

**COLLEGE OF MICRONESIA**

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**FINANCIAL STATEMENTS  
AND INDEPENDENT AUDITORS' REPORT**

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**YEARS ENDED SEPTEMBER 30, 2015 AND 2014**

# COLLEGE OF MICRONESIA

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## **INDEPENDENT AUDITORS' REPORT**

Board of Regents  
College of Micronesia:

### **Report on the Financial Statements**

We have audited the accompanying financial statements of College of Micronesia (the College), which comprise the statements of net position as of September 30, 2015 and 2014, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of College of Micronesia as of September 30, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

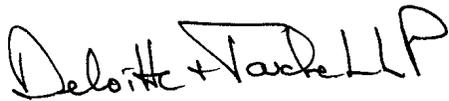
## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 to 5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 24, 2016, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Deloitte + Touche LLP". The signature is written in a cursive, stylized font.

June 24, 2016

# COLLEGE OF MICRONESIA

## Management's Discussion and Analysis Years Ended September 30, 2015 and 2014

### INTRODUCTION

The College of Micronesia is a public corporation established on March 29, 1977 and is governed by a Board of Regents. It is a U.S. land-grant institution. A treaty among the governments of the Republic of Palau, Republic of the Marshall Islands and the Federated States of Micronesia, adopted on December 23, 1992, divested the college instructional and other college functions, except land grant functions, to the treaty governments' national colleges – Palau Community College, College of Micronesia-FSM and College of the Marshall Islands. On April 1, 1993, the College of Micronesia started implementing this reorganized structure as provided in the treaty. In addition a partnership/trust agreement was entered into between the College of Micronesia and each of the above component colleges regarding operation of the land grant in the freely associated states region. The treaty governments decided to support the college until September 30, 2023.

The College presents two years of financial statements in accordance with GASB 35, allowing comparisons of year-to-year performance. The following is management's discussion and analysis of the College's financial performance during the fiscal year ended September 30, 2015 as compared to 2014. The discussion has been prepared by College management and should be read in conjunction with the financial statements and related notes that follow.

### OVERVIEW OF FISCAL YEAR 2015

In 2015, the College faced again numerous financial challenges. Although the cost of oil decreased in the fiscal year, cost of other products and services did not decrease. The ability of the governments to provide matching funds for the Hatch and Smith-Lever capacity grants was impeded by annual decrements of funds received in their compact agreements with the United States, recent typhoons and cost of imported products continually increasing. In FY15, the College was able to obtain local matching funds amounting to only 2 % of required match for the Hatch and 12 % of Smith-Lever funds. Waiver of matching for FY15 unmatched portion of Hatch and Smith-Lever funds was requested and approved by National Institute of Food and Agriculture (NIFA), USDA.

### OVERVIEW OF THE FINANCIAL STATEMENTS AND FINANCIAL ANALYSIS

In evaluating financial status, one of the most important questions is whether the institution is financially better off at the beginning of the year or at the end of the year. In 2015, the College slightly increased its overall financial position from last year. The net position ratio over its total assets at September 30, 2015 is 94 %, a slight 1% increase from last year.

### STATEMENTS OF NET POSITION

The Statement of Net Position presents the overall financial condition of the College at year-end. As of September 30, 2015, the net position of the College was \$7.41 million, which is \$256,000 decrease from last year. This is mainly due to net investment loss of \$48,000 and operating loss of \$208,000 in FY15.

#### Summary Statements of Net Position

	<u>2015</u> (000's)	<u>2014</u> (000's)	<u>2013</u> (000's)
Assets			
Current assets	\$ 1,022	\$ 1,174	\$ 1,026
Investments	6,255	6,377	6,262
Other non-current and capital assets, net	<u>604</u>	<u>697</u>	<u>749</u>
Total assets	<u>\$ 7,881</u>	<u>\$ 8,248</u>	<u>\$ 8,037</u>

## COLLEGE OF MICRONESIA

### Management's Discussion and Analysis Years Ended September 30, 2015 and 2014

#### Summary Statements of Net Position, Continued

Liabilities			
Current liabilities	\$ <u>476</u>	\$ <u>587</u>	\$ <u>415</u>
Net position			
Net investment in capital assets	604	697	750
Restricted-nonexpendable	3,000	3,000	3,000
Unrestricted	<u>3,801</u>	<u>3,964</u>	<u>3,872</u>
	<u>7,405</u>	<u>7,661</u>	<u>7,622</u>
Total liabilities and net position	\$ <u>7,881</u>	\$ <u>8,248</u>	\$ <u>8,037</u>

Of the total assets 13% are in current assets, 79% in investments and 8% in property, plant equipment. Receivables make up 28% of current assets. All liabilities, about 6% of net position, are current.

The total assets of the College decreased by \$367,000 while the total liabilities also decreased by \$111,000, which resulted in a decrease in net position of \$256,000.

The 4% decrease in total assets, as contrasted with last year's increase of 3%, is the net result of the market decreases in investments accumulating an investment loss of \$48,000. Net capital assets decreased by \$93,000 due to additions amounting to \$95,000 and depreciation charges of \$188,000. For additional information concerning capital assets, please see Note 6 to the financial statements.

Decrease of \$111,000, about 19%, in total liabilities is mainly due to the decrease in Due to Component Colleges by \$163,000, and an increase in Unearned Revenue by \$48,000.

#### STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

The Statements of Revenues, Expenses and Changes in Net Position provide the detail of operating and non-operating revenues and expenses that resulted in a \$256,000 decrease in net position.

#### Summary Statements of Revenues, Expenses and Changes in Net Position

	<u>2015</u> (000's)	<u>2014</u> (000's)	<u>2013</u> (000's)
Operating revenues	\$ 2,487	\$ 2,502	\$ 2,336
Operating expenses	<u>2,695</u>	<u>3,019</u>	<u>2,782</u>
Operating loss	(208)	(517)	(446)
Net non-operating (expenses) revenues	<u>(48)</u>	<u>556</u>	<u>703</u>
(Decrease) increase in net position	(256)	39	257
Net position – beginning of year	<u>7,661</u>	<u>7,622</u>	<u>7,365</u>
Net position – end of year	\$ <u>7,405</u>	\$ <u>7,661</u>	\$ <u>7,622</u>

The College recognizes income based on the actual level of Federal funds expended. This year the College brought in \$2,487,000 from operations, which is 1% less than last year (\$2,502,000).

## COLLEGE OF MICRONESIA

### Management's Discussion and Analysis Years Ended September 30, 2015 and 2014

Operating expenses decreased by 11%. The College spent \$2.695 million on its core mission. Of that total, 46% was for extension work (\$1.23 million), 38% for research (\$1.03 million), 7% for depreciation and 9% for administrative support for the Board of Regents and component colleges.

For the year ended September 30, 2015, the College recorded a net operating loss of \$208,000. Our investment activities resulted in a net loss of \$48,000 due to the market decreases during last quarter of the fiscal year. These combined caused a decrease of \$256,000 in net position at September 30, 2015.

Highlights of the information presented include the following:

- 1) Federal programs expenditures and other contributions were about the same as last year.
- 2) Net investment loss for the year was \$48,000.
- 3) Salaries and wages and related payroll benefits amounted to \$ 1.173 million which is about 44% of the total operating expenses.
- 4) Overall operating expenses decreased by \$324,000, which is mainly due to the decrease in contribution to component colleges.

#### Statements of Cash Flows

The decrease of \$105,000 in the College's cash position at the end of the fiscal year was the result of the following: 1.) cash used for operating activities of \$85,000; 2.) cash provided by investing activities of \$75,000; and 3.) cash used in capital and related financing activities of \$95,000.

#### Summary Statements of Cash Flows

	<u>2015</u> (000's)	<u>2014</u> (000's)	<u>2013</u> (000's)
Cash provided by (used in):			
Operating activities	\$ (85)	\$ (405)	\$ (160)
Capital and related financing activities	(95)	(117)	(75)
Investing activities	<u>75</u>	<u>440</u>	<u>350</u>
Net change in cash and cash equivalents	(105)	(82)	115
Cash and equivalents – beginning of year	<u>837</u>	<u>919</u>	<u>804</u>
Cash and equivalents – end of year	\$ <u>732</u>	\$ <u>837</u>	\$ <u>919</u>

#### Economic outlook

As of the writing of this analysis, although oil cost is lower now than last year, the costs of goods and services are still increasing. Our investment portfolio has increased its market value to \$6.49 million or about \$230,000 of investment income to date. Our capacity grant funds allocated for Micronesia in FY16 increased to about \$2.76 million which is an 8% net increase from FY15 level of \$2.56 million.

Management's Discussion and Analysis for the year ended September 30, 2014, is set forth in the report on the audit of the College's financial statements, which is dated June 23, 2015. That Discussion and Analysis explains the major factors impacting the 2014 financial statements and can be obtained by contacting Mr. Ricardo Vera Cruz, College of Micronesia, P.O. Box Drawer F, Kolonia, Pohnpei, 96941 email address: [rveracruz@mail.fm](mailto:rveracruz@mail.fm).

**COLLEGE OF MICRONESIA**  
 Statements of Net Position  
 September 30, 2015 and 2014

<u>ASSETS</u>	<u>2015</u>	<u>2014</u>
Current assets:		
Cash and cash equivalents	\$ 731,878	\$ 837,137
Receivables:		
Due from grantor agencies	80,813	154,292
Due from other governmental agencies	52,000	77,000
Grants and contracts, net	56,028	32,653
Other, net	101,152	72,967
Total current assets	<u>1,021,871</u>	<u>1,174,049</u>
Noncurrent assets:		
Endowment investments	6,254,950	6,377,388
Capital assets, net of accumulated depreciation	604,195	696,460
Total noncurrent assets	<u>6,859,145</u>	<u>7,073,848</u>
	<u>\$ 7,881,016</u>	<u>\$ 8,247,897</u>
 <u>LIABILITIES AND NET POSITION</u> 		
Current liabilities:		
Advances and accrued liabilities	\$ 15,311	\$ 11,880
Due to grantor agencies	25,000	25,000
Due to other components of the College of Micronesia	100,513	263,644
Unearned revenue	334,906	286,683
Total liabilities	<u>475,730</u>	<u>587,207</u>
Contingency		
Net position:		
Net investment in capital assets	604,195	696,460
Restricted - nonexpendable	3,000,000	3,000,000
Unrestricted	3,801,091	3,964,230
Total net position	<u>7,405,286</u>	<u>7,660,690</u>
	<u>\$ 7,881,016</u>	<u>\$ 8,247,897</u>

See accompanying notes to financial statements.

**COLLEGE OF MICRONESIA**  
 Statements of Revenues, Expenses and Changes in Net Position  
 Years Ended September 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Operating revenues:		
Federal programs	\$ 2,214,132	\$ 2,201,814
Other contributions	<u>272,459</u>	<u>300,041</u>
Total operating revenues	<u>2,486,591</u>	<u>2,501,855</u>
Operating expenses:		
Programs	1,828,896	1,808,022
Other projects	26,568	73,354
Contributions to component colleges	123,194	487,969
Administration	528,276	479,282
Depreciation	<u>187,624</u>	<u>170,254</u>
Total operating expenses	<u>2,694,558</u>	<u>3,018,881</u>
Operating loss	<u>(207,967)</u>	<u>(517,026)</u>
Nonoperating revenues:		
Investment (loss) income	<u>(47,437)</u>	<u>555,508</u>
Net change in net position	(255,404)	38,482
Net position at beginning of year	<u>7,660,690</u>	<u>7,622,208</u>
Net position at end of year	<u><u>\$ 7,405,286</u></u>	<u><u>\$ 7,660,690</u></u>

See accompanying notes to financial statements.

**COLLEGE OF MICRONESIA**  
 Statements of Cash Flows  
 Years Ended September 30, 2015 and 2014

	2015	2014
Cash flows from operating activities:		
Cash received from U.S. federal grants	\$ 2,287,610	\$ 2,065,362
Cash received from other donors	282,820	320,350
Payments to employees for services	(1,173,257)	(1,101,058)
Payments to suppliers for program activities	(1,482,072)	(1,689,964)
Net cash used for operating activities	(84,899)	(405,310)
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(95,359)	(116,946)
Cash flows from investing activities:		
Net sales, purchases, and maturities of investments	47,422	(555,508)
Withdrawals of investments	75,014	440,000
Interest and dividends received	(47,437)	555,508
Net cash provided by investing activities	74,999	440,000
Net change in cash and cash equivalents	(105,259)	(82,256)
Cash and cash equivalents at beginning of year	837,137	919,393
Cash and cash equivalents at end of year	\$ 731,878	\$ 837,137
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	\$ (207,967)	\$ (517,026)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation	187,624	170,254
Change in assets and liabilities:		
Due from grantor agencies	73,478	(136,453)
Due from other governmental agencies	25,000	(25,000)
Grants and contracts receivable	(23,370)	(44,836)
Other receivables	(28,187)	(24,154)
Advances and accrued liabilities	3,430	(3,049)
Due to other components of the College of Micronesia	(163,130)	52,952
Unearned revenue	48,223	122,002
Net cash used for operating activities	\$ (84,899)	\$ (405,310)

See accompanying notes to financial statements.

# COLLEGE OF MICRONESIA

Notes to Financial Statements  
September 30, 2015 and 2014

## (1) Organization

The College of Micronesia (the College) was established as a public corporation on March 29, 1977, within the former Trust Territory of the Pacific Islands (TTPI). On December 1, 1987, the Treaty among the Governments of the Republic of the Marshall Islands, the Federated States of Micronesia (FSM), and the Republic of Palau regarding the College was implemented. The Treaty established the operational framework of the College among the three remaining autonomous governments following the dissolution of the TTPI. On April 1, 1993, the College reorganized with three of the four component campuses becoming independent institutions with separate Governing Boards. On December 23, 1992, a new treaty was duly adopted by the three autonomous governments. Under the new treaty, a new Board of Regents with one member from each of the component governments retains jurisdiction over the Land Grant Program of the College and, therefore, also retains control of the Endowment Fund. Under the treaty, each of the new component governments pledged their support to the College through September 30, 2011. During the 19<sup>th</sup> Micronesian Chief Executives' Summit, each component government pledged its support to the College through September 30, 2023.

The purpose of the College is to propose and conduct agricultural research projects and carry out educational programs related to agriculture primarily funded by various Federal Acts, for the people of the Republic of the Marshall Islands, Federated States of Micronesia, and Republic of Palau. These agricultural research and educational programs are conducted through the College of Micronesia – FSM (COM-FSM), Palau Community College (PCC) and the College of Marshall Islands (CMI).

## (2) Basis of Presentation

### A. Financial Statement Presentation

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

Other GASB Statements are required to be implemented in conjunction with GASB Statements 34 and 35. Therefore, the College has also implemented, where applicable, 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 reporting purposes, the College is considered a special-purpose government engaged only in business-type activities. Accordingly, the College's financial statements have been presented 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.

## COLLEGE OF MICRONESIA

Notes to Financial Statements  
September 30, 2015 and 2014

### (3) Summary of Significant Accounting Policies

#### A. Cash and Cash Equivalents

For purposes of the statements of net position and of cash flows, cash represents cash on hand, cash in banks, money market accounts and time certificates of deposit with initial maturities of ninety days or less.

#### B. Investments

Investments and related investment earnings are recorded at fair value using quoted market prices. 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.

#### C. Receivables

Receivables are carried at cost, less an allowance for doubtful accounts. Accounts determined to be uncollectible are charged against the allowance based on the specific identification method. Uncollectibility of accounts is determined by management based on the financial condition and responsiveness of the debtors to the College's collection efforts. Amounts ultimately collected could differ materially from the amounts estimated in determining the allowance for doubtful accounts.

#### D. Capital Assets and Depreciation

Capital assets consist of buildings and improvements, furniture and equipment, and vehicles held by the College with cost that equals or exceeds \$1,000. Assets are capitalized at cost on the date acquired. Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

Real property and certain buildings were contributed to the College by the Pohnpei State Government. No user fee or allowance has been computed or charged to the College by the Pohnpei State Government. Therefore, such costs have not been recorded as in-kind contributions or expenses.

#### E. Net Position

The College's net position is classified as follows:

*Net Investment in Capital Assets* – This represents the College's total investment in capital assets, net of accumulated depreciation and outstanding debt obligations related to those capital assets.

*Restricted Net Position – Expendable* – Restricted expendable net position includes resources which the College is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

*Restricted Net Position – Nonexpendable* – Nonexpendable restricted net position consists of endowment and similar type funds where 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, to be expended or added to principal. All of the College's restricted net position is nonexpendable.

**COLLEGE OF MICRONESIA**

Notes to Financial Statements  
September 30, 2015 and 2014

(3) Summary of Significant Accounting Policies, Continued

E. Net Position, Continued

*Unrestricted Net Position* – Unrestricted net position represents 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 College, and may be used at the discretion of the College’s Board of Regents to meet current expenses for any lawful purpose. These resources also include auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty and staff.

The components of restricted net position for the Endowment Fund at September 30, 2015 and 2014, are shown below:

	<u>2015</u>	<u>2014</u>
Permanently restricted for Land Grant Programs	\$ <u>3,000,000</u>	\$ <u>3,000,000</u>

Investment income earned on endowment investments is unrestricted per College policy and per the underlying endowment award.

F. Classification of Revenues and Expenses

The College 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) sales and services of auxiliary enterprises, (2) most federal, state and local grants and contracts and federal appropriations, and (3) program costs.

*Nonoperating* – Nonoperating revenues and expenses include activities that have the characteristics of nonexchange transactions, such as gifts and contributions and other sources.

G. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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.

## COLLEGE OF MICRONESIA

Notes to Financial Statements  
September 30, 2015 and 2014

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

#### H. New Accounting Standards

During the year ended September 30, 2015, the College implemented the following pronouncements:

- GASB *Statement No. 68, Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB *Statement No. 69, Government Combinations and Disposals of Government Operations*, which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB *Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, which addresses an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The implementation of this statement did not have a material effect on the accompanying financial statements.

In February 2015, GASB issued *Statement No. 72, Fair Value Measurement and Application*, which addresses accounting and financial reporting issues related to fair value measurements and requires entities to expand their fair value disclosures by determining major categories of debt and equity securities within the fair value hierarchy on the basis of the nature and risk of the investment. The provisions in Statement 72 are effective for fiscal years beginning after June 15, 2015. Management believes that the implementation of this statement only requires additional disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques and will not have a material effect on the financial statements.

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

## COLLEGE OF MICRONESIA

Notes to Financial Statements  
September 30, 2015 and 2014

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

#### H. New Accounting Standards, Continued

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

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

In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which eliminates two of the four categories of authoritative GAAP that exist under the existing hierarchy prescribed by Statement 55. The two categories that will remain under the new standard are (1) GASB Statements and (2) GASB technical bulletins and implementation guides in addition to AICPA guidance that the GASB clears. The provisions in Statement No. 76 are effective for fiscal years beginning after June 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

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

#### I. Unearned Revenue

Unearned revenue represents cash received by the College from various Governments but not earned as of year end.

# COLLEGE OF MICRONESIA

Notes to Financial Statements  
September 30, 2015 and 2014

## (4) Deposits and Investments

The investment policy of the College is to limit the funds invested to not more than 50% in equities, with the remainder in premium rated bonds. The investment objective is to ensure no reduction of the principal, generate income for programs at approximately 10%, and to allow the principal to grow.

### A. Deposits

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.

As of September 30, 2015 and 2014, the carrying amount of the College's total cash and cash equivalents was \$731,878 and \$837,137, respectively, and the corresponding bank balances were \$803,474 and \$857,522, respectively, which are maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2015 and 2014, bank deposits in the amount of \$250,000 were FDIC insured. The College does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

### B. Investments

As of September 30, 2015 and 2014, investments at fair value are as follows:

	<u>2015</u>	<u>2014</u>
Fixed income securities:		
Domestic fixed income	\$ <u>2,031,697</u>	\$ <u>1,998,235</u>
Other investments:		
Domestic equities	2,724,857	2,745,457
International equities	1,285,023	1,395,465
Money market funds	<u>213,373</u>	<u>238,231</u>
	<u>4,223,253</u>	<u>4,379,153</u>
	\$ <u>6,254,950</u>	\$ <u>6,377,388</u>

**COLLEGE OF MICRONESIA**

Notes to Financial Statements  
September 30, 2015 and 2014

(4) Deposits and Investments, Continued

As of September 30, 2015 and 2014, the College's fixed income securities, including their Moody's Investors Service credit ratings, had the following maturities:

<u>2015</u>	Credit <u>Ratings</u>	Less <u>Than 1</u>	<u>1 to 5</u>	<u>6 to 10</u>	Fair <u>Value</u>
Government bonds	AAA	\$ 417,604	\$ 634,483	\$ 226,606	\$ 1,278,693
Corporate notes and bonds	A1	-	131,967	-	131,967
Corporate notes and bonds	A2	-	240,775	52,601	293,376
Corporate notes and bonds	A3	-	126,050	-	126,050
Corporate notes and bonds	AA3	-	99,886	56,496	156,382
Corporate notes and bonds	BAA2	-	<u>45,229</u>	-	<u>45,229</u>
		<u>\$ 417,604</u>	<u>\$ 1,278,390</u>	<u>\$ 335,703</u>	<u>\$ 2,031,697</u>

<u>2014</u>	Credit <u>Ratings</u>	Less <u>Than 1</u>	<u>1 to 5</u>	<u>6 to 10</u>	Fair <u>Value</u>
Government bonds	AAA	\$ 439,609	\$ 520,362	\$ 248,414	\$ 1,208,385
Corporate notes and bonds	A1	37,783	96,733	-	134,516
Corporate notes and bonds	A2	60,853	141,271	51,544	253,668
Corporate notes and bonds	A2(-)	-	89,877	-	89,877
Corporate notes and bonds	A3	50,853	45,055	-	95,908
Corporate notes and bonds	AA2	-	52,154	-	52,154
Corporate notes and bonds	AA3	-	<u>163,727</u>	-	<u>163,727</u>
		<u>\$ 589,098</u>	<u>\$ 1,109,179</u>	<u>\$ 299,958</u>	<u>\$ 1,998,235</u>

Credit risk for investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. With the exception of investments in U.S. government securities, which are explicitly or implicitly guaranteed by the United States government, all other investments must be rated in accordance with the College's investment policy.

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, 2015 and 2014.

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. As of September 30, 2015 and 2014, the College did not hold an investment in any one issuer that represented more than 5% of the College's 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**

Notes to Financial Statements  
September 30, 2015 and 2014

(5) Receivables

Receivables at September 30, 2015 and 2014, consist of the following:

	<u>2015</u>	<u>2014</u>
U.S. Department of Agriculture – NIFA-Capacity Funds (Smith-Lever and Hatch Act Funds)	\$ 80,813	\$ 154,292
Due from other governmental agencies	52,000	77,000
Grants and contracts	107,503	84,128
Other	108,152	79,967
Allowance for doubtful accounts	<u>(58,475)</u>	<u>(58,475)</u>
	\$ <u>289,993</u>	\$ <u>336,912</u>

Due from other governmental agencies represents receivables relating to treaty contributions of the treaty governments. Grants and contracts receivable represent advances for grants from other federal agencies and other advances for contracts for research and extension projects with other institution of higher learning.

(6) Capital Assets

Capital asset activity for the years ended September 30, 2015 and 2014, is as follows:

	<u>Estimated Useful Lives</u>	<u>October 1, 2014</u>	<u>Additions</u>	<u>Retirements</u>	<u>September 30, 2015</u>
Buildings and improvements	10-15 years	\$ 1,635,743	\$ -	\$ -	\$ 1,635,743
Furniture, fixtures and equipment	3- 4 years	<u>1,363,426</u>	<u>95,359</u>	-	<u>1,458,785</u>
		2,999,169	95,359	-	3,094,528
Less accumulated depreciation		<u>(2,302,709)</u>	<u>(187,624)</u>	-	<u>(2,490,333)</u>
		\$ <u>696,460</u>	\$ <u>(92,265)</u>	\$ -	\$ <u>604,195</u>

	<u>Estimated Useful Lives</u>	<u>October 1, 2013</u>	<u>Additions</u>	<u>Retirements</u>	<u>September 30, 2014</u>
Buildings and improvements	10-15 years	\$ 1,635,743	\$ -	\$ -	\$ 1,635,743
Furniture, fixtures and equipment	3- 4 years	<u>1,246,479</u>	<u>116,947</u>	-	<u>1,363,426</u>
		2,882,222	116,947	-	2,999,169
Less accumulated depreciation		<u>(2,132,455)</u>	<u>(170,254)</u>	-	<u>(2,302,709)</u>
		\$ <u>749,767</u>	\$ <u>(53,307)</u>	\$ -	\$ <u>696,460</u>

**COLLEGE OF MICRONESIA**

Notes to Financial Statements  
September 30, 2015 and 2014

(7) Endowment Fund Contributions

During the years ended September 30, 2015 and 2014, the Endowment Fund made the following contributions:

	<u>2015</u>	<u>2014</u>
Contribution to COM-FSM	\$ 83,500	\$ 135,000
Board of Regents	39,694	32,969
Contribution to PCC	-	160,000
Contribution to CMI	-	<u>160,000</u>
	<u>\$ 123,194</u>	<u>\$ 487,969</u>

(8) Risk Management

The College purchases commercial insurance to cover its potential risks from fire on its building and contents, full coverage on property damage and third party liability on motor vehicles, and workmen's compensation. The College is substantially self-insured for all other risks. No losses as a result of these risks have occurred in any of the last three years.

(9) Contingency

The College is subject to annual compliance audits. As of September 30, 2015, no questioned costs exist.

(10) Retirement Plan

The College established a nonqualified deferred compensation plan, effective January 1, 2008, for the benefit of employees who opted to participate in the retirement plan. The purpose of the plan is to provide additional compensation to participants upon termination of employment. The College contributes \$.50 for each \$1 the employee contributes every pay period. The maximum employer contribution is 3% of gross salary. College contributions to the plan for each of the years ended September 30, 2015, 2014 and 2013 was \$5,009. Management is of the opinion that the plan does not represent an asset or liability of the College. At September 30, 2015 and 2014, plan assets were \$176,733 and \$165,513, respectively.

**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:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of College of Micronesia (the College), which comprise the statement of net position as of September 30, 2015, and the related statements of revenues, expenses and changes in net position and of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 24, 2016.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the College's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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's internal control. Accordingly, we do not express an opinion on the effectiveness of the College's internal control.

A *deficiency in internal control* 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 and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

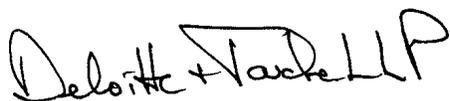
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free from 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*.

## Purpose of this Report

The purpose of this report is solely 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 effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Deloitte + Touche LLP". The signature is written in a cursive, stylized font.

June 24, 2016

## **INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133**

Board of Regents  
College of Micronesia:

### **Report on Compliance for Each Major Federal Program**

We have audited College of Micronesia's (the College's) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the College's major federal programs for the year ended September 30, 2015. The College's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

#### ***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the College's major federal programs based on our audit of the types of compliance requirements referred to above. 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 the College'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 on compliance for each major federal program. However, our audit does not provide a legal determination of the College's compliance.

#### ***Opinion on Each Major Federal Program***

In our opinion, the College complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2015.

## Report on Internal Control Over Compliance

Management of the College is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the College's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 the College's internal control over compliance.

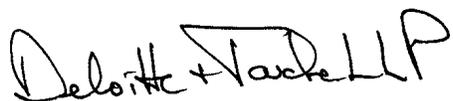
*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

## Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the College of Micronesia as of and for the year ended September 30, 2015, and have issued our report thereon dated June 24, 2016, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements 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. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the financial statements as a whole.



June 24, 2016

**COLLEGE OF MICRONESIA**

Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2015

<u>Grantor/CFDA Grantor's Program Title</u>	<u>CFDA Number</u>	<u>Expenditures</u>
<u>U.S. Department of Agriculture:</u>		
Payments to Agricultural Experiment Stations Under the Hatch Act	10.203	\$ 1,020,526
Cooperative Extension Service	10.500	<u>1,193,606</u>
Total federal awards		\$ <u>2,214,132</u>

The above programs are received in a direct capacity.

Reconciliation to the basic financial statements:

Total federal awards expended	\$ 2,214,132
Non-federal expenditures included in operating expenses	292,802
Depreciation	<u>187,624</u>
Total expenses per financial statements	\$ <u>2,694,558</u>

**COLLEGE OF MICRONESIA**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2015

**Section I - Summary of Auditors' Results**

*Financial Statements*

- |  |               |
|--|---------------|
| 1. Type of auditors' report issued:                      | Unmodified    |
| Internal control over financial reporting:               |               |
| 2. Material weakness(es) identified?                     | No            |
| 3. Significant deficiency(ies) identified?               | None reported |
| 4. Noncompliance material to financial statements noted? | No            |

*Federal Awards*

- |   |  |
|---|--|
| Internal control over major federal programs:   |  |
| 5. Material weakness(es) identified?  | No   |
| 6. Significant deficiency(ies) identified?  | None reported  |
| 7. Type of auditors' report issued on compliance for major federal programs:  | Unmodified   |
| 8. Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? | No   |
| 9. Identification of major federal programs:  |  |
| <u>CFDA #</u>   | <u>Name of Federal Program</u>                                   |
| 10.203  | Payments to Agricultural Experiment Stations Under the Hatch Act |
| 10.500  | Cooperative Extension Service                                    |
| 10. Dollar threshold used to distinguish between Type A and Type B Programs:  | \$300,000  |
| 11. Auditee qualified as low-risk auditee?  | Yes  |

**Section II - Financial Statement Findings**

No matters were reported.

**Section III - Federal Award Findings and Questioned Costs**

No matters were reported.

**COLLEGE OF MICRONESIA**

Unresolved Prior Year Findings and Questioned Costs  
Year Ended September 30, 2015

There are no unresolved questioned costs or prior year findings of the College of Micronesia as of September 30, 2015.