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

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

SEPTEMBER 30, 2008 AND 2007

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

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YEARS ENDED SEPTEMBER 30, 2008 AND 2007

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INDEPENDENT AUDITORS' REPORT

Board of Regents
College of Micronesia-FSM:

We have audited the accompanying statements of net assets of the College of Micronesia-FSM, a component unit of the FSM National Government, as of September 30, 2008 and 2007, and the related statements of revenues, expenses and changes in net assets and of cash flows for the years then ended. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such financial statements present fairly, in all material respects, the financial position of the College of Micronesia-FSM as of September 30, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 through 12 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the College's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 5, 2009, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Deloitte & Touche LLP

June 5, 2009

The Management's Discussion and Analysis (MD & A) is supplementary information required by the Government Accounting Standards Board 35 (GASB 35) on reporting model. The preparation of MD & A is the responsibility of the management of COM-FSM, and it is designed to help readers in understanding the accompanying financial statements and the accompanying notes to the financial statements.

Institution Background

The College of Micronesia-FSM (COM-FSM) is a multi-campus institution and serves as the only higher education facility in the Federated States of Micronesia (FSM). The COM-FSM has a network of six college campuses located in four different islands in the Western Pacific. The main campus (referred to as the National campus) is located in Palikir, Pohnpei. The other college sites are state campuses in Pohnpei (Kolonia Town), Kosrae, Yap and Chuuk. FSM Fisheries and Maritime Institute (FSM – FMI), the sixth campus, is located in Yap State.

COM – FSM is a public corporation of FSM established by Public Law 7 – 79 on September 25, 1992 and is considered a component unit of the FSM National Government. The governing body for the general management and control of COM – FSM is the five-member Board of Regents appointed by the FSM President with the advice and consent of the FSM Congress. The President of the College, appointed by the Board of Regents, has the full charge and control in the administration and business affairs of the College.

COM – FSM is accredited by the Accrediting Commission for Community and Junior Colleges of the Western Association of Schools and Colleges, an institutional accrediting body recognized by the Commission on Recognition of Post-secondary Accreditation and the U.S. Department of Education. Accreditation was awarded to the College in 1978 and reaffirmed in 1982, 1987, 1992, 1998 and June, 2005. The next review by the Commission on the accreditation of the College is on 2010.

COM-FSM Mission

The mission statement of the College adopted by the Board of Regents in its September 2005 meeting reads:

> "Historically diverse, uniquely Micronesian, and globally connected, the College of Micronesia-FSM is a continuously improving and student centered institute of higher education. The college is committed to assisting in the development of the Federated States of Micronesia by providing academic, career and technical education opportunities for student learning".

The College's mission statement links to the FSM Strategic Development Plan (SDP) under the strategic goal "To allow FSM students to complete postsecondary education to assist in the economic development of the FSM".

During the President retreat held on May 12 to 15, 2008, the mission statement of the College was revisited and reviewed by the college community. The review provided no changes to the current mission statement.

Overview of Fiscal Year 2008

COM – FSM offered thirty - nine degree and certificate programs: six Associate of Arts degrees, seven Associate of Science degrees, three Associate of Applied Science degrees, five Third-year Certificates of Achievement and eighteen other Certificates of Achievement. In addition, FSM – Fisheries and Maritime Institute offered four modular-based Certificates of Achievement. There were 5,696 students enrolled in degree and certificate programs across all campuses for fall 07, spring 08 and summer 08. National campus enrolled 2,249 students or 39%, Pohnpei campus enrolled 1,387 students or 24%, Chuuk campus enrolled 1,050 students or 18%, Kosrae campus enrolled 477 students or 8%, and Yap campus enrolled 533 students or 9%. The total enrollment for fiscal year 2008, excluding FSM - FMI dropped by 151 students or by 3% compared with fiscal year 2007 enrollment of 5,847. National and Pohnpei campuses indicated an increase in enrollment by 164 and 102 students, respectively. However, the College experienced a reduction of enrollment at Chuuk campus by 273 students, Kosrae campus by 98 students, and Yap campus by 46 students.

FSM – FMI served 57 students for school year 2008, 29 students for fall 07 and 28 students for spring 08. Compared from last year, the enrollment of FSM – FMI dropped by 24 students or 30%.

Financial resources for the operations of the College are derived from tuition and other fees, and subsidy from the FSM National Government. The subsidy from FSM government is part of the Education Sector grant from Compact II of economic assistance between the government of United States of America and the government of the FSM. The Compact II is expected to continue for the next 17 years. The total financial support from FSM for fiscal year 2008 was $7.071 Million, consisting of:

1. COM – FSM operations - $3.800 Million
2. FSM – FMI operations - $650k
3. COM – FSM Infrastructure Development Projects - $2.350 Million
4. COM – FSM Student Assistance/Work Study Program - $270k

The financial support from FSM has increased by $519k or 8% attributed to the increase from the appropriation for infrastructure development project.

Part of Compact II is the scholarship assistance from the Federal Pell Grant for eligible students of FSM. The College continues to administer three U.S. Federal Student Aid Programs (Pell Grant, FSEOG and Work Study). The student aid programs provided about 83% of students' tuition and fees. In FY 2008, the student aid programs reflected an increase by 11% or $864k, from $8.206 Million to $9.071 Million.

The U.S. Department of Education and the Department of the Interior continues to provide competitive grants to support and assist the college. The Department of Education provided the college $1.065 Million from upward bound grant, $294k from education talent search program grant, $201k from student support services grant, and $140k from English language acquisition grant. The college likewise received Supplemental Education Grant of $670k from Department of the Interior.

Financial Statements Analysis

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

1. Statement of Net Assets (SNA)

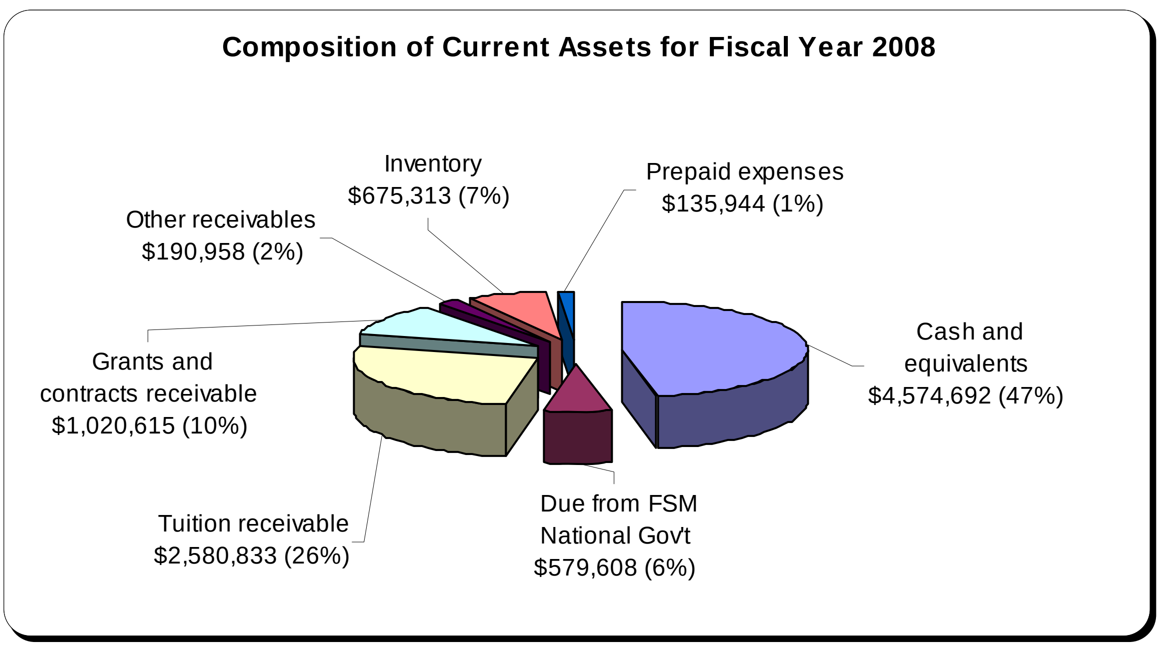
The SNA presents what the College owns (assets), owes (liabilities) and the net assets (the difference between total assets and total liabilities) at the end of the fiscal year. The "net assets" is one indicator of the current financial condition of the College, while the change in net assets is an indicator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

A Comparative Statement of Net Assets at September 30, 2008 and 2007 is summarized below:

	FY 2008 (In 000's)	FY 2007 (In 000's)	Difference (In 000's)	FY 2006 (In 000's)
Assets:				
Current assets	$ 9,758	$ 11,530	$ (1,772)	$ 12,237
Noncurrent asset	14,452	14,870	(418)	15,047
Total assets	24,210	26,400	(2,190)	27,284
Liabilities:				
Current liabilities	3,945	4,581	(636)	4,568
Noncurrent liabilities	238	218	20	231
Total liabilities	4,183	4,799	(616)	4,799
Net assets	$ 20,027	$ 21,601	$ (1,574)	$ 22,485

The comparison of the statement of net assets for fiscal year 2008 with fiscal year 2007 shows a reduction in net assets of $1.574 Million. Primary causes of the reduction of net assets are depreciation expenses and expenditures funded from fund balance.

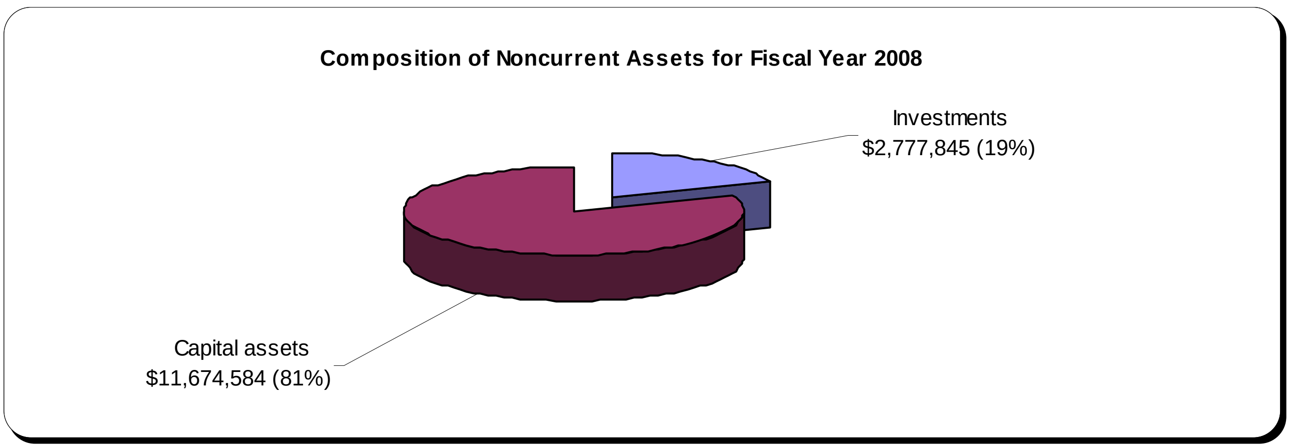
Current assets: The total current assets dropped by $1.772 Million, from $11.530 Million in fiscal year 2007 to $9.758 Million in current fiscal year 2008. The composition of current assets for fiscal year 2008 is presented in the following pie graph:



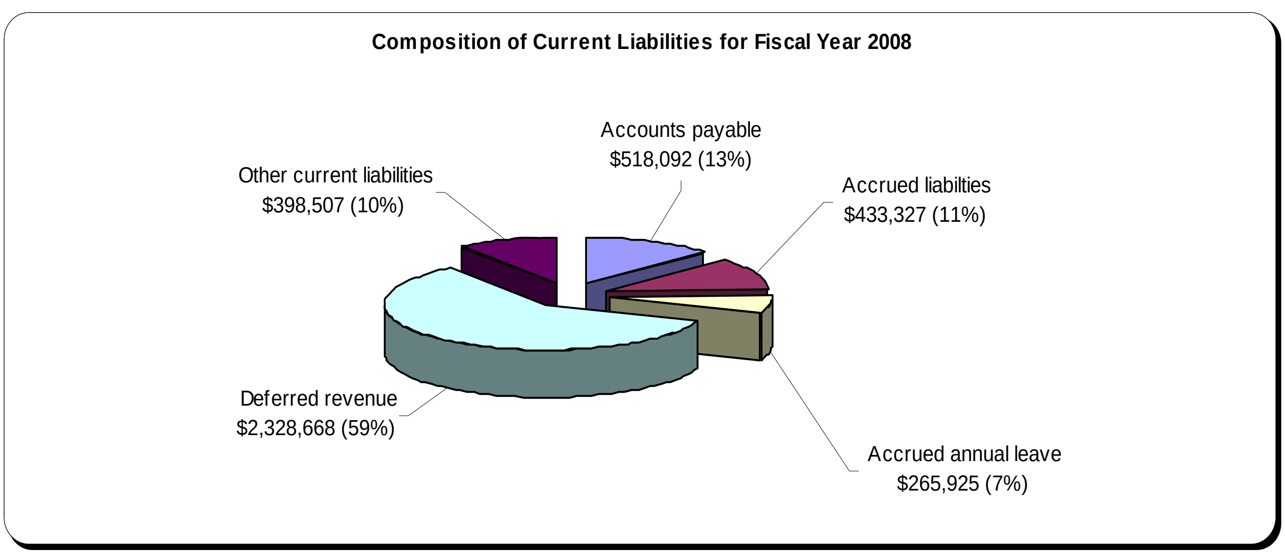
The reduction by $1.772 Million in current assets consists of the following changes:

- Decrease in cash and equivalents by $1.519 Million or 25%;
- Decrease in net tuition receivable by $695k or 21%;
- Decrease in due from FSM National Government by $72k or 11%;
- Decrease in other receivables by $35k or 16%;
- Increase in inventory by $269k or 66%;
- Increase in grants and contract receivable by $187k or 22%; and
- Increase in prepaid expenses by $93k or 219%.

Noncurrent assets: The total noncurrent assets dropped by $418k from $14.870 Million in fiscal year 2007 to $14.452 Million in fiscal year 2008. The reduction is due from the decrease in investments by $325k and a decrease in capital assets by $93k. Below is the pie graph for the breakdown of noncurrent assets:



Current liabilities: The current liabilities for fiscal year 2008 dropped by 14% or $636k, from $4.581 Million in fiscal year 2007 to $3.945 Million in fiscal year 2008. The composition of current liabilities is presented in the following pie graph:



The changes in current liabilities of $636k consist of the following:

- Decrease in deferred revenue by $552k or 19%;
- Decrease in current liabilities by $458k or 53%;
- Increase in accounts payable by $334k or 181%;
- Increase in accrued annual leave and other liabilities by $40k or 6%.

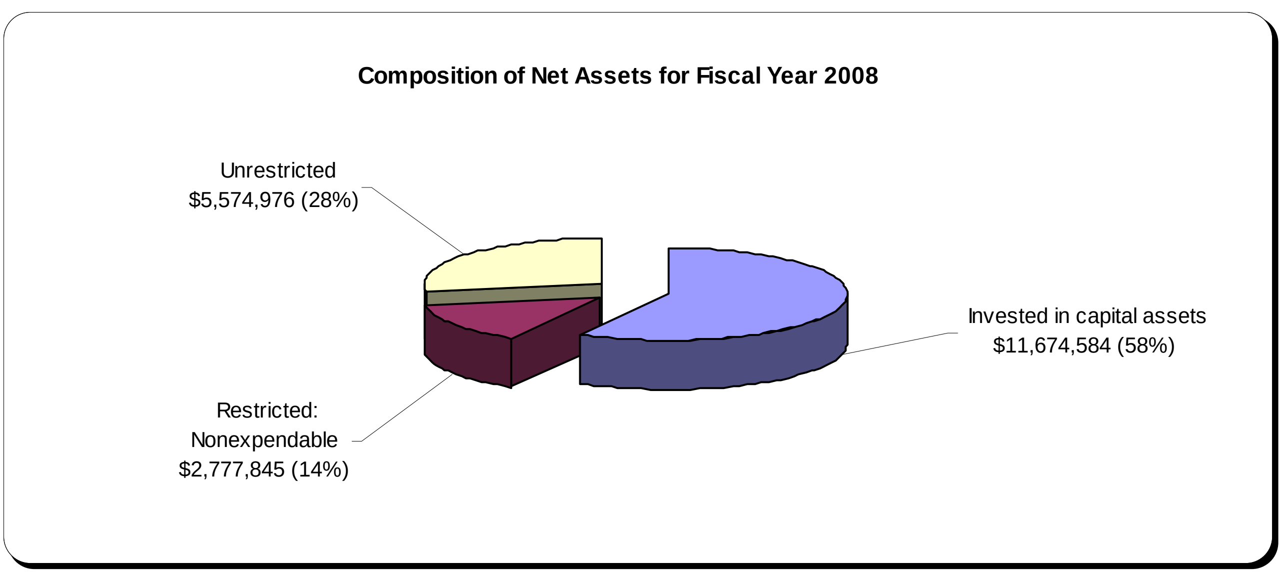
Noncurrent liability: The noncurrent liability of $238k represents the long-term portion of the accrued annual leave, and it provided a slight increase by $20k or 10% compared with prior fiscal year.

Net Assets: Net assets present the residual interest in the College's assets after liabilities are deducted. The College's net assets for fiscal year 2008 is $20.028 Million which is lower by $1.573 Million compared with $21.601 Million in fiscal year 2007. Below is the breakdown of the College's net assets categorized according to the reporting model of GASB:

	FY 2008 (In 000's)	FY 2007 (In 000's)	Difference (In 000's)	FY 2006 (In 000's)
Invested in capital assets	$ 11,675	$ 11,767	$ (93)	$ 12,392
Restricted:				
Nonexpendable	2,778	3,103	(325)	2,655
Unrestricted	5,575	6,731	(1,155)	7,438
Total	$ 20,028	$ 21,601	$ (1,573)	$ 22,485

The reduction by $93k in invested capital assets is net of depreciation expense and costs of additional assets for fiscal year 2008, particularly faculty building at National campus and SBDC building at Kosrae campus. The drop by $325k in restricted – nonexpendable, an endowment investment required to be retained in perpetuity, is from unrealized market loss. The unrestricted net assets, which represent all remaining assets that can be committed or designated by the COM-FSM Board of Regents to support specific academic programs, capital construction projects, and others, dropped by $1.155 Million.

Below is the pie graph for the breakdown of net assets for fiscal year 2008:

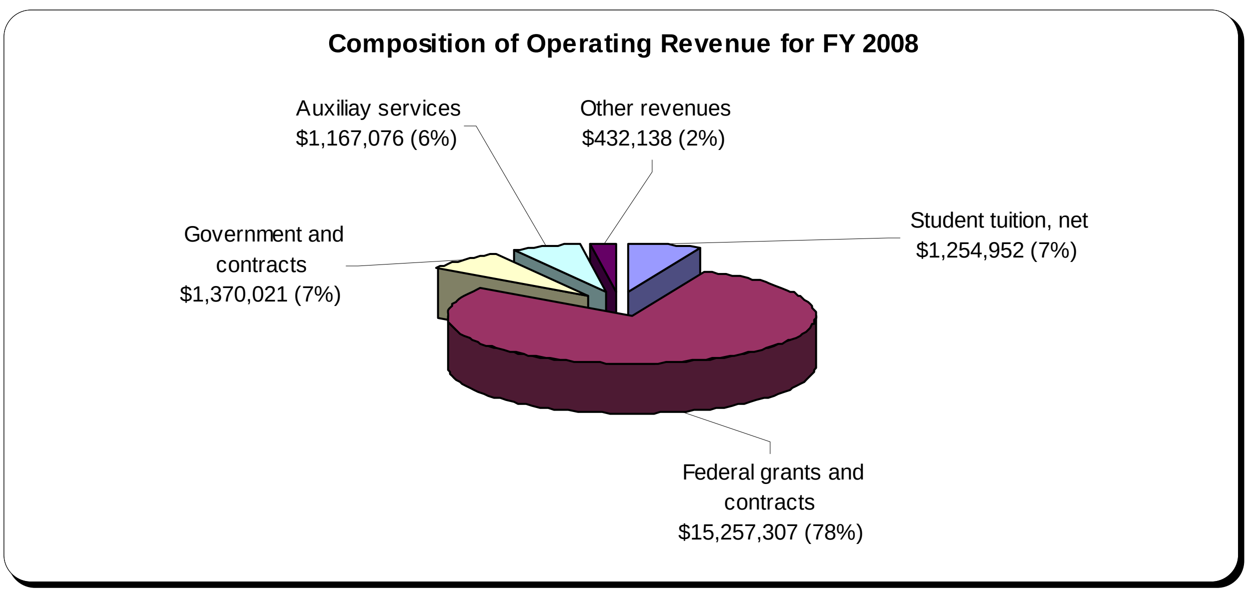


2. Statement of Revenues, Expenses and Changes in Net Assets (SRECNA)

The SRECNA provides information on the College's financial performance for the current fiscal year in terms of revenues and expenses. It presents the operating revenues and expenses and the corresponding net operating results, as well as non-operating revenues and expenses and net change in net assets. Below is the comparative summary of SRECNA for fiscal years ended September 30, 2008 and 2007:

	FY 2008 (In 000's)	FY 2007 (In 000's)	Difference (In 000's)	FY 2006 (In 000's)
Operating revenues	$ 19,481	$ 17,675	$ 1,806	$ 17,840
Operating expenses	20,634	18,967	1,667	18,268
Operating loss	(1,153)	(1,292)	139	(427)
Nonoperating revenue	(421)	408	(830)	238
Net increase(decrease) in net assets	(1,574)	(884)	(691)	(189)
Net assets at beginning of year	21,601	22,485	(884)	22,674
Net assets at end of year	$ 20,027	$ 21,601	$ (1,575)	$ 22,485

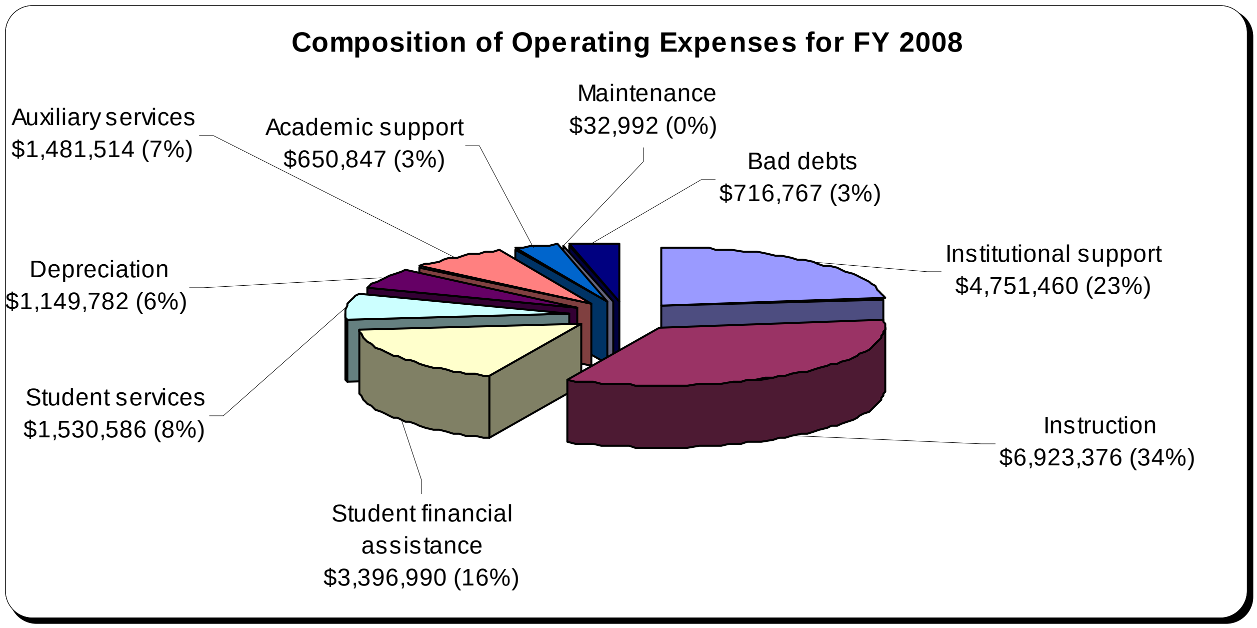
Operating revenues: The composition of the operating revenue amounting to $19.481 Million for fiscal year 2008 is presented by the following pie graph:



Compared with fiscal year 2007, the operating revenue for fiscal year 2008 indicated an increase by $1.806 Million consisting of the following changes in revenue accounts:

- Increase in tuition by $1.035 Million or 473%;
- Increase in federal grants and contracts by $472k or 3%;
- Increase in sales and services of auxiliary enterprises by $327k or 39%;
- Increase in other revenues by $131k or 44%; and
- Decrease in government grants and contracts by $159k or 10%.

Operating expenses: The College's operating expenses for fiscal year 2008 is $20.634 Million. Below is the breakdown of operating expenditures presented in pie graph:



The total operating expenses showed a net increase by $1.667 Million, consisting of the following changes:

- Increase in student financial assistance by $1.303 Million or 62%;
- Increase in bad debts by $530k or 284%;
- Increase in the expenditures of auxiliary enterprises by $154k or 12%;
- Increase in student services by $68k or 5%;
- Increase in academic support by $66k or 11%;
- Increase in depreciation by $12k or 1%;
- Decrease in instructional costs by $436k or 6%;
- Decrease in institutional support by $15k or less than 1%; and
- Decrease in maintenance by $15k or 31%.

Nonoperating loss: The college endowment fund investment was affected by the global economic crisis. The investments suffered an unrealized market loss of $421k for fiscal year 2008. Last fiscal year, the college generated an unrealized market gain of $409k.

Net change in net assets: The result of the College's financial performance for fiscal year 2008 is a net decrease in net assets by $1.574 Million. Primary causes of the reduction in net assets are bad debts and supplemental budgets from fund balance to address unbudgeted needs of the College for fiscal year 2008.

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 $4.574 Million at end of fiscal year 2008. The fiscal year end balance reflects a drop by $1.519 Million compared with fiscal year 2007 balance of $6.093 Million.

Below is the summary Statement of Cash Flows:

	FY 2008 (In 000's)	FY 2007 (In 000's)	Difference (In 000's)	FY 2006 (In 000's)
Used in operating activities	$ (516)	$ 409	$ (925)	$ 96
Provided by noncapital financing activities	-	-	-	-
Used in capital and related financing activities	(1,057)	(514)	(543)	(741)
Used in investing activities	54	229	(175)	(288)
Net increase in cash and equivalents	(1,519)	124	(1,643)	(933)
Cash and cash equivalents at beginning of year	6,093	5,969	124	6,902
Cash and cash equivalents at end of year	$ 4,574	$ 6,093	$ (1,519)	$ 5,969

The drop in cash and equivalents was due to funding of supplemental budgets from fund balance and increase in the payments to suppliers.

The negative net cash flow of $516k from operating activities for fiscal year 2008 consists of the following:

- Cash inflow from student tuition and fees of $1.415 Million;
- Cash inflow from grants and contracts of $16.513 Million;
- Cash inflow from auxiliary services of $1.203 Million;
- Cash inflow from other receipts of $432k;
- Cash outflow from payments of salaries of $7.706 Million; and
- Cash outflow from payments to suppliers of $12.373 Million.

Budget Information

The development of the College's budget begins 17 months before the actual fiscal year through the approval of the budget guidelines by the board of regents during the May regular meeting.

The College's Finance Committee through Resource and Planning Committee are responsible in reviewing budgets and in conducting budget hearings to all offices, and in recommending a balanced budget to Cabinet. The budget is transmitted to the board for approval. Budgets with FSM funding are transmitted to FSM Executive Budget Review Committee and FSM Congress for approval and appropriation.

The budgets for the general operations of the College include the following:

1. $10,732,524 – for the administration and management of the college at National campus and all state campuses.
2. $650,000 – for the administration and management of the FSM – FMI at Yap State.
3. $670,326 – for work study, supplemental education opportunity grant and teacher corps programs.
4. $1,307,984 – for the operations and management of cafeteria and bookstore.
5. $58,000 – for the operations of the Board of Regents of the college.
6. $2,350,852 – for the infrastructure development projects at state campuses.
7. $270,000 – for student assistance.

The restricted budgets from the U.S. Department of Education and Department of the Interior are as follows:

1. Federal Pell grant program	$7,955,000
2. Federal work study	174,331
3. Supplemental education opportunity grant	150,000
4. TRIO and English Language Acquisition programs-	1,775,976
5. Supplemental Education Grant	670,594

Capital Assets and Long-term Debt Activity

At September 30, 2008, the College's net investment in capital assets is $11.674 Million, net of accumulated depreciation. Depreciation for the current year totaled $1.149 Million, and capital additions for buildings, furniture and equipment and vehicles totaled $838k. For additional information on capital assets, please refer to note 6 to the financial statements.

The long-term debt of the College represents accrued annual leave of $238k. The Personnel Policy and Procedure Manual of the College provide accumulation of annual leave balance in the employees' records. The accumulated annual leave, not to exceed 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 2008.

Management's Discussion and Analysis for the years ended September 30, 2007 and 2006, is set forth in the College's report on the audit of the financial statements, which is dated June 15, 2008, and that Discussion and Analysis explains the major factors impacting the 2007 and 2006, to learn more about the College or to clarify matters in the Management's Discussion and Analysis, please contact Spensin James, President or Danilo V. Dumantay, Comptroller at email addresses sjames@comfsm.fm or comptroller@comfsm.fm, respectively or please write us at P.O. Box 159, Kolonia, Pohnpei, FSM 96941.

Economic Outlook

The economic position of the College is dependent on tuition fees from students receiving financial assistance from U.S. Federal Student Aid programs, and on the annual subsidy from FSM National Government through the Education Sector Grant as provided for under the Compact of Free Association between the Government of the United States of America and the Government of the FSM (Compact II).

The U.S. Federal Student Aid programs are from the U.S. Department of Education under the U.S. Public Law 99 – 239. The U.S. Department of Education, Federal Student Aid renewed the Program Participation Agreement for the College through March 31, 2014. More than 80% of the students at the College received financial assistance from U.S. Federal Student Aid programs.

The College's accreditation was reaffirmed until June 2010 by the Accrediting Commission for Community and Junior Colleges (ACCJC) of the Western Association of Schools and Colleges (WASC). The reaffirmation of accreditation allows the College to continue to receive and administer U.S. Federal Student Aid programs for the College's eligible students.

The College projected to receive continued support at the same level of funding assistance in succeeding years from the FSM National Government through Compact II. The continued funding support from Compact II of at least $3.8 Million annually, and the continued U.S. Federal Student Aid programs to FSM students will enable the administration to plan for the future of the College.

The College's endowment fund, which was established in 1992, has the goal of growing in size to provide the long-term financial stability of the College. During the March 2009 meeting, board members expressed strong commitment to support the College by seeking local and foreign donors to assist the annual fund raising activities and to generate the projected level of contributions to the endowment fund. Further, the College President has directed the office of Development and Community Relations office to revive the CCM/COM-FSM Alumni Association. In May of 2009, the Association had its kick off party for the Pohnpei Chapter. Other chapters from the other FSM States will follow.

The College has developed a recruitment and retention plan to increase enrollment and retention rate. In the past three school years, the college experienced declining trend of enrollment. The management acknowledged this challenge and seriously undertaking necessary actions. The position of the Director of Admission and Records was restructured to include responsibilities in improving recruitment and retention.

The president restructured the College's standing committees. The former stand alone Planning Council was reorganized and renamed Planning and Resources Committee (PRC) to serve as the primary committee of various sub – committees to link planning and resource allocations. The PRC is in the process of analyzing the best option in streamlining the organizational structure of the College to address sustainability, affordability and quality of services and program to meet its mission.

The College remains open to all possible opportunities on the military build up in Guam for the next ten years. Partnerships with employers of private and public corporations, employer associations and governments of Guam and U.S. are an ongoing process to explore opportunities that will provide significant financial benefits to the College.

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

Statements of Net Assets
September 30, 2008 and 2007

ASSETS	2,008	2007
Current assets:		
Cash and cash equivalents	$ 4,574,692	$ 6,093,695
Due from FSM National Government, net	579,608	652,172
Tuition receivable, net	2,580,833	3,275,429
Grants and contracts receivable - U.S. Government (net of allowance for doubtful accounts of $66,539 and $224,895 for 2008 and 2007, respectively)	1,020,615	833,485
Other receivables (net of allowance for doubtful accounts of $156,472 and $77,807 for 2008 and 2007, respectively)	190,958	226,508
Inventory	675,313	406,204
Prepaid expenses	135,944	42,559
Total current assets	9,757,963	11,530,052
Noncurrent assets:		
Investments	2,777,845	3,103,077
Capital assets, net of accumulated depreciation	11,674,584	11,767,373
Total noncurrent assets	14,452,429	14,870,450
Total assets	$ 24,210,392	$ 26,400,502
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	$ 518,092	$ 184,197
Accrued liabilities	433,327	399,197
Accrued annual leave	265,925	260,351
Deferred revenue	2,328,668	2,880,551
Other current liabilities	398,507	856,639
Total current liabilities	3,944,519	4,580,935
Noncurrent liabilities:		
Long-term portion of accrued annual leave	238,468	218,450
Total liabilities	4,182,987	4,799,385
Contingencies		
Net assets:		
Invested in capital assets	11,674,584	11,767,373
Restricted:		
Nonexpendable	2,777,845	3,103,077
Unrestricted	5,574,976	6,730,667
Total net assets	20,027,405	21,601,117
Total liabilities and net assets	$ 24,210,392	$ 26,400,502

See accompanying notes to financial statements.

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

Statements of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2008 and 2007

	2008	2007
Operating revenues:		
Student tuition and fees	$ 7,154,597	$ 6,266,372
Less: Scholarship discounts and allowances	(5,899,645)	(6,046,730)
	1,254,952	219,642
Federal grants and contracts	15,257,307	14,785,955
Government grants and contracts	1,370,021	1,528,910
Sales and services of auxiliary enterprises	1,167,076	839,806
Other revenues	432,138	300,901
Total operating revenues	19,481,494	17,675,214
Less bad debts	(716,767)	(186,810)
Net operating revenues	18,764,727	17,488,404
Operating expenses:		
Institutional support	4,751,460	4,766,489
Instruction	6,923,376	7,359,586
Student financial assistance	3,396,990	2,094,328
Student services	1,530,586	1,462,239
Depreciation	1,149,782	1,137,699
Auxiliary enterprises	1,481,514	1,327,873
Academic support	650,847	584,851
Operations and maintenance, plant	32,992	47,638
Total operating expenses	19,917,547	18,780,703
Operating loss	(1,152,820)	(1,292,299)
Nonoperating revenues:		
Net investment income (loss)	(420,892)	408,674
Net nonoperating revenues	(420,892)	408,674
Net change in net assets	(1,573,712)	(883,625)
Net assets:		
Net assets at beginning of year	21,601,117	22,484,742
Net assets at end of year	$ 20,027,405	$ 21,601,117

See accompanying notes to financial statements.

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

Statements of Cash Flows
Years Ended September 30, 2008 and 2007

	2008	2007
Cash flows from operating activities:		
Student tuition and fees, net	$ 1,414,509	$ 216,276
Grants and contracts	16,512,762	17,294,152
Auxiliary services	1,202,626	810,135
Other receipts	432,138	300,901
Payments to employees for salaries and benefits	(7,705,860)	(7,681,152)
Payments to suppliers and others	(12,372,540)	(10,530,978)
Net cash (used in) provided by operating activities	(516,365)	409,334
Cash flows from capital and related financing activities:		
Purchases of capital assets	(1,056,994)	(513,591)
Net cash used in capital and related financing activities	(1,056,994)	(513,591)
Cash flows from investing activities:		
Investment income	150,016	228,674
Purchase of investments	(95,660)	-
Net cash provided by investing activities	54,356	228,674
Net change in cash and cash equivalents	(1,519,003)	124,417
Cash and cash equivalents at beginning of year	6,093,695	5,969,278
Cash and cash equivalents at end of year	$ 4,574,692	$ 6,093,695
Reconciliation of operating loss to net cash (used in) provided by operating activities:		
Operating loss	$ (1,152,820)	$ (1,292,299)
Adjustments to reconcile operating loss to net cash (used in) provided by operating activities:		
Depreciation	1,149,782	1,137,699
Bad debts	716,767	186,810
Change in assets and liabilities:		
Tuition receivable	(473,881)	(550,639)
Grants and contracts receivable	187,130	1,029,287
Other receivables	35,550	(29,671)
Inventories	(269,109)	(172,409)
Prepaid expenses	(93,385)	150,250
Accounts payable	333,895	(132,128)
Payable to affiliates	-	(8,481)
Accrued liabilities	59,721	(104,390)
Deferred revenue	(551,883)	195,722
Other current liabilities	(458,132)	(417)
Net cash (used in) provided by operating activities	$ (516,365)	$ 409,334

See accompanying notes to financial statements.

(1) Organization

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

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

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

(2) Basis of Presentation

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

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

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

(2) Basis of Presentation, Continued

B. Basis of Accounting, Continued.

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

(3) Summary of Significant Accounting Policies

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

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

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

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

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

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

At September 30, 2008 and 2007, COM-FSM has recorded cash balances of $4,574,692 and $6,093,695, respectively, with corresponding bank balances of $5,669,776 and $6,703,382, respectively. Of these amounts, $200,000 in each year is insured by the Federal Deposit Insurance Corporation (FDIC) and $500,000 is subject to coverage by the Securities Investor Protection Corporation. The remaining balances are not insured or collateralized by securities held by a trustee in the name of the financial institution. Management elected not to require insurance or collateralization on the remaining balances based on confidence in the financial health of the banking institutions. No losses as a result of this practice were incurred during the years ended September 30, 2008 and 2007.

(3) Summary of Significant Accounting Policies, Continued

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

C. Accounts Receivable. Accounts receivable tuition and fees and accounts receivable employees, are net of an allowance for uncollectible accounts as of September 30, 2008, are as follows:

	National Campus	State Campuses	Totals
Accounts receivable, gross	$ 3,712,256	$ 2,844,160	$ 6,556,416
Allowance for uncollectible accounts	(2,033,711)	(1,941,872)	(3,975,583)
Accounts receivable, net	$ 1,678,545	$ 902,288	$ 2,580,833

Accounts receivable tuition and fees and accounts receivable employees net of an allowance for uncollectible accounts as of September 30, 2007, are as follows:

	National Campus	State Campuses	Totals
Accounts receivable, gross	$ 3,898,374	$ 2,709,366	$ 6,607,740
Allowance for uncollectible accounts	(1,679,334)	(1,652,977)	(3,332,311)
Accounts receivable, net	$ 2,219,040	$ 1,056,389	$ 3,275,429

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

D. Inventory. Inventory is stated at the lower of cost (first-in, first-out) or market (net realizable value).

E. Prepaid Expenses. Payments made to vendors for goods and services that will benefit periods beyond September 30, 2008 and 2007, are recorded as prepaid expenses. Prepaid expenses represent prepayments for laboratory supplies, textbooks and computers.

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

Certain real property and buildings being used by COM-FSM, were contributed to COM-FSM by the FSM National Government. No user fee or allowance has been computed or charged to COM-FSM by the FSM National Government. Therefore, such costs have been recorded neither as in-kind contributions nor expenses.

(3) Summary of Significant Accounting Policies, Continued

G. Deferred Revenue. Deferred revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but relate to the subsequent accounting period. Deferred revenues also include amounts received from grant and contract sponsors that have not yet been earned.

H. Accrued Leave. COM-FSM recognizes as a liability all vested leave benefits accrued by its employees at the time such leave is earned.

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

The change in accrued compensated absences during fiscal years 2008 and 2007 is as follows:

Balance, Oct. 1, 2007	Addition	Reduction	Balance, Sept. 30, 2008	Current
$478,801	$274,743	$(249,151)	$504,393	$265,925

Balance, Oct. 1, 2006	Addition	Reduction	Balance, Sept. 30, 2007	Current
$428,502	$260,720	$(210,421)	$478,801	$260,351

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

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

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

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

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

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

(3) Summary of Significant Accounting Policies, Continued

K. Classification of Revenues and Expenses, Continued

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

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

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

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

O. New Accounting Standards. During fiscal year 2008, the College implemented the following pronouncements:

During fiscal year 2008, the College implemented GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfer of Assets and Future Revenues*, and GASB Statement No. 50, *Pension Disclosures an amendment of GASB Statements No. 25 and 27*. GASB Statement No. 43 establishes uniform financial reporting for other postemployment benefit plans by state and local governments and GASB Statement No. 50 more closely aligns the financial reporting requirements for pensions with those for other post-employment benefits. GASB Statement No. 48 establishes criteria that governments will use to ascertain whether certain transactions should be regarded as a sale or a collateralized borrowing, and includes a provision that stipulates that governments should not revalue assets that are transferred between financial reporting entity components. The implementation of these pronouncements did not have a material effect on the accompanying financial statements.

(3) Organization and Summary of Significant Accounting Policies, Continued

O. New Accounting Standards, Continued

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. GASB Statement No. 45 establishes standards for the measurement, recognition, and display of other post-employment benefits expense/expenditures and related liabilities, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The provisions of this statement are effective for periods beginning after December 15, 2007. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the College.

In December 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. GASB Statement No. 49 provides guidance and consistency under which a governmental entity would be required to report a liability related to pollution remediation. The provisions of this statement are effective for periods beginning after December 15, 2007. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the College.

In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. GASB Statement No. 51 addresses whether and when intangible assets should be considered capital assets for financial reporting purposes. The provisions of this statement are effective for periods beginning after June 15, 2009. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the College.

In November 2007, GASB issued Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*. GASB Statement No. 52 improves the quality of financial reporting by requiring endowments to report their land and other real estate investments at fair value, creating consistency in reporting among similar entities that exist to invest resources for the purpose of generating income. The provisions of this statement are effective for periods beginning after June 15, 2008. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the College.

In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. GASB Statement No. 53 is intended to improve how state and local governments report information about derivative instruments - financial arrangements used by governments to manage specific risks or make investments - in their financial statements. The provisions of this statement are effective for periods beginning after June 15, 2009. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the College.

(4) Investments

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

In November 1995, notification was received from the U.S. Department Education that COM-FSM had been selected for a grant under the Endowment Challenge Grant Program authorized by Title III of the Higher Education Act of 1965, as amended. Non-government funds raised for this endowment fund were matched by the U.S. Department of Education on a two-to-one basis. The Secretary of Education awarded an amount to COM-FSM equal to two times the amount of the funds raised. The College of Micronesia-FSM raised $250,000 and the U.S. Department of Education awarded $500,000, bringing the total of this endowment fund to $750,000. The Endowment Challenge grant covers a period of twenty years.

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

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

The composition of investments as of September 30, 2008 and 2007, by funding source, is as follows:

	2008	2007
Donor		
FSM Telecommunications Corporation (FSMTC)	$ 165,000	$ 165,000
U.S. Department of Education and local match (Challenge)	2,612,845	2,938,077
	$ 2,777,845	$ 3,103,077

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

(4) Investments, Continued

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

Category 1 Investments that are insured or registered, or securities held by the College or its agent in the College's name;

Category 2 Investments that are uninsured and unregistered for which the securities are held by the counterparty's trust department or agent in the College's name; or

Category 3 Investments that are uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the College's name.

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

As of September 30, 2008 and 2007, investments at fair value are as follows:

	2008	2007
Fixed income securities:		
Domestic fixed income	$ 745,809	$ 775,515
International fixed income	51,701	33,545
	797,510	809,060
Other investments:		
Common equities	1,725,346	2,236,039
Money market funds	254,989	57,978
	1,980,335	2,294,017
	$ 2,777,845	$ 3,103,077

As of September 30, 2008, 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
International bond	$ 51,701	$ -	$ 19,219	$ 9,796	$ 22,686
Corporate bond	430,617	-	136,815	94,082	199,720
Government bond	315,192	-	164,718	104,650	45,824
	$ 797,510	$ -	$ 320,752	$ 208,528	$ 268,230

(4) Investments, Continued

As of September 30, 2007, 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
International bond	$ 33,545	$ -	$ 9,068	$ -	$ 24,477
Corporate bond	217,034	-	9,260	109,335	98,439
Government bond	558,481	-	463,791	73,981	20,709
	$ 809,060	$ -	$ 482,119	$ 183,316	$ 143,625

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

The College's exposure to credit risk at September 30, 2008, was as follows:

Moody's Rating	Total	Domestic	International
AAA/AAA	$ 361,962	$ 361,962	$ -
AAA/AA	11,145	11,145	-
AA1/AA+	9,266	9,266	-
AA1/AA-	10,071	10,071	-
AA2/AA	19,177	19,177	-
AA2/AA-	8,633	8,633	-
AA3/AA	10,104	10,104	-
AA3/A+	5,971	5,971	-
A1/AA-	8,631	-	8,631
A1/A+	10,250	10,250	-
A2/A	34,873	34,873	-
A3/A	9,383	9,383	-
A3/A-	26,393	16,235	10,158
A3/BBB+	28,670	18,874	9,796
BAAA1/A-	31,385	8,269	23,116
BAA1/BBB+	8,424	8,424	-
BAA2/BBB+	43,640	43,640	-
BAA2/BBB	5,347	5,347	-
BAA3/BBB+	8,274	8,274	-
BAA3/BBB	8,527	8,527	-
BAA3/BBB-	17,519	17,519	-
BA1/BBB-	8,054	8,054	-
No Rating	111,811	111,811	-
Total credit risk debt securities	$ 797,510	$ 745,809	$ 51,701

(4) Investments, Continued

The College's exposure to credit risk at September 30, 2007, was as follows:

Moody's Rating	Total	Domestic	International
AAA/AAA	$ 587,498	$ 587,498	$ -
AA2/A-	6,401	6,401	-
AA2/AA	9,290	9,290	-
AA3/A+	7,330	7,330	-
AA3/A-	9,260	9,260	-
AA3/AA-	15,647	15,647	-
A1/A+	9,137	9,137	-
A1/AA-	18,105	8,801	9,304
A2/A	17,094	17,094	-
A2/A+	9,304	9,304	-
A3/A-	8,832	8,832	-
BAA1/A-	27,035	9,181	17,854
BAA1/BBB +	23,903	17,516	6,387
BAA2/BBB	15,645	15,645	-
BAA2/BBB-	9,023	9,023	-
BAA2/BBB+	17,934	17,934	-
BAA3/BBB	8,740	8,740	-
BAA3/BBB-	8,882	8,882	-
Total credit risk debt securities	$ 809,060	$ 775,515	$ 33,545

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, 2008 and 2007.

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, 2008 and 2007.

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

(5) Due from Grantor Agencies

COM-FSM administers student financial aid (SFA) for the U.S. Department of Education SFA funds related to Pell Grants, College Work-Study and Supplemental Educational Opportunity Grants, Talent Search Program, Upward Bound Program, and Strengthening Institution Program. In addition, COM-FSM also administers Land Grant Programs on behalf of COM Land Grant College. The net grants and contracts receivable – U.S. Government are comprised of the following uncollected grants as of September 30, 2008 and 2007:

	2008	2007
Due from U.S. Department of Education	$ 651,121	$ 292,241
Due from COM-Land Grant, net	369,494	541,244
	$ 1,020,615	$ 833,485

(6) Capital Assets

Capital assets at September 30, 2008 and 2007 consist of the following:

	Balance October 1, 2007	Additions	Retirements	Balance September 30, 2008
Depreciable assets:				
Building	$ 13,661,263	$ 317,077	$ -	$ 13,978,340
Furniture and equipment	7,105,293	468,947	-	7,574,240
Vehicles/boats	838,056	51,610	-	889,666
Library books	706,402		-	706,402
	22,311,014	837,634	-	23,148,648
Less accumulated depreciation	(11,999,326)	(1,149,782)	-	(13,149,108)
	10,311,688	(312,148)	-	9,999,540
Non-depreciable assets:				
Land	1,455,685	-	-	1,455,685
Construction in progress	-	219,360	-	219,360
	1,455,685	219,360	-	1,675,045
Net investment in capital assets	$ 11,767,373	$ (92,788)	$ -	$ 11,674,584

(6) Capital Assets, Continued

	Balance October 1, 2006	Additions	Retirements	Balance September 30, 2007
Non-depreciable assets:				
Land	$ 1,455,685	$ -	$ -	$ 1,455,685
Depreciable assets:				
Building	13,661,263	-	-	13,661,263
Furniture and equipment	6,706,156	399,137	-	7,105,293
Vehicles/boats	724,183	113,873	-	838,056
Library books	705,821	581	-	706,402
	21,797,423	513,591	-	22,311,014
Less accumulated depreciation	(10,861,627)	(1,137,699)	-	(11,999,326)
	10,935,796	(624,108)	-	10,311,688
Net investment in capital assets	$ 12,391,481	$ (624,108)	$ -	$ 11,767,373

(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, 2008 and 2007, receivables from the FSM National Government amounted to $579,608 and $652,172, respectively.

(8) Contingencies

COM-FSM purchases commercial insurance to cover its potential risks from fire and property damage on some of its building and contents. COM-FSM is substantially self-insured for all other risks. In the event of a catastrophe, COM-FSM may be self-insured to a material extent. Settlements have not exceeded insurance coverage in the past three years.

COM-FSM is party to various legal proceedings. Legal counsel is of the opinion that the probable outcome of these proceedings is not predictable but will have no material impact on the accompanying financial statements.

During fiscal years ended September 30, 2008 and 2007, immaterial unreconciled differences exist between the College's and COM Land Grant's financial records. The College is resolving this matter with its counterpart and such reconciliation is not expected to have a material impact on the accompanying financial statements.

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

Board of Regents
College of Micronesia-FSM:

We have audited the financial statements of the College of Micronesia-FSM as of and for the year ended September 30, 2008, and have issued our report thereon dated June 5, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of the College of Micronesia-FSM in a separate letter dated June 5, 2009.

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

Deloitte & Touche LLP

June 5, 2009

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

Board of Regents
College of Micronesia-FSM:

Compliance

We have audited the compliance of College of Micronesia-FSM with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2008. College of Micronesia-FSM's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Responses (page 32). Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of College of Micronesia-FSM's management. Our responsibility is to express an opinion on College of Micronesia-FSM's compliance based on our audit.

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

In our opinion, College of Micronesia-FSM complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2008.

Internal Control Over Compliance

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

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of College of Micronesia-FSM as of and for the year ended September 30, 2008, and have issued our report thereon dated June 5, 2009. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards (page 32) is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. This schedule is the responsibility of the management of College of Micronesia-FSM. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, when considered in relation to the basic financial statements taken as a whole.

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

Deloitte + Touche LLP

June 5, 2009

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

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2008

Grantor/Program Title	CFDA Number	Expenditures
U.S. Department of Education:		
Federal Pell Grant Program	84.063	$ 8,796,283
Federal Supplemental Education Opportunity Grants	84.007	166,797
Federal Work-Study Program	84.033	107,606
TRIO: Upward Bound	84.047	1,064,877
TRIO: Talent Search	84.044	294,286
TRIO: Student Support Services	84.042	201,455
Bilingual Education: Professional Development	84.195	140,499
Total U.S. Department of Education		$ 10,771,803
U.S. Department of the Interior:		
Compact of Free Association II, Amended	15.875	$ 3,800,000
Compact of Free Association II, Amended (SEG)	15.875	410,817
Operation and Maintenance Technical Assistance	15.875	54,475
Total U.S. Department of the Interior		$ 4,265,292
Total Federal Awards		$ 15,037,095

Notes: The above grants are received in a direct capacity from the U.S. Department of Education and the U.S. Department of the Interior, with the exception of the Compact of Free Association, as amended, which is received in a subrecipient capacity through the FSM National Government. The Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting.

Reconciliation to financial statements:

Total federal awards expenditures:	$ 15,037,095
Depreciation	1,149,782
Non-federal awards	3,730,670
Total expenditures per financial statements	$ 19,917,547

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

Schedule of Findings and Responses
Year Ended September 30, 2008

Part I - Summary of Auditors' Results

Financial Statements

1.	Type of auditors' report issued:	Unqualified
	Internal control over financial reporting:	
2.	Material weakness(es) identified?	No
3.	Significant deficiency(ies) identified that is not considered to be a material weakness?	None reported
4.	Noncompliance material to the financial statements noted?	No

Federal Awards

	Internal control over major programs:	
5.	Material weakness(es) identified?	No
6.	Significant deficiency(ies) identified that is not considered to be a material weakness?	None reported
7.	Type of auditors' report issued on compliance for major programs:	Unqualified
8.	Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	No

9. COM-FSM's major programs were as follows:

CFDA Number	Name of Federal Program or Cluster
	Federal Student Aid Cluster:
84.063	Federal Pell Grant Program
84.007	Federal Supplemental Opportunity Grants
84.033	Federal Work-Study Program
	TRIO Cluster:
84.047	TRIO: Upward Bound
84.044	TRIO: Talent Search
84.042	TRIO: Student Support Services
15.875	Economic, Social and Political Development of the Territories: Compact of Free Association II, Amended

10.	Dollar threshold used to distinguish between Type A and Type B Programs, as those terms are defined in OMB Circular A-133:	$451,152
11.	The College qualified as a low-risk auditee, as that term is defined in OMB Circular A-133?	Yes

Part II – Financial Statement Findings Section

No matters are reported.

Part III - Federal Award Findings and Questioned Cost Section

No matters are reported.

Schedule of Unresolved Prior Year Findings
Year Ended September 30, 2008

There are no unresolved prior year internal control findings.