

June 5, 2009

To the Board of Regents of
College of Micronesia-FSM:

We have performed an audit of the financial statements of the College of Micronesia-FSM (COM-FSM), a component unit of the State of Pohnpei as of and for the year ended September 30, 2008, in accordance with auditing standards generally accepted in the United States of America and have issued our report thereon dated June 5, 2009.

We have prepared the following comments to assist you in fulfilling your obligation to oversee the financial reporting and disclosure process for which management of COM-FSM is responsible.

OUR RESPONSIBILITY UNDER GENERALLY ACCEPTED AUDITING STANDARDS AND GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS

Our responsibility under 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, have been described in our engagement letter dated September 30, 2008. As described in that letter, the objective of a financial statement audit conducted in accordance with the aforementioned standards is:

- To express an opinion on the fairness of the presentation of COM-FSM's basic financial statements and to disclaim an opinion on the required supplementary information for the year ended September 30, 2008 in conformity with accounting principles generally accepted in the United States of America ("generally accepted accounting principles"), in all material respects; and
- To report on COM-FSM's internal control over financial reporting and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the year ended September 30, 2008 based on an audit of financial statements performed in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*.

Our responsibilities under generally accepted auditing standards include forming and expressing an opinion about whether the financial statements that have been prepared with the oversight of management and the Board of Regents are presented fairly, in all material respects, in conformity with generally accepted accounting principles. The audit of the financial statements does not relieve management or the Board of Regents of their responsibilities.

We considered COM-FSM's 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 COM-FSM's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of COM-FSM's internal control over financial reporting. Our consideration of internal control over financial reporting would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

ACCOUNTING ESTIMATES

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and on assumptions about future events. Significant accounting estimates reflected in COM-FSM's 2008 financial statements include management's estimate of the allowance for uncollectible accounts, which is determined based upon past collection experience and aging of the accounts; management's estimate of the allowance for inventory obsolescence, which is determined based upon expected inventory turnover and inventory aging; and management's estimate of depreciation expense, which is based on estimated useful lives of the respective capital assets. During the year ended September 30, 2008, we are not aware of any significant changes in accounting estimates or in management's judgments relating to such estimates.

AUDIT ADJUSTMENTS AND UNCORRECTED MISSTATEMENTS

As the result of our audit work, we identified matters that resulted in audit adjustments that we believe, either individually or in the aggregate, would have a significant effect on COM-FSM's financial reporting process. Such adjustments, listed in Appendix I, have been recorded in the accounting records and are reflected in the 2008 financial statements.

In addition, we have attached to this letter, as Appendix II, a summary of uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

SIGNIFICANT ACCOUNTING POLICIES

COM-FSM's significant accounting policies are set forth in Note 3 to COM-FSM's 2008 financial statements. During the year ended September 30, 2008, there were no significant changes in previously adopted accounting policies or their application, except for the following pronouncements adopted by the COM-FSM:

- Governmental Accounting Standards Board (GASB) Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*, which establishes uniform financial reporting for other postemployment benefit plans by state and local governments.
- GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfer of Assets and Future Revenues*, which establishes criteria that governments will use to ascertain whether certain transactions should be regarded as a sale or a collateralized borrowing, and includes a provision that stipulates that governments should not revalue assets that are transferred between financial reporting entity components.
- GASB Statement No. 50, *Pension Disclosures an amendment of GASB Statements No. 25 and 27*, which more closely aligns the financial reporting requirements for pensions with those for other post-employment benefits.

The implementation of these pronouncements did not have a material effect on the financial statements of COM-FSM.

OTHER INFORMATION IN THE ANNUAL REPORTS

When audited financial statements are included in documents containing other information such as COM-FSM's 2008 Annual Report, we will read such other information and consider whether it, or the manner of its presentation, is materially inconsistent with the information, or the manner of its presentation, in the financial statements audited by us. We will read the other information in COM-FSM's 2008 Annual Report and will inquire as to the methods of measurement and presentation of such

information. If we note a material inconsistency or if we obtain any knowledge of a material misstatement of fact in the other information, we will discuss this matter with management and, if appropriate, with the Board.

DISAGREEMENTS WITH MANAGEMENT

We have not had any disagreements with management related to matters that are material to COM-FSM's 2008 financial statements.

CONSULTATION WITH OTHER ACCOUNTANTS

We are not aware of any consultations that management may have had with other accountants about auditing and accounting matters during 2008.

MANAGEMENT'S REPRESENTATIONS

We have made specific inquiries of COM-FSM's management about the representations embodied in the financial statements. Additionally, we have requested that management provide to us the written representations COM-FSM is required to provide to its independent auditors under generally accepted auditing standards. We have attached to this letter, as Appendix III, a copy of the representation letter we obtained from management.

MAJOR ISSUES DISCUSSED WITH MANAGEMENT PRIOR TO OUR INITIAL ENGAGEMENT OR RETENTION

Throughout the year, routine discussions were held or were the subject of correspondence with management regarding the application of accounting principles or auditing standards in connection with transactions that have occurred, transactions that are contemplated, or reassessment of current circumstances. In our judgment, such discussions or correspondence were not held in connection with our retention as auditors.

SIGNIFICANT DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

In our judgment, we received the full cooperation of COM-FSM's management and staff and had unrestricted access to COM-FSM's senior management in the performance of our audit.

CONTROL-RELATED MATTERS

We have issued a separate report to you, dated June 5, 2009, wherein matters involving COM-FSM's internal control over financial reporting that were considered to be significant deficiencies and material weaknesses under standards established by the American Institute of Certified Public Accountants, and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters were reported.

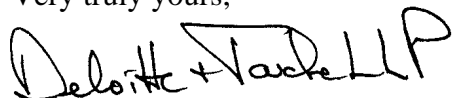
We have communicated to management, in a separate letter also dated June 5, 2009, control deficiencies and other matters that we identified during our audit.

* * * * *

This report is intended solely for the information and use of the Board of Regents, management, and others within COM-FSM and is not intended to be and should not be used by anyone other than these specified parties.

We wish to thank the staff and management of COM-FSM for their cooperation and assistance during the course of this engagement.

Very truly yours,



APPENDIX I

CORRECTED MISSTATEMENTS		Pre-Tax Correcting Entry			
Entry Description	Balance Sheet		Retained Earnings Beg of Year	Income Statement	Total Should Equal 0
	Assets Dr/(Cr)	Liabilities Dr/(Cr)			
Unrestricted Fund					
(Dr) Accounts Payable		92,500			
(Cr) Withholding Tax Payable		(92,500)			
To reclass to proper account					
(Dr) Building Renovations and Improvement				52,500	
(Cr) Construction in Progress	(52,500)				
To remove CIP from unrestricted fund					
(Dr) Due to Students		62,582		(62,582)	
(Cr) Tuition Revenue					
(Dr) Student Assistance - FSM SEG				225,949	
(Cr) Tuition Revenue				(225,949)	
To record SEG expense					
Restricted					
(Dr) Student Aid - FSEOG				166,797	
(Cr) Student Aid - Pell Grant				(166,797)	
To reclass to FSEOG expense account					
(Dr) Accounts Payable		6,132			
(Cr) Withholding Tax Payable		(6,132)			
To reclass to proper account					
(Dr) Allowance - DOE					
(Cr) Miscellaneous Revenue				(158,356)	
To reduce allowance - DOE	158,356				

APPENDIX I, CONTINUED

Plant							
(Dr) Construction in Progress	52,500					(52,500)	
(Cr) Expended in Plant Facilities Reclassified from unrestricted fund							
(Dr) Depreciation Expense				(3,448)		3,448	
(Cr) Fund Balance To record depreciation							
State Campus							
(Dr) Fund Balance				32,342		(32,342)	
(Cr) Misc. Revenue To correct opening balance							
(Dr) Accounts Payable (Cr) Withholding Tax Payable To reclass to proper account			2				
(Dr) Fund Balance (Cr) Building and Building Extensions To correct opening balance				120,860		(120,860)	
(Dr) Due to Students (Cr) Tuition Revenue		269,430				(269,430)	
(Dr) Due to Bookstore (Cr) Bookstore Revenue To record bookstore sales		96,610				(96,610)	
Total Misstatements	158,356	428,623				(736,733)	0

The above adjustments do not represent fraud or illegal act. Rather, these represent misstatements.

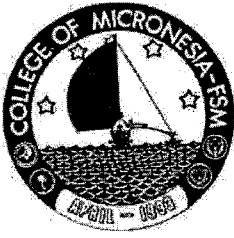

Danilo Dumantez, Comptroller

APPENDIX II, CONTINUED

151-03 (Dr) Stale Checks (Cr) Misc. Revenue To write off stale checks over 4 years per College policy.		29,540				(29,540)	29,540	(29,540)	0
151-04 (Dr) Due to Grantors (Cr) Misc. Revenue To recognize deferred revenue (DOE) as revenue		77,404				(77,404)	77,404	(77,404)	0
181 Plant Fund									
181-01 (Dr) Fund Balance (Cr) Fixed Assets To remove FY09 fixed asset additions from the FA register.	(11,709)			11,709			11,709	(11,709)	0
(Dr) Bad Debt Expense (Cr) Allowance To increase allowance for current portion of student receivables	(12,236)					12,236	12,236	(12,236)	0
Total Misstatements	123,598	(32,046)		11,709		(103,261)			0

The above uncorrected errors do not represent fraud or illegal acts. Rather, these represent misstatements.


 Barilo Duranaray
 Comptroller



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Office of the President

June 5, 2009

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

We are providing this letter in connection with your audits of the statements of net assets of the College of Micronesia – FSM (COM-FSM), a component unit of the FSM National Government, as of September 30, 2008 and 2007, and the related statements of revenues, expenses and changes in net assets and of cash flows for the years then ended, which collectively comprise the COM-FSM's basic financial statements for the purpose of expressing an opinion as to whether the basic financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of the COM-FSM in conformity with accounting principles generally accepted in the United States of America (GAAP). We confirm that we are responsible for the following:

- a. The fair presentation in the basic financial statements of financial position, results of operations, and cash flows in conformity with accounting principles generally accepted in the United States of America.
- b. The fair presentation of the required supplementary information, including Management's Discussion and Analysis, accompanying the basic financial statements.
- c. The design and implementation of programs and controls to prevent and detect fraud.
- d. Establishing and maintaining effective internal control over financial reporting.
- e. The review and approval of the financial statements and related notes and acknowledge your role in the preparation of this information. Specifically, we acknowledge that your role in the preparation of the financial statements was a matter of convenience rather than one of necessity. We have reviewed the financial statement preparation assistance provided by you and acknowledge that the financial statements are prepared in accordance with GAAP. Our review was based on the use of the financial statement disclosure checklist for stand-alone business-type activities obtained from the Government Finance Officers Association.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audit.

1. The basic financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America. In addition:
 - a. Net asset components (invested in capital assets; restricted nonexpendable; and unrestricted) are properly classified and, if applicable, approved.
 - b. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
 - c. Revenues are appropriately classified in the statement of activities.
 - d. Deposits and investment securities are properly classified in category of custodial credit risk.
 - e. Capital assets are properly capitalized, reported, and, if applicable, depreciated.
 - f. Required supplementary information is measured and presented within prescribed guidelines.

2. The COM-FSM has made available to you all:

- a. Minutes of meetings of the COM-FSM's Board of Directors. Board meetings were held on the following dates:

November 23, 2007

December 18-20, 2007

February 5, 2008

March 13-14, 2008,

May 14, 2008

May 19-21, 2008

August 21, 2008

August 27-29, 2008

December 3-5, 2008

January 13, 2009

March 10-12, 2009

May 19-21, 2009

No Board of Directors meeting has occurred subsequent to May 21, 2009.

- b. Financial records and related data for all financial transactions of the COM-FSM and for all funds administered by the COM-FSM. The records, books, and accounts, as provided to you, record the financial and fiscal operations of all funds administered by

the COM-FSM and provide the audit trail to be used in a review of accountability. Information presented in financial reports is supported by the books and records from which the financial statements have been prepared.

- c. Contracts and grant agreements (including amendments, if any).
3. There has been no:
 - a. Action taken by the COM-FSM's management that contravenes the provisions of federal laws and local laws and regulations or of contracts and grants applicable to the COM-FSM.
 - b. Communication from other regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices or other matters that could have a material effect on the financial statements.
 4. We believe the effects of any uncorrected financial statement misstatements aggregated by you during the current audit engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. A summary of such uncorrected misstatements has been attached as Appendix A.
 5. The COM-FSM has not performed a risk assessment, including the assessment of the risk that the financial statements may be materially misstated as a result of fraud. However, management has made available to you their understanding about the risks of fraud in the COM-FSM and do not believe that the financial statements are materially misstated as a result of fraud.
 6. We have no knowledge of any fraud or suspected fraud affecting the COM-FSM involving:
 - a. Management.
 - b. Employees who have significant roles in internal control over financial reporting.
 - c. Others if the fraud could have a material effect on the financial statements.
 7. We have no knowledge of any allegations of fraud or suspected fraud affecting the COM-FSM received in communications from employees, former employees, regulators, or others.
 8. There are no unasserted claims or assessments that legal counsel has advised us are probable of assertion and must be disclosed in accordance with Financial Accounting Standards Board (FASB) Statement No. 5, *Accounting for Contingencies*.
 9. Management has identified and disclosed to you all laws and regulations that have a direct and material effect on the determination of financial statement amounts.

10. In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. GASB Statement No. 45 establishes standards for the measurement, recognition, and display of other post employment benefits expense/expenditures and related liabilities, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The provisions of this statement are effective for periods beginning after December 15, 2007. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the COM-FSM.
11. In December 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. GASB Statement No. 49 provides guidance and consistency under which a governmental entity would be required to report a liability related to pollution remediation. The provisions of this statement are effective for periods beginning after December 15, 2007. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the COM-FSM.
12. In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. GASB Statement No. 51 addresses whether and when intangible assets should be considered capital assets for financial reporting purposes. The provisions of this statement are effective for periods beginning after June 15, 2009. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the COM-FSM.
13. In November 2007, GASB issued Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*. GASB Statement No. 52 improves the quality of financial reporting by requiring endowments to report their land and other real estate investments at fair value, creating consistency in reporting among similar entities that exist to invest resources for the purpose of generating income. The provisions of this statement are effective for periods beginning after June 15, 2008. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the COM-FSM.
14. In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. GASB Statement No. 53 is intended to improve how state and local governments report information about derivative instruments - financial arrangements used by governments to manage specific risks or make investments - in their financial statements. The provisions of this statement are effective for periods beginning after June 15, 2009. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the COM-FSM.
15. We have adopted the provisions of GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which establishes uniform financial reporting for other postemployment benefit plans by state and local governments. The implementation of this statement did not have a material effect on the financial statements of the COM-FSM.

16. We have adopted the provisions of GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfer of Assets and Future Revenues*, which establishes criteria that governments will use to ascertain whether certain transactions should be regarded as a sale or a collateralized borrowing. The statement also includes a provision that stipulates that governments should not revalue assets that are transferred between financial reporting entity components. The implementation of this statement did not have a material effect on the financial statements of the COM-FSM.
17. We have adopted the provisions of GASB Statement No. 50, *Pension Disclosures an amendment of GASB Statements No. 25 and 27*, which more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits. The implementation of this statement did not have a material effect on the financial statements of the COM-FSM.

Except where otherwise stated below, matters less than \$3,500 collectively are not considered to be exceptions that require disclosure for the purpose of the following representations. This amount is not necessarily indicative of amounts that would require adjustment to or disclosure in the financial statements.

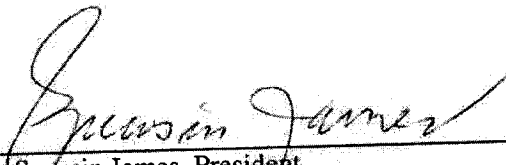
18. Except as listed in Appendix A, there are no transactions that have not been properly recorded in the accounting records underlying the financial statements.
19. The COM-FSM has no plans or intentions that may affect the carrying value or classification of assets and liabilities.
20. The following, to the extent applicable, have been appropriately identified, properly recorded, and disclosed in the financial statements:
 - a. Related-party transactions and associated amounts receivable or payable, including sales, purchases, loans, transfers, leasing arrangements, and guarantees (written or oral).
 - b. Guarantees, whether written or oral, under which the COM-FSM is contingently liable.
21. In preparing the financial statements in conformity with accounting principles generally accepted in the United States of America, management uses estimates. All estimates have been disclosed in the financial statements for which known information available prior to the issuance of the financial statements indicates that both of the following criteria are met:
 1. It is at least reasonably possible that the estimate of the effect on the financial statements of a condition, situation, or set of circumstances that existed at the date of the financial statements will change in the near term due to one or more future confirming events.
 2. The effect of the change would be material to the financial statements.

22. Risks associated with concentrations, based on information known to management, that meet all of the following criteria have been disclosed in the financial statements:
 - a. The concentration exists at the date of the financial statements.
 - b. The concentration makes the enterprise vulnerable to the risk of a near-term severe impact.
 - c. It is at least reasonably possible that the events that could cause the severe impact will occur in the near term.
23. There are no:
 - a. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
 - b. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB Statement No. 5, *Accounting for Contingencies*.
24. The COM-FSM has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
25. The COM-FSM has complied with all aspects of contractual agreements that may have an effect on the financial statements in the event of noncompliance.
26. No department or agency of the COM-FSM has reported a material instance of noncompliance to us.
27. The COM-FSM has identified all derivative instruments as defined by GASB Technical Bulletin 2003-1, *Disclosure Requirements for Derivatives Not Reported at Fair Value on the Statement of Net Assets (TB 03-1)*, and appropriately disclosed such derivatives in accordance with TB 03-1.
28. No events have occurred subsequent to September 30, 2008 that require consideration as adjustments to or disclosures in the financial statements.
29. Management has disclosed whether, subsequent to September 30, 2008, any changes in internal control or other factors that might significantly affect internal control, including any corrective action taken by management with regard to significant deficiencies and material weaknesses have occurred.
30. The COM-FSM is responsible for determining and maintaining the adequacy of the allowance for uncollectible receivables, as well as estimates used to determine such amounts.
31. The Authority is a defendant in various lawsuits and has made provision for any probable and reasonably estimatable judgments. The Authority believes the resolution of other pending claims and legal proceedings will not have a material adverse effect on the Authority's financial statements.

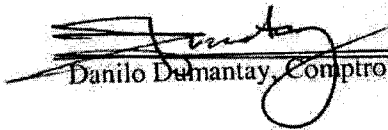
32. We are also responsible for the representations in the Schedule of Federal Awards, which is prepared in accordance with the requirements of OMB Circular A-133, "Audits of State and Local Governments and Non-Profit Organizations." We have identified in the schedule all awards provided to the Authority in 2008 by federal agencies in the form of grants, contracts, loans, loan guarantees, property, cooperative agreements, interest subsidies, insurance or direct appropriations. In addition, we have accurately completed the appropriate sections of the data collection form.
33. We are responsible for compliance with local, state and federal laws, rules and regulations, including compliance with the requirements of OMB Circular A-133, and provisions of grants and contracts relating to Authority's operations. We are responsible for establishing and maintaining the components of internal control relating to our activities in order to achieve the objectives of providing reliable financial reports, effective and efficient operations, and compliance with laws and regulations. The Authority is responsible for maintaining accounting and administrative control over revenues, obligations, expenditures, assets, and liabilities.
34. We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance for federal programs that provides reasonable assurance that we are managing federal awards in compliance with laws, regulations, and provisions of contracts or grant agreements that could have a material effect on its federal programs
35. We have:
 - a) Identified the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each federal program.
 - b) Complied, in all material respects, with the requirements identified above in connection with federal awards except as disclosed in the report on compliance on compliance and internal control.
 - c) Made available all information related to federal financial reports and claims for advances and reimbursements. Federal financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared and are prepared on a basis consistent with that presented in the Schedule of Expenditures of Federal Awards.
 - d) Identified and disclosed all amounts questioned and any known noncompliance with the requirements of federal awards, including the results of other audits or program reviews related to the objectives of the audit.
 - e) Provided to you our views on the reported findings, conclusions, and recommendations for your report.

36. We are not aware of any:

- a) Actions taken by management which contravene the provisions of Federal and Local laws or regulations or of contracts applicable to the Authority
- b) Fraud involving management or employees who have significant roles in the internal control
- c) Communications arising from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices or other matters that could have a material effect on the financial statements, except as described in note 8 to the financial statements.



Spensin James, President



Danilo Demantay, Comptroller