

**2004-2005 ACCREDITATION ANNUAL FISCAL REPORT**  
**Accrediting Commission for Community and Junior Colleges**  
**College of Micronesia – FSM (COM – FSM)**

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Please submit a copy of the college 2004-05 independent audit report and audited financial statements. Also, submit the college's response(s) to any audit exceptions. Enlist the assistance of appropriate officers in your institution to ensure the accuracy of information submitted.

**The College submits the following data per the attached audited financial statements for FY 2005 (October 01, 2004 to September 30, 2005):**

1. List the total institutional operating surplus or operating shortfall for 2004-2005. Report the difference between revenue vs. expenditures for unrestricted funds only; do not include prior year fund balance in this figure, nor any contribution from categorical, capital projects, or other funds.

Unrestricted Funds:

Revenue	-	\$12,796,157
Expenses	-	<u>12,621,471</u>
Net changes in net assets		<u>\$ 174,686</u>

If your answer above indicates a deficit, what is the college's plan to address it?

2. What is your college's unrestricted reserve as a percentage of your 2004-2005 expenditures?

COM-FSM provides the following data:

<u>Accumulated unrestricted reserve</u>	=	<u>\$ 7,449,679</u>	
Unrestricted expenses (FY 2005)	=	<u>\$12,621,471</u>	= 59%

3. Does the institution participate in federal financial aid? X Yes      No

3a. If so, which programs? (Check all that apply.)

- Pell (Federal Pell Grant)  
 PSEOG (Federal Supplement Educational Opportunity Grant)  
 FWS (Federal Work Study)  
 LEAP  
 FFELP subsidized (Stafford Loan Program)  
 FFELP unsubsidized (Stafford Loan Program)  
 Direct (Federal Direct Student Loan Program)  
 PLUS (Parent Loans for Undergraduate Students)  
 Perkins Loans  
 Federal Direct Loans  
 Other Please List: U.S. DOE Competitive Grants

3b. What is the college's 2004-05 student loan default rate? Not applicable

3c. Number of participants in repayment for 2004-05? Not applicable

**COLLEGE OF MICRONESIA-FSM**

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**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT**

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**SEPTEMBER 30, 2005 AND 2004**

COLLEGE OF MICRONESIA-FSM  
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## INDEPENDENT AUDITORS' REPORT

Board of Regents  
College of Micronesia-FSM:

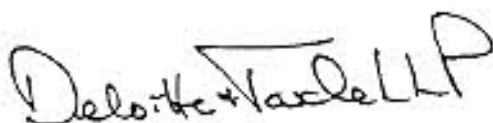
We have audited the accompanying statement of net assets of the College of Micronesia-FSM, a component unit of the FSM National Government, as of September 30, 2005 and 2004, and the related statements of revenues, expenses and changes in net assets, and of cash flows for the years then ended. These 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, 2005 and 2004, 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 2-9 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 to such information, 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 14, 2006, on our consideration of the College's internal control over financial reporting and 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.



June 14, 2006

## COLLEGE OF MICRONESIA-FSM

Management's Discussion and Analysis  
September 30, 2005 and 2004

The Management's Discussion and Analysis (MD & A) is supplementary information required by the new Government Accounting Standards Board Statement 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 the 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) which has a population of over 110,000. The COM-FSM has a network of six college campuses located on 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 on 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 of 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.

### **COM-FSM Mission**

The revised 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) through the strategic goal "To allow FSM students to complete postsecondary education to assist in the economic development of the FSM".

### **Overview of Fiscal Year 2005**

COM – FSM offered thirty-nine degree and certificate programs: eighteen Certificates of Achievement, six degrees in Associate of Arts, seven Associate of Science degrees, three Associate of Applied Science degrees, and five Third year Certificates. There were 6,180 students enrolled in these degree and certificate programs across all campuses for fall 04, spring 05 and summer 05. National campus enrolled 35% or 2,141 students, Pohnpei campus had 24% or 1,508 students, Chuuk campus had 24% or 1,479 students, Kosrae campus had 9% or 557 students and Yap campus had 8% or 495 students. The total enrollment for fiscal year 2005 of 6,180 is higher by 15% or 810 students compared with fiscal year

## COLLEGE OF MICRONESIA-FSM

### Management's Discussion and Analysis September 30, 2005 and 2004

2004 enrollment of 5,370. Though the enrollment at Chuuk campus dropped by 8% or 131 students, due to the "teach out" scheme implemented in summer 2005, it was offset by the increases at Polunpei and Yap campuses of 778 and 195 students or by 107% and 65%, respectively. National and Kosrae campuses showed slight decreases of 9 and 23 students, respectively, from last year.

FSM National Government continues to provide financial support to the College. For fiscal year 2005, FSM National Government provided \$5.198 Million to support 37% of the operating expenditures of the College, full operating costs of Fisheries and Maritime Institute, financial assistance to FSM students, administrative costs for the College's Board of Regents, and facility improvements in Yap campus. The support for fiscal year 2005 is higher by \$76K compared with fiscal year 2004 of \$5.122 Million.

The College continues to administer three U.S. Federal Student Aid Programs (Pell Grant, FSBOG and Work Study). The U.S. Federal Student Aid Programs awarded to students provided more than 90% of the tuition and fees paid by the students. In the current fiscal year, the Federal Pell Grant Program has increased by \$320k, from \$7.895 million in fiscal year 2004 to \$8.215 million in fiscal year 2005. In addition, the College continues to manage U.S. government competitive educational programs from the Department of Education, and vocational and maintenance programs from the Department of the Interior.

#### Financial Statements Analysis

The College started implementing the new financial reporting standards for public colleges and universities in accordance with Government Accounting Standards Board (GASB) principles in FY 2003. The funds are now presented in consolidated financial statements as a whole, rather than on the fund basis used under the former accounting model. Adopting the GASB principles provide the new financial reporting of the following three basic financial statements:

#### 1. Statement of Net Assets (SNA)

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.

Comparative Statements of Net Assets at September 30, 2005 and 2004 are summarized below:

	FY 2005 (In 000's)	FY 2004 (In 000's)	Difference (In 000's)
<b>Assets:</b>			
Current assets	\$ 12,589	\$ 11,415	\$ 1,174
Noncurrent assets	<u>15,191</u>	<u>15,327</u>	<u>(136)</u>
Total assets	<u>27,780</u>	<u>26,742</u>	<u>1,038</u>
<b>Liabilities:</b>			
Current liabilities	4,892	4,045	847
Noncurrent liabilities	<u>214</u>	<u>192</u>	<u>22</u>
Total liabilities	<u>5,106</u>	<u>4,237</u>	<u>869</u>
Net assets	\$ <u>22,674</u>	\$ <u>22,505</u>	\$ <u>169</u>

The comparison of the statement of net assets for fiscal year 2005 with fiscal year 2004 presents an increase in net assets of \$169K.

## COLLEGE OF MICRONESIA-FSM

### Management's Discussion and Analysis September 30, 2005 and 2004

**Current assets:** The total current assets of \$12.589 Million for fiscal year 2005 provided an increase by 10% or \$1.174 Million in comparison with fiscal year 2004 of \$11.415 Million. Current assets of \$12.589 Million consist of cash and cash equivalents of \$6.902 Million, receivable from FSM government of \$2.348 Million, receivable from students of \$2.187 Million and other current assets from inventory, other receivables and prepayments of \$1.152 Million.

**Noncurrent assets:** The total noncurrent assets of \$15.191 Million for fiscal year 2005 dropped by \$136K in comparison with \$15.327 for fiscal year 2004. The noncurrent assets consist of 84% or \$12.824 Million capital assets, net of accumulated depreciation, and endowment investment of 16% or \$2.366 Million. Capital assets dropped by 3% or \$333K. However, market value of endowment investment has increased by \$418K from unrealized gain and additional investment contribution for fiscal year 2005 of \$100K.

**Current liabilities:** The current liabilities of \$4.892 Million indicated an increase of \$847K compared with \$4.045 Million for fiscal year 2004. Current liabilities consist of deferred revenue of \$3.123 Million, payables to vendors and affiliates of \$1.195 Million, and other current liabilities of \$574K. Deferred revenue consisting primarily of tuition and fees of students for Fall 2005 provided the significant increase of 86% or \$729K to current liabilities.

**Noncurrent liabilities:** The noncurrent liabilities of \$214K representing the long-term portion of accrued annual leave showed an increase by \$22K or 12% compared with previous year.

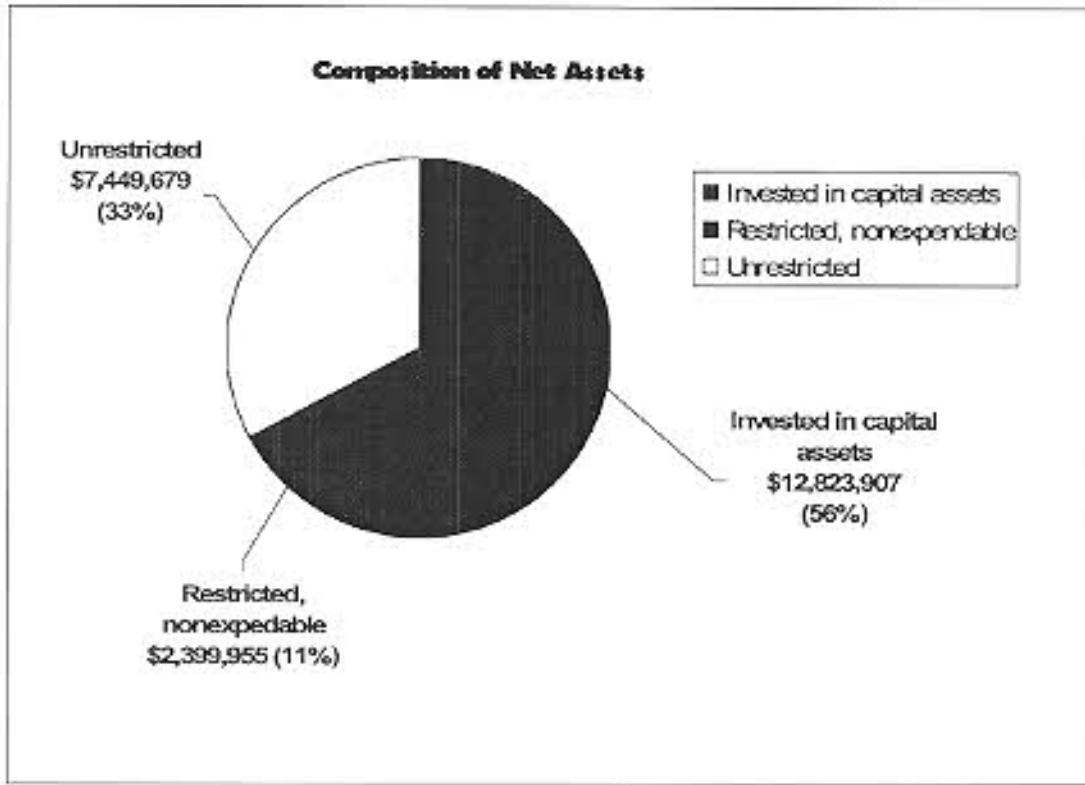
**Net Assets:** Net assets present the residual interest in the College's assets after liabilities are deducted. The College's net assets for fiscal year 2005 of \$22.674 Million resulted in an increase of \$169K compared with prior year of \$22.505 Million. Below is the breakdown of the College's net assets categorized according to the new reporting model of GASB:

	FY 2005 (In 000's)	FY 2004 (In 000's)	Difference (In 000's)
Invested in capital assets	\$ 12,824	\$ 13,157	\$ (333)
Restricted:			
Nonexpendable	2,400	1,987	413
Unrestricted	<u>7,450</u>	<u>7,361</u>	<u>89</u>
Total	\$ <u>22,674</u>	\$ <u>22,505</u>	\$ <u>169</u>

The investment in capital assets, net of accumulated depreciation of \$12.824 Million represents 56% of the College's net assets. The restricted - nonexpendable, representing the endowment investment which is required to be retained in perpetuity, is at \$2.4 Million or 11% of the College's net assets. The unrestricted net assets of \$7.450 Million includes all remaining net assets that can be committed or designated to support specific academic programs, capital construction projects, among other things, by the COM-FSM Board of Regents, remains at 33% of the College's net assets. Below is the pie graph of the College's Net Assets for fiscal year 2005:

COLLEGE OF MICRONESIA-FSM

Management's Discussion and Analysis  
September 30, 2005 and 2004



**2. Summary 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 revenue and expenses and the corresponding net operating results, as well as non-operating revenues and expenses for the College. Below is the comparative summary of SRECNA for the College for fiscal years ended September 30, 2005 and 2004:

	FY 2005 (In 000's)	FY 2004 (In 000's)	Difference (In 000's)
Operating revenues	\$ 17,607	\$ 16,904	\$ 703
Operating expenses	<u>18,132</u>	<u>18,008</u>	<u>124</u>
Operating loss	(525)	(1,104)	579
Nonoperating revenue	<u>693</u>	<u>1,062</u>	<u>(369)</u>
Net increase (decrease) in net assets	168	(41)	210
Net assets at beginning of year	<u>22,506</u>	<u>22,547</u>	<u>(41)</u>
Net assets at end of year	\$ <u>22,674</u>	\$ <u>22,506</u>	\$ <u>169</u>

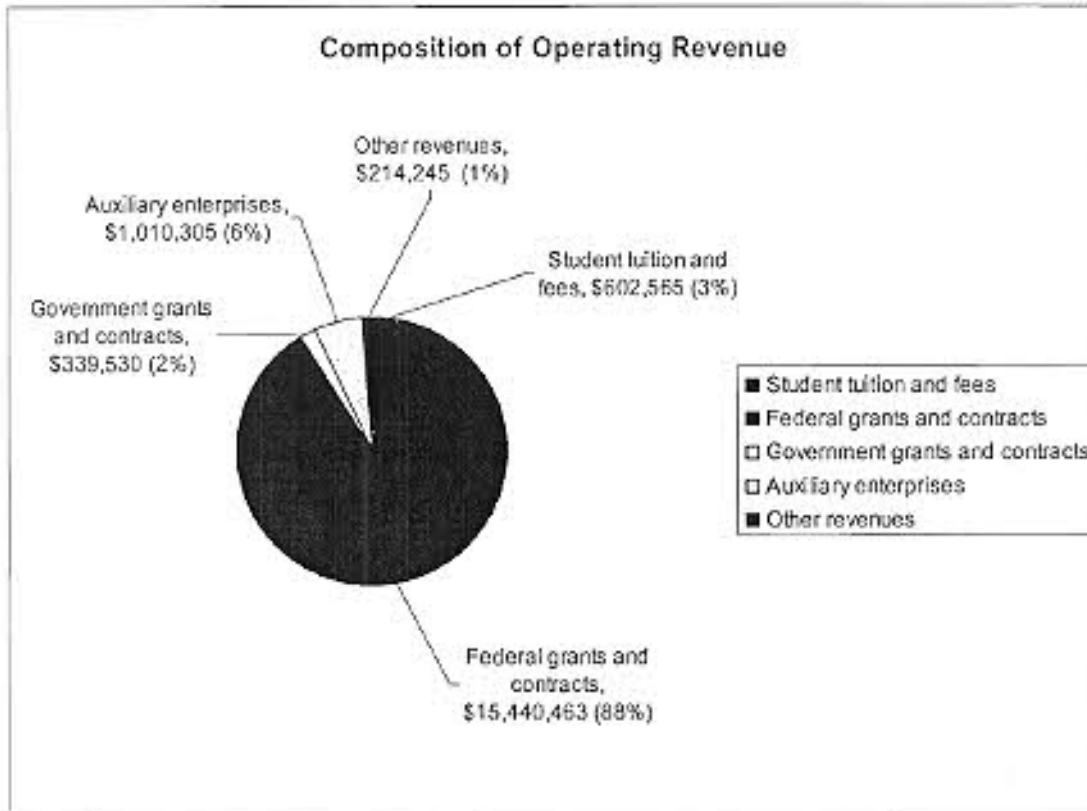


## COLLEGE OF MICRONESIA-FSM

Management's Discussion and Analysis  
September 30, 2005 and 2004

**Operating revenues:** The operating revenues of \$17.607 Million consist of 88% or \$15.440 Million from federal grants and contracts, 6% or \$1.010 Million from sales and services of auxiliary enterprises, 3% or \$554K from government contracts and other revenues, and 3% or \$602K from tuition and fees.

Below is the pie graph for the composition of operating revenue for fiscal year 2005:



The tuition and fees of \$602K is a net amount of the gross tuition and fees of \$6.448 Million less scholarship discounts and allowances of \$5.846 Million. About 90% of the students at the College receive U.S. Federal Student Aid, FSM National and State Governments scholarship discounts and allowances.

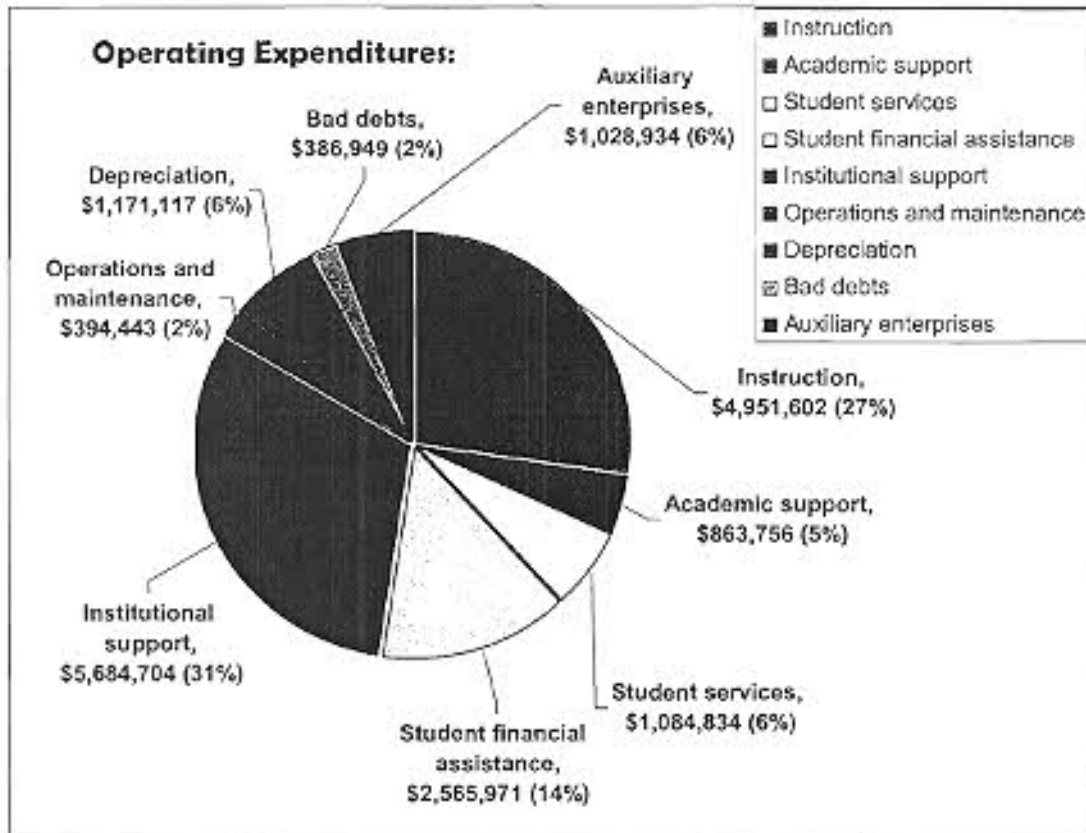
Comparison of the operating revenues of the current fiscal year with fiscal year 2004 indicated a net increase of \$702K. The increases are from tuition and fees by \$299K, federal contracts by \$456K, sales and services from auxiliary enterprises by \$199K and other revenues by \$74K. However, revenue from government contracts dropped by \$326K.

**Operating expenses:** Though operating expenses are presented based on programs and services of the College consisting of Instruction, Academic Support, Student Services, Student Financial Assistance, Institutional Support, Operations and Maintenance, Depreciation, Bad Debts and Auxiliary Enterprises, the College maintains the recording of expenses according to the general ledger classification of the operating expenses (i.e. salaries, supplies, repairs etc).

## COLLEGE OF MICRONESIA-FSM

Management's Discussion and Analysis  
September 30, 2005 and 2004

Below is the pie graph of operating expenses of \$18.132 Million as presented based on programs and services per the audited financial report:



Comparison of the operating expenses of fiscal year 2005 with fiscal year 2004 indicated a minor increase of \$124K or less than 1%.

**Nonoperating revenues:** The nonoperating revenue showed a reduction by \$369K, from \$1.062 Million to \$693K. The nonoperating revenue from FSM National Government appropriation dropped by 52% or \$415K. However, the net investment income for fiscal year 2005 showed an increase of 17% or \$45K compared with the previous year.

**Net increase in net assets:** The College's financial performance for fiscal year 2005 showed a slight improvement compared with fiscal year 2004. In fiscal year 2005, the College generated an increase in net assets of \$169K. Last year, the College experienced a slight decrease in net assets of \$41K.

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

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

## COLLEGE OF MICRONESIA-FSM

### Management's Discussion and Analysis September 30, 2005 and 2004

The Summary Statement of Cash Flows indicates a balance in cash and equivalents of \$6.902 Million at end of fiscal year 2005. The fiscal year end balance reflects an increase of 28% or \$1.494 Million in cash and equivalents compared with the balance at beginning of year of \$5.408 Million.

Below is the summary statement of cash flows:

	FY 2005 (In 000's)	FY 2004 (In 000's)	Difference (In 000's)
Used in operating activities	\$ 2,588	\$ 83	\$ 2,505
Provided by noncapital financing activities	(156)	790	(946)
Used in capital and related financing activities	(838)	(492)	(346)
Used in investing activities	<u>(100)</u>	<u>-</u>	<u>(100)</u>
Net increase in cash and equivalents	1,494	381	1,113
Cash and cash equivalents at beg. of year	<u>5,408</u>	<u>5,027</u>	<u>381</u>
Cash and cash equivalents at end of year	\$ <u>6,902</u>	\$ <u>5,408</u>	\$ <u>1,494</u>

The increase in cash and equivalents is primarily from the net cash flow from operating activities of \$2.588 Million. The operating activities consist of cash inflows from student tuition and fees of \$1.618 Million, grants and contracts of \$16.094 Million, auxiliary services of \$1.250 Million and other revenues of \$214K. The cash outflows are for payments to employees for salaries and benefits of \$7.122 Million, and payments to suppliers and others of \$9.467 Million.

#### Budget Information

The College undertakes a yearly budget process as an integral part of financial planning that is linked with the Strategic Plan. The budget process includes the formulation and approval of budget guidelines, preparation of revenue and expenditure budgets by campus directors and department heads in consultation with the faculty and staff. The prepared budgets are reviewed by the Finance Committee in order to present a balanced budget. The College's budget requires endorsement by the Cabinet and approval by the Board before submitting to FSM National Government to secure financial support for the portion of the operating costs of the College, full operating budgets for FSM – FMI, the Board of Regents, and the Infrastructure Development Program budget.

The College's expenditures budget for operations for fiscal year 2005 was \$10.651 Million. The sources of funds are from tuition and fees of \$5.621 Million, auxiliary enterprises of \$1.174 Million and FSM National Government subsidy and pass thru awards of \$3.856 Million. For fiscal year 2005, FSM National Government provided \$3.856 Million financial assistance to the operations of the College, \$738k for the operations of Fisheries and Maritime Institute, \$190k financial assistance to FSM students, \$84k for the Board of Regents, and \$330k for the facility improvements to the Yap campus.

#### Capital Assets and Long-Term Debt Activity

At September 30, 2005, the College's net investment in capital assets is \$12.824 Million, net of accumulated depreciation. Depreciation for the current year totaled \$1.171 million, and capital additions for furniture and equipment, vehicles and library books totaled \$838K.

The long-term debt of the College consists of the accrued annual leave. Personnel Policies and Procedures of the College provide accumulation of annual leave balance in the employees' records. However, only 180 hours of the accumulated annual leave shall be paid to the employee upon resignation/termination of employment, thus the value of the 180 hours is recorded as a current liability. It should be noted that there was no additional long-term debt secured by COM – FSM in fiscal year 2005.

## COLLEGE OF MICRONESIA-FSM

Management's Discussion and Analysis  
September 30, 2005 and 2004

### Economic Outlook

The economic position of the College is dependent on tuition and fees generated from students who primarily receive financial assistance from U.S. Federal Student Aid programs, and on the annual subsidy from FSM National Government. The authority for the U.S. Department of Education to award Student Financial Aid grants to the College resides in U.S. Public Law 99 – 239. If this award authority is not extended or renewed by the U.S. Congress, the result could be a significant reduction in the amount of funds available for student financial aid and accordingly a significant reduction in tuition revenue for the College. It should be noted, that the U.S. Department of Education, Federal Student Aid approved the Program Participation Agreement for the College through June 30, 2008.

The accreditation of the College was reaffirmed by the Accrediting Commission for Community and Junior Colleges (ACCJC) of the Western Association of Schools and Colleges (WASC) from June 2004 to June 2010 on June 2005. The reaffirmation of the College's accreditation allows the College to continue to administer and receive US Pell grant funding for the College's eligible students, and other competitive grants. In fiscal year 2005, the College administered and received \$11.074 Million from U.S. Department of Education consisting of \$8.215 Million for Federal Pell Grant Program, Supplemental Education Opportunity Grant (SEOG), and Federal Work Study (WS), and \$2.549 Million from TRIO and other competitive programs.

About 65% of the College's operating cost is funded through tuition and fees, and 90% of students pay tuition and fees through the financial assistance from U.S. Federal Student Aid's Pell Grant, SEOG and WS programs. These programs are available to citizens of the FSM under the terms of Compact II. FSM and the College has to work with the Federal Government to include the College of Micronesia – FSM in the re-authorization of the Higher Education Act that is pending with the U.S. Congress. The Association of American Community Colleges of which COM – FSM is a member, proposed that any regionally U.S. accredited institution is eligible for U.S. Federal Student Aid.

The College received an annual subsidy from FSM National Government under the Education Sector grant of Compact II. The continued funding support from the Education Sector Grant of Compact II of at least \$3.8 Million, about 30% to 35% of the operating cost of the College, for the next 18 years will allow the administration to plan for the future of the College.

While revenues for the College in the next fiscal year(s) are not expected to increase significantly, the cost of education and the general price level are expected to increase, making it difficult for the College to continue to provide quality education and services to the students. The College therefore plans to embark on a tuition increase effort in order to raise additional revenue. The proposed increase is 10% beginning January 2007. Given the current economic conditions in the FSM, a tuition increase will make it harder for students to afford the cost of education. However, the U.S. Federal Student Aid, FSM and State governments assistance, other scholarships and family support will all combine to mitigate the hardship.

In order to reduce reliance by the College on financial assistance from the U.S. and FSM governments in the long-run, the Office of "Development and Community Relations" is being created. The office will, among other things, be charged with developing and tapping sources of funding for the long-term financial stability of the College through the College's endowment fund.

COLLEGE OF MICRONESIA-FSM

Statements of Net Assets  
September 30, 2005 and 2004

<u>ASSETS</u>	<u>2005</u>	<u>2004</u>
Current assets:		
Cash and cash equivalents	\$ 6,902,109	\$ 5,408,035
Due from FSM National Government	2,348,417	1,893,524
Tuition receivable, net	2,186,992	2,729,381
Grants and contracts receivable - U.S. Government (net of allowance for doubtful accounts of \$93,890 and \$39,839 for 2005 and 2004, respectively.)	736,639	883,645
Other receivables (net of allowance for doubtful accounts of \$77,807 for 2005 and 2004)	146,676	386,611
Inventory	233,975	98,001
Prepaid expenses	34,632	16,250
Total current assets	<u>12,589,440</u>	<u>11,415,447</u>
Noncurrent assets:		
Endowment investments	2,366,568	1,948,822
Grants and contracts receivable - U.S. Government	-	221,157
Capital assets, net of accumulated depreciation	<u>12,823,907</u>	<u>13,157,013</u>
Total noncurrent assets	<u>15,190,475</u>	<u>15,326,992</u>
Total assets	<u>\$ 27,779,915</u>	<u>\$ 26,742,439</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Accounts payable	\$ 392,033	\$ 457,111
Payable to affiliates	11,686	302,728
Accrued liabilities	591,403	221,707
Accrued annual leave	199,397	183,240
Deferred revenue	3,123,439	2,393,583
Other current liabilities	573,970	486,196
Total current liabilities	<u>4,891,928</u>	<u>4,044,565</u>
Noncurrent liabilities:		
Long-term portion of accrued annual leave	<u>214,446</u>	<u>192,173</u>
Total liabilities	<u>5,106,374</u>	<u>4,236,738</u>
Contingencies		
Net assets:		
Invested in capital assets	12,823,907	13,157,013
Restricted:		
Nonexpendable	2,399,955	1,987,331
Unrestricted	<u>7,449,679</u>	<u>7,361,357</u>
Total net assets	<u>22,673,541</u>	<u>22,505,701</u>
Total liabilities and net assets	<u>\$ 27,779,915</u>	<u>\$ 26,742,439</u>

See accompanying notes to financial statements.

COLLEGE OF MICRONESIA-FSM

Statements of Revenues, Expenses and Changes in Net Assets  
Years Ended September 30, 2005 and 2004

	2005	2004
Operating revenues:		
Student tuition and fees	\$ 6,448,429	\$ 5,833,678
Less: Scholarship discounts and allowances	<u>(5,845,864)</u>	<u>(5,530,388)</u>
	602,565	303,290
Federal grants and contracts	15,440,463	14,983,950
Government grants and contracts	339,530	665,419
Sales and services of auxiliary enterprises	1,010,305	811,572
Other revenues	<u>214,245</u>	<u>140,045</u>
Total operating revenues	<u>17,607,108</u>	<u>16,904,276</u>
Operating expenses:		
Institutional support	5,684,704	6,660,854
Instruction	4,951,602	3,977,356
Student financial assistance	2,565,971	2,381,330
Depreciation	1,171,117	1,101,776
Student services	1,084,834	1,141,484
Auxiliary enterprises	1,028,934	1,054,921
Academic support	863,756	655,078
Operations and maintenance, plant	394,443	291,546
Bad debts	<u>386,949</u>	<u>743,805</u>
Total operating expenses	<u>18,132,310</u>	<u>18,008,150</u>
Operating loss	<u>(525,202)</u>	<u>(1,103,874)</u>
Nonoperating revenues (expenses):		
FSM National Government appropriations:		
Operations	375,296	790,038
Net investment income	<u>317,746</u>	<u>272,418</u>
Net nonoperating revenues	<u>693,042</u>	<u>1,062,456</u>
Net change in net assets	167,840	(41,418)
Net assets:		
Net assets at beginning of year	<u>22,505,701</u>	<u>22,547,119</u>
Net assets at end of year	<u>\$ 22,673,541</u>	<u>\$ 22,505,701</u>

See accompanying notes to financial statements.

**COLLEGE OF MICRONESIA-FSM**  
**Statements of Cash Flows**  
**Years Ended September 30, 2005 and 2004**

	2005	2004
Cash flows from operating activities:		
Student tuition and fees, net	\$ 1,618,299	\$ 96,043
Grants and contracts	16,094,105	13,937,003
Auxiliary services	1,250,240	811,572
Other receipts	214,245	(160,917)
Payments to employees for salaries and benefits	(7,121,901)	(6,721,645)
Payments to suppliers and others	(9,466,919)	(7,879,165)
Net cash provided by operating activities	2,588,069	82,891
Cash flows from noncapital financing activities:		
FSM National Government appropriations, grants and contracts	(155,984)	790,038
Net cash provided by noncapital financing activities	(155,984)	790,038
Cash flows from capital and related financing activities:		
Purchases of capital assets	(838,011)	(492,077)
Net cash used in capital and related financing activities	(838,011)	(492,077)
Cash flows from investing activities:		
Investment income	317,746	272,418
Purchase of investments	(417,746)	(272,418)
Net cash used in investing activities	(100,000)	-
Net increase in cash and cash equivalents	1,494,074	380,852
Cash and cash equivalents at beginning of year	5,408,035	5,027,183
Cash and cash equivalents at end of year	\$ 6,902,109	\$ 5,408,035
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (525,202)	\$ (1,103,874)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	1,084,834	1,101,776
Bad debts	863,756	743,805
Change in assets and liabilities:		
Tuition receivable	285,878	(562,648)
Grants and contracts receivable	314,112	(381,528)
Other receivables	239,935	(300,962)
Inventories	(135,974)	53,623
Prepaid expenses	(18,382)	-
Accounts payable	(65,078)	(13,717)
Payable to affiliates	(291,042)	(28,652)
Accrued liabilities	408,126	197,631
Deferred revenue	729,856	355,401
Other liabilities	87,774	22,036
Net cash provided by operating activities	\$ 2,978,593	\$ 82,891
Summary of Noncash Investing and Financing Activities:		
Noncash increase in the fair market value of investments	\$ -	\$ 272,418
Noncash increase in investment income	-	(272,418)
	\$ -	\$ -

See accompanying notes to financial statements.

## COLLEGE OF MICRONESIA-FSM

Notes to Financial Statements  
September 30, 2005 and 2004

### (1) Organization

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

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

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

### (2) Basis of Presentation

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

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

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



**COLLEGE OF MICRONESIA-FSM**

Notes to Financial Statements  
September 30, 2005 and 2004

(2) Basis of Presentation

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.

At September 30, 2005 and 2004, COM-FSM has recorded cash balances of \$6,888,211 and \$5,408,034 with corresponding bank balances of \$7,252,952 and \$5,922,855, respectively. Of these amounts, \$200,000 in each year is insured by the Federal Deposit Insurance Corporation (FDIC). The remaining balances are not insured or collateralized by securities held by a trustee in the name of the financial institution. Management elected not to require insurance or collateralization on the remaining balances based on their 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, 2005 and 2004.

- 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, 2005 are as follows:

	<u>National Campus</u>	<u>State Campuses</u>	<u>Totals</u>
Accounts receivable, gross	\$ 3,175,608	\$ 2,080,502	\$ 5,256,110
Allowance for uncollectible accounts	(1,417,662)	(1,651,456)	(3,069,118)
Accounts receivable, net	\$ <u>1,757,946</u>	\$ <u>429,046</u>	\$ <u>2,186,992</u>

Accounts receivable tuition and fees and accounts receivable employees are net of an allowance for uncollectible accounts as of September 30, 2004 are as follows:

	<u>National Campus</u>	<u>State Campuses</u>	<u>Totals</u>
Accounts receivable, gross	\$ 3,205,263	\$ 2,336,727	\$ 5,541,990
Allowance for uncollectible accounts	(1,282,927)	(1,529,682)	(2,812,609)
Accounts receivable, net	\$ <u>1,922,336</u>	\$ <u>807,045</u>	\$ <u>2,729,381</u>

**COLLEGE OF MICRONESIA-FSM**

Notes to Financial Statements  
September 30, 2005 and 2004

**(3) Summary of Significant Accounting Policies, Continued**

**C. Accounts Receivable, Continued**

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

**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, 2005 and 2004, are recorded as prepaid expenses, an asset account. 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.

**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 2005 and 2004 is as follows:

Balance, <u>Oct. 1, 2004</u>	<u>Addition</u>	<u>Reduction</u>	Balance, <u>Sept. 30, 2005</u>	<u>Current</u>	<u>Long-Term</u>
\$375,413	\$233,724	(\$195,294)	\$413,843	\$199,397	\$214,446
Balance, <u>Oct. 1, 2003</u>	<u>Addition</u>	<u>Reduction</u>	Balance, <u>Sept. 30, 2004</u>	<u>Current</u>	<u>Long-Term</u>
\$337,991	\$323,380	(\$174,848)	\$375,413	\$183,240	\$192,173

## COLLEGE OF MICRONESIA-FSM

Notes to Financial Statements  
September 30, 2005 and 2004

### (3) Summary of Significant Accounting Policies, Continued

#### 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, state appropriations, 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 also include auxiliary enterprises, which are substantially self-supporting activities that provide services for student, faculty and staff.

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

*Operating Revenues* – Operating revenues 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 Revenues* – Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources that are defined as nonoperating revenues 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.

## COLLEGE OF MICRONESIA-FSM

Notes to Financial Statements  
September 30, 2005 and 2004

### (3) Summary of Significant Accounting Policies, Continued

M. New Accounting Standards. In fiscal year 2005, COM-FSM implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures (an amendment of GASB Statement No. 3)*, which addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. As an element of interest risk, GASB Statement No. 40 requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates.

In November 2003, GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. The provisions of the Statement are effective for periods beginning after December 15, 2004. COM-FSM does not believe that the implementation of this Statement will have a material effect on its financial statements.

In April 2004, GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. GASB Statement No. 43 establishes uniform financial reporting for other postemployment benefit plans by state and local governments. The provisions of this Statement are effective for periods beginning after December 15, 2007. COM-FSM does not believe that the implementation of this Statement will have a material effect on its financial statements.

In May 2004, GASB issued Statement No. 44, *Economic Condition Reporting: The Statistical Section*, an amendment to NCGA Statement 1. GASB Statement No. 44 improves the understandability and usefulness of statistical section information and adds information from the new financial reporting model for state and local governments required by GASB Statement No. 34. The provisions of this Statement are effective for periods beginning after June 15, 2005. COM-FSM does not believe the implementation of this Statement will have a material effect on its financial statements.

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 postemployment 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, 2008. COM-FSM does not believe the implementation of this Statement will have a material effect on its financial statements.

In June 2005, GASB issued Statement No. 47, *Accounting for Termination Benefits*. GASB Statement No. 47 establishes guidance for state and local governmental employers on accounting and financial reporting for termination benefits. These benefits include incentives for voluntary terminations (e.g., early retirement window programs) and severance payments with respect to involuntary terminations. The provisions of this Statement are effective for periods beginning after June 15, 2005. COM-FSM does not believe that the implementation of this Statement will have a material effect on its financial statements.

N. 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.

## COLLEGE OF MICRONESIA-FSM

Notes to Financial Statements  
September 30, 2005 and 2004

### (3) Summary of Significant Accounting Policies, Continued

O. 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.

P. Reclassifications. Certain reclassifications have been made to correct the 2004 net asset presentation.

### (4) Investments

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

In November 1995, notification was received from the U.S. Department Education that COM-FSM had been selected for a grant under the Endorsement 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.

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 endowment investments are classified as restricted nonexpendable net assets in the accompanying Statement of Net Assets.

The composition of endowment assets as of September 30, 2005 and 2004, by funding source, is as follows:

	<u>2005</u>	<u>2004</u>
<u>Donor</u>		
FSM Telecommunications Corporation (FSMTC)	\$ 165,000	\$ 165,000
U.S. Department of Education and local match (Challenge)	<u>2,201,568</u>	<u>1,783,822</u>
	\$ <u>2,366,568</u>	\$ <u>1,948,822</u>

COLLEGE OF MICRONESIA-FSM

Notes to Financial Statements  
September 30, 2005 and 2004

(4) Investments, Continued

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

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

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

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

As of September 30, 2005 and 2004, investments at fair value are as follows:

	<u>2005</u>	<u>2004</u>
Fixed income securities:		
Domestic fixed income	\$ 636,465	\$ 533,949
International fixed income	<u>6,147</u>	<u>39,814</u>
	<u>642,612</u>	<u>573,763</u>
Other investments:		
Securities	1,658,900	1,325,702
Money funds	<u>65,056</u>	<u>49,357</u>
	<u>1,723,956</u>	<u>1,375,059</u>
	\$ <u>2,366,568</u>	\$ <u>1,948,822</u>

**COLLEGE OF MICRONESIA-FSM**

Notes to Financial Statements  
September 30, 2005 and 2004

**(4) Investments, Continued**

As of September 30, 2005, the College's fixed income securities had the following maturities:

Investment Type	Fair Value	Investment Maturities (in years)			
		Less than 1	1-5	5-10	more than 10
International bond	\$ 6,147	\$ -	\$ -	\$ -	\$ 6,147
Corporate bond	104,472	-	11,086	63,285	30,102
Government bond	531,993	16,868	344,063	98,270	72,792
	<u>\$ 642,612</u>	<u>\$ 16,868</u>	<u>\$ 355,149</u>	<u>\$ 161,555</u>	<u>\$ 109,040</u>

As of September 30, 2004, the College's fixed income securities had the following maturities:

Investment Type	Fair Value	Investment Maturities (in years)			
		Less than 1	1-5	5-10	more than 10
International bond	\$ 39,814	\$ -	\$ 5,469	\$ 11,852	\$ 22,494
Corporate bond	181,157	5,211	32,844	84,587	58,514
Government bond	352,792	212,083	-	77,064	63,646
	<u>\$ 573,763</u>	<u>\$ 217,294</u>	<u>\$ 38,313</u>	<u>\$ 173,503</u>	<u>\$ 144,654</u>

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

The College's exposure to credit risk at September 30, 2005, was as follows:

Moody's Rating	Total	Domestic	International
AAA/AAA	\$ 541,068	\$ 541,068	\$ -
AAA1/AA-	5,029	5,029	-
AA3/A +	11,644	11,644	-
A1/A	10,312	10,312	-
A2/A	11,922	11,922	-
A2/A+	6,091	6,091	-
A3/BBB	2,172	2,172	-
BAA1/BBB +	5,858	5,858	-
BAA2/BBB	12,299	12,299	-
BAA2/BBB-	6,001	6,001	-
BAA2/BBB+	12,003	12,003	-
BAA3/BBB	12,156	6,009	6,147
BAA3/BBB-	<u>6,057</u>	<u>6,057</u>	<u>-</u>
Total credit risk debt securities	<u>\$ 642,612</u>	<u>\$ 636,465</u>	<u>\$ 6,147</u>

**COLLEGE OF MICRONESIA-FSM**

Notes to Financial Statements  
September 30, 2005 and 2004

**(4) Investments, Continued**

The College's exposure to credit risk at December 31, 2004, was as follows:

<u>Moody's Rating</u>	<u>Total</u>	<u>Domestic</u>	<u>International</u>
AAA/AAA	\$ 362,048	\$ 362,048	\$ -
AA1/AA-	11,511	11,511	-
AA3/A	11,038	11,038	-
AA3/A +	10,271	10,271	-
A1/A	22,030	17,284	4,746
A1/A -	5,016	5,016	-
A2/A	4,994	4,994	-
A2/A+	5,817	5,817	-
A3/BBB	3,408	3,408	-
BAA1/BBB	5,309	5,309	-
BAA1/BBB +	21,657	21,657	-
BAA1/BBB -	7,844	7,844	-
BAA2/BBB	28,171	28,171	-
BAA2/BBB+	5,993	-	5,993
BAA2/BBB-	11,426	6,126	5,300
BAA3/BBB	22,598	11,136	11,462
BAA3/BBB-	<u>34,632</u>	<u>22,319</u>	<u>12,313</u>
Total credit risk debt securities	\$ <u>573,763</u>	\$ <u>533,949</u>	\$ <u>39,814</u>

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, the College will not be able to recover the value of 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, 2005 and 2004.

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, 2005. As of September 30, 2004, the College's investment in agency obligations of Federal National Mortgage Association constituted 17% of its total investments.

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



COLLEGE OF MICRONESIA-FSM

Notes to Financial Statements  
September 30, 2005 and 2004

(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 grants and contracts receivable – U.S. Government are comprised of the following uncollected grants as of September 30, 2005 and 2004:

		<u>2005</u>	<u>2004</u>
Due from U.S. Department of Education	\$	600,864	\$ 622,373
Due from COM-Land Grant, net		<u>138,775</u>	<u>482,429</u>
		736,639	1,104,802
Classified as current		<u>736,639</u>	<u>883,645</u>
Noncurrent receivables	\$	<u>-</u>	\$ <u>221,157</u>

(6) Capital Assets

Capital assets at September 30, 2005 and 2004 consist of the following:

	Balance October 1, 2004	Additions	Retirements	Balance September 30, 2005
Non-depreciable assets:				
Land	\$ 1,455,685	\$ -	\$ -	\$ 1,455,685
Depreciable assets:				
Building	13,661,263	-	-	13,661,263
Furniture and equipment	5,488,476	656,662	-	6,145,138
Vehicles/boats	580,243	87,620	-	667,863
Library books	488,455	93,729	-	582,184
	20,218,437	838,011	-	21,056,448
Less accumulated depreciation	<u>(8,517,109)</u>	<u>(1,171,117)</u>	<u>-</u>	<u>(9,688,226)</u>
	<u>11,701,328</u>	<u>(333,106)</u>	<u>-</u>	<u>11,368,222</u>
Net investment in capital assets	\$ <u>13,157,013</u>	\$ <u>(333,106)</u>	\$ <u>-</u>	\$ <u>12,823,907</u>
	Balance October 1, 2003	Additions	Retirements	Balance September 30, 2004
Non-depreciable assets:				
Land	\$ 1,455,685	\$ -	\$ -	\$ 1,455,685
Depreciable assets:				
Building	13,661,263	-	-	13,661,263
Furniture and equipment	5,103,211	385,265	-	5,488,476
Vehicles	549,329	30,914	-	580,243
Library books	412,557	75,898	-	488,455
	19,726,360	492,077	-	20,218,437
Less accumulated depreciation	<u>(7,415,332)</u>	<u>(1,101,777)</u>	<u>-</u>	<u>(8,517,109)</u>
	<u>12,311,028</u>	<u>(609,700)</u>	<u>-</u>	<u>11,701,328</u>
Net investment in capital assets	\$ <u>13,766,713</u>	\$ <u>(609,700)</u>	\$ <u>-</u>	\$ <u>13,157,013</u>

## COLLEGE OF MICRONESIA-FSM

Notes to Financial Statements  
September 30, 2005 and 2004

### (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, 2005 and 2004, receivables from the FSM National Government amounted to \$2,424,805 and \$1,893,524, respectively, net of an allowance for doubtful accounts of \$76,388 and \$0, respectively.

Payable to affiliates is comprised of the following at September 30, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
FSM National Government	\$ 3,050	\$ 125,911
FSM Social Security Administration	-	176,817
FSM Telecommunications Corporation	<u>8,636</u>	<u>-</u>
	\$ <u>11,686</u>	\$ <u>302,728</u>

### (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 also substantially self-insured for all other risks. In the event of a catastrophe, COM-FSM may be self-insured to a material extent.

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, 2005 and 2004, 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.

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND COMPLIANCE AND OTHER MATTERS  
BASED UPON THE AUDIT 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, 2005, and have issued our report thereon dated June 14, 2006. 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 College of Micronesia-FSM's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect College of Micronesia-FSM's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

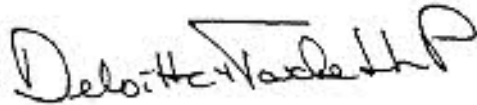
A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

We noted other matters involving the internal control over financial reporting, which we have reported to management of the College of Micronesia-FSM's in a separate letter dated June 14, 2006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 grants, 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 that are required to be reported under *Government Auditing Standards*.

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

A handwritten signature in black ink, appearing to read "Deloitte & Touche LLP". The signature is stylized and written in a cursive-like font.

June 14, 2006

## INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER COMPLIANCE APPLICABLE TO EACH MAJOR FEDERAL AWARD PROGRAM 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, 2005. College of Micronesia-FSM's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs (page 29). 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 on the College of Micronesia-FSM's compliance with those requirements.

In our opinion, the College of Micronesia-FSM complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended September 30, 2005.

### Internal Control Over Compliance

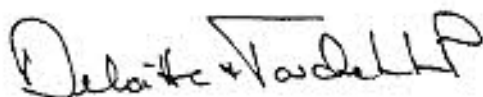
The management of the College of Micronesia-FSM is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the College of Micronesia-FSM's internal control over compliance with 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 and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

#### Schedule of Expenditures of Federal Awards

We have audited the financial statements of the College of Micronesia-FSM, as of and for the year ended September 30, 2005, and have issued our report thereon dated June 14, 2006. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. This schedule is the responsibility of the management of the College of Micronesia-FSM. Such information has been subjected to the auditing procedures applied in our audit of the financial statements and, in our opinion, is fairly stated, in all material respects when considered in relation to the financial statements taken as a whole.

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



June 14, 2006

**COLLEGE OF MICRONESIA-FSM**

Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2005

<u>Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Expenditures</u>
<u>U.S. Department of Education:</u>		
Federal Pell Grant Program	84.063	\$ 8,215,189
Federal Supplemental Education Opportunity Grant	84.007	162,608
Federal Work-Study Program	84.033	147,371
TRIO: Upward Bound	84.047	1,050,485
TRIO: Talent Search	84.044	256,037
TRIO: Student Support Services	84.042	216,844
Bilingual Education: Professional Development Gaining Early Awareness and Readiness for Undergraduate Programs	84.195	480,044
Special Education: Personnel Preparation to Improve Services and Results for Children with Disabilities	84.334	407,827
	84.325	<u>137,979</u>
Total U.S. Department of Education		\$ <u>11,074,384</u>
 <u>U.S. Department of the Interior:</u>		
Compact of Free Association II, Amended	15.875	\$ 4,057,809
Operation and Maintenance Technical Assistance	15.875	<u>59,326</u>
Total U.S. Department of the Interior		\$ <u>4,117,135</u>
Total Federal Awards		\$ <u>15,191,519</u>

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:	\$ 15,191,519
Bad debt	386,949
Depreciation	1,171,117
Non-federal awards	<u>1,382,725</u>
Total expenditures per financial statements	\$ <u>18,132,310</u>

## COLLEGE OF MICRONESIA-FSM

### Schedule of Findings and Questioned Costs Year Ended September 30, 2005

#### Part I - Summary of Auditors' Results

1. The Independent Auditors' Report on the financial statements expressed an unqualified opinion.
2. Reportable conditions in internal control over financial reporting were not identified.
3. Instances of noncompliance considered material to the financial statements were not disclosed by the audit.
4. Reportable conditions in internal control over compliance with requirements applicable to major federal awards programs were not identified.
5. The Independent Auditors' Report on compliance with requirements applicable to major federal award programs expressed an unqualified opinion.
6. The audit disclosed no findings required to be reported by OMB Circular A-133.
7. COM-FSM's major programs were:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>	<u>Expenditures</u>
<u>U.S. Department of Education:</u>		
	Federal Student Aid Cluster:	
84.063	Federal Pell Grant Program	\$ 8,215,189
84.033	Federal Work-Study Program	147,371
84.007	Federal Supplemental Opportunity Grant	162,608
	TRIO Cluster:	
84.047	TRIO: Upward Bound	1,050,485
84.044	TRIO: Talent Search	256,037
84.042	TRIO: Student Support Services	216,844
15.875	Economic, Social and Political Development of the Territories: Compact of Free Association II, Amended	4,057,809

8. A threshold of \$455,746 was used to distinguish between Type A and Type B programs, as those terms are defined in OMB Circular A-133.
9. COM-FSM did qualify as a low-risk auditee as that term is defined in OMB Circular A-133.

#### Part II - Federal Award Findings and Questioned Cost Section

No matters are reportable.

#### Part III - Financial Statement Findings Section

No matters are reportable.



September 30, 2005

\$     

(1) These costs were resolved based on resolution issued by the grantor agency in a letter dated May 2, 2006.