	28,681	755,266
Operations and Maintenance	358,530	53,414	79,452	474	72,975	388,665	-	-	433,689	1,387,199
	$7,766,121	$ 1,511,720	$ 186,395	$ 699,164	$1,032,539	$ 1,091,616	$ 914,174	$ 3,609,409	$ 3,079,919	$ 19,891,058

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