

June 28, 2017

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

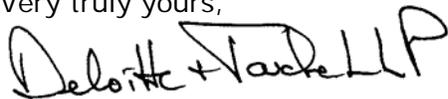
We have performed an audit of the financial statements of College of Micronesia-FSM (the College), a component unit of the Federated States of Micronesia (FSM) National Government, as of and for the year ended September 30, 2016, in accordance with auditing standards generally accepted in the United States of America ("generally accepted auditing standards") and have issued our report thereon dated June 28, 2017.

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 the College is responsible.

This report is intended solely for the information and use of the Board of Regents, the management, and others within the College 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 the College for their cooperation and assistance during the course of this engagement.

Very truly yours,

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

cc: The Management of College of Micronesia-FSM

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

Our responsibility under generally accepted auditing standards and 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 26, 2016, a copy of which has been provided to you. 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 whether the statement of net position of the College as of September 30, 2016, and the related statements of revenues, expenses, and changes in net position and of cash flows for the year ended September 30, 2016 (the “financial statements”), are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (“generally accepted accounting principles”), and perform specified procedures on the required supplementary information for the year ended September 30, 2016.
- To report on the College’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, 2016 based on an audit of financial statements performed in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*; and
- To report on the College’s compliance with requirements applicable to each major federal program and on internal control over compliance in accordance with the Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

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

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.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether caused by fraud or error. In making those assessments, we considered internal control over financial reporting relevant to the College’s preparation and fair presentation of the financial statements in order to design audit procedures that were 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 do not express an opinion on the effectiveness of the College’s internal control over financial reporting. Our consideration of internal control over financial reporting was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

We also considered the College’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 Uniform Guidance. Our audit does not, however, provide a legal determination of the College’s compliance with those requirements.

ACCOUNTING ESTIMATES

Accounting estimates are an integral part of the financial statements prepared with the oversight of 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 the College's 2016 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, 2016 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

Our audit of the financial statements was designed to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. 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 the College's financial reporting process. Such proposed adjustments, listed as Appendix A to Attachment I, have been recorded in the accounting records and are reflected in the 2016 financial statements.

In addition, listed in Appendix B to Attachment I, is 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

The College's significant accounting policies are set forth in Note 3 to College's 2016 financial statements. During the year ended September 30, 2016, there were no significant changes in previously adopted accounting policies or their application, except for the following pronouncements adopted by the College:

- GASB 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.
- GASB 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 No. 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 implementation of this statement did not have a material effect on the financial statements.
- GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, which addresses for certain external investment pools and their participants the accounting and financial reporting implications that result from changes in the regulatory provisions referenced by previous accounting and financial reporting standards. Those provisions were based on the Investment Company Act of 1940, Rule 2a7. Rule 2a7 contains the Securities and Exchange Commission's regulations that apply to money market funds and were significantly amended in 2014. The implementation of this statement did not have a material effect on the financial statements.

SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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 No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements No. 67 and No. 68 with the reporting requirements in Statement No. 68. The provisions in Statement No. 73 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. 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 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.

In December 2015, GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, which addresses a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The provisions in Statement No. 78 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.

In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14*, which improves financial reporting by clarifying the financial statement presentation requirements for certain component units. The provisions in Statement No. 80 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 March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*, which improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The provisions in Statement No. 81 are effective for fiscal years beginning after December 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

In March 2016, GASB issued Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*, which addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The provisions in Statement No. 82 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.

We have evaluated the significant qualitative aspects of the College's accounting practices, including accounting policies, accounting estimates, and financial statement disclosures and concluded that the policies are appropriate, adequately disclosed, and consistently applied by management.

OTHER INFORMATION IN THE ANNUAL REPORTS OF THE COLLEGE

When audited financial statements are included in documents containing other information, such as Annual Reports, 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. In the event that the College issues an Annual Report or other documentation that includes the audited financial statements, we will be required to read the other information in the College's 2016 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 of Regents.

DISAGREEMENTS WITH MANAGEMENT

We have not had any disagreements with management related to matters that are material to the College's 2016 financial statements.

OUR VIEWS ABOUT SIGNIFICANT MATTERS THAT WERE THE SUBJECT OF 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 2016.

SIGNIFICANT FINDINGS OR ISSUES DISCUSSED, OR SUBJECT OF CORRESPONDENCE, WITH MANAGEMENT PRIOR TO OUR 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 the College's management and staff and had unrestricted access to the College's senior management in the performance of our audit.

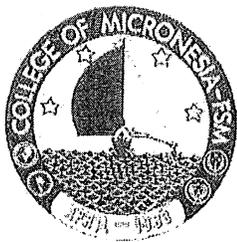
MANAGEMENT'S REPRESENTATIONS

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

CONTROL-RELATED MATTERS

We have issued a separate report to you, dated June 28, 2017, on the College's internal control over financial reporting and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters, which was based upon the audit performed in accordance with *Government Auditing Standards*. We have also issued a separate report to you, also dated June 28, 2017, involving the College's compliance with requirements applicable to each major program and on internal control over compliance in accordance with OMB Uniform Guidance.

We have communicated to management and the Board of Regents, in separate letters dated June 28, 2017, certain deficiencies and other matters related to the College's internal control over financial reporting that we identified during our audit.



COLLEGE OF MICRONESIA –FSM

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Office of the President & CEO

June 28, 2017

Deloitte & Touche
P.O. Box 753
Kolonia, Pohnpei 96941

We are providing this letter in connection with your audits of the statements of net position of the College of Micronesia-FSM (COM-FSM), a component unit of the Federated States of Micronesia (FSM) National Government, as of September 30, 2016 and 2015, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to financial statements, for the purpose of expressing an opinion as to whether the 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 preparation and fair presentation in the basic financial statements of financial position of COM-FSM in conformity with GAAP.
- b. 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
 - To prevent and detect fraud
- c. 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. Additionally, we agree with the recorded adjustments included in Appendix A.

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 audits.

1. The basic financial statements referred to above are fairly presented in conformity with GAAP. In addition:
 - a. The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.
 - b. Net position components (net investment in capital assets; restricted; and unrestricted) are properly classified and, if applicable, approved.
 - c. Deposits and investment securities are properly classified in category of custodial credit risk.
 - d. Capital assets, including infrastructure assets, are properly capitalized, reported, and, if applicable, depreciated.
 - e. Required supplementary information is measured and presented within prescribed guidelines.
 - f. Applicable laws and regulations are followed in adopting, approving and amending budgets.
 - g. The financial statements properly classify all funds and activities, including special and extraordinary items.
 - h. 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.
 - i. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
 - j. Fund balance restrictions, commitments, and assignments are properly classified and, if applicable, approved.
2. COM-FSM has provided to you all relevant information and access as agreed in the terms of the audit engagement letter.
3. COM-FSM has made available to you all:
 - a. All minutes of the meetings of the Board of Regents or summaries of actions of recent meetings for which minutes have not yet been prepared. Board meetings were held on the following dates:

December 15, 2015

May 3, 2016

August 4, 2016

December 1, 2016

March 8, 2017

Minutes of meetings subsequent to March 8, 2017 have not been approved. We represent that there were not significant matters discussed during those meetings that would affect the September 30, 2016 financial statements.

- b. All financial records and related data for all financial transactions of COM-FSM and for all funds administered by COM-FSM. The records, books, and accounts, as provided to you, record the financial and fiscal operations of all funds administered by 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) and any other correspondence that has taken place with federal agencies.
4. There has been no:
- a. Action taken by COM-FSM management that contravenes the provisions of federal laws and Federated States of Micronesia's laws and regulations, or of contracts and grants applicable to COM-FSM except as discussed in the Schedule of Findings and Questioned Costs section of your Independent Auditors' Reports on Internal Control and on Compliance.
 - 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.
5. 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 B.
6. We believe the effects of the uncorrected financial statement misstatements detected in the current year that relate to the prior year presented, when combined with those misstatements aggregated by you during the prior-year audit engagement and pertaining to the prior year presented, are immaterial, both individually and in the aggregate, to the financial statements for the year ended September 30, 2015 taken as a whole. A summary of such uncorrected misstatements has been attached as Appendix C.
7. COM-FSM has not performed a formal 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 COM-FSM and do not believe that the financial statements are materially misstated as a result of fraud.
8. We have no knowledge of any fraud or suspected fraud affecting COM-FSM involving:
- a. Management
 - b. Employees who have significant roles in internal control over financial reporting
 - c. Others, where the fraud could have a material effect on the financial statements.
9. We have no knowledge of any allegations of fraud or suspected fraud affecting COM-FSM's financial statements communicated by employees, former employees, analysts, regulators, or others.

10. There are no unasserted claims or assessments that we are aware of or that legal counsel has advised us are probable of assertion and must be disclosed in accordance with GASB Codification of Governmental Accounting and Financial Reporting Standards ("GASB Codification") Section C50, *Claims and Judgments*.
11. Significant assumptions used by us in making accounting estimates are reasonable.
12. We are responsible for the preparation of the Schedule of Expenditures of Federal Awards in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("OMB Uniform Guidance"). We have identified and disclosed all of the Entity's government programs and related activities subject to the OMB Uniform Guidance compliance audit. In addition, we have accurately completed the appropriate sections of the data collection form.
13. We are responsible for compliance with local, state, and federal laws, rules, and regulations, including compliance with the requirements of OMB Uniform Guidance, and the provisions of grants and contracts relating to the COM-FSM'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. COM-FSM is responsible for maintaining accounting and administrative control over revenues, obligations, expenditures, assets, and liabilities.
14. 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 federal statutes, regulations, and the terms and conditions of the federal awards that could have a material effect on its federal programs.
15. We have disclosed to you all deficiencies in the design or operation of internal control over financial reporting identified as part of our evaluation, including separately disclosing to you all such deficiencies that are significant deficiencies or material weaknesses in internal control over financial reporting.
16. No events have occurred subsequent to September 30, 2016 that require consideration as adjustments to or disclosures in the schedule of federal awards and related notes or that existed at the end of the reporting period that affect noncompliance during the reporting period.
17. We have disclosed all known noncompliance with direct and material compliance requirements occurring subsequent to September 30, 2016.
18. There have been no changes in internal control over compliance or other factors that might significantly affect internal control, including any corrective action taken by COM-FSM with regard to significant deficiencies and material weaknesses in internal control over compliance, subsequent to September 30, 2016.
19. Federal awards expenditures have been charged in accordance with applicable cost principles.
20. The Reporting Package submitted to the Federal Audit Clearinghouse (FAC) as defined by the OMB Uniform Guidance section 2CFR200.512(3)(c) does not contain protected personally identifiable information.

21. We have:
- a. Identified and disclosed to you the requirements of federal statutes, regulations, and the terms and conditions of federal awards that are considered to have a direct and material effect on each federal program under audit.
 - b. Complied, in all material respects, with the direct and material compliance requirements identified above in connection with federal awards except as disclosed in the Schedule of Findings and Questioned Costs.
 - c. Identified and disclosed interpretations of any compliance requirements that have varying interpretations.
 - d. Made available all federal awards (including amendments, if any) and any other correspondence relevant to federal programs and related activities that have taken place with federal agencies or pass-through entities. Management has made available all documentation related to compliance with the direct and material compliance requirements, including information related to federal program 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. The copies of federal program financial reports provided are true copies of the reports submitted, or electronically transmitted, to the federal agency or pass-through entity, as applicable.
 - e. Identified and disclosed all amounts questioned and all known noncompliance with the direct and material compliance requirements of federal awards, including the results of other audits, program reviews, or any communications from federal awarding agencies and pass-through entities concerning possible noncompliance related to the objectives of the audit.
 - f. Identified previous financial audits, attestation engagements, performance audits, or other studies related to the objectives of the audit and the corrective actions taken to address significant findings and recommendations, including the status of follow-up on prior audit findings (and information about all management decisions) by federal awarding agencies and pass-through entities.
 - g. Provided to you our views on the reported findings, conclusions, and recommendations for your report.
22. We are responsible for follow-up on all prior-year(s) findings. We have prepared a summary schedule of prior-year findings by federal awarding agency and pass-through entity, including all management decisions, to report the status of our efforts in implementation of the prior-year's corrective action plan. The summary schedule of prior audit findings includes all findings required to be included in accordance with OMB Uniform Guidance.
23. We are responsible for taking corrective action on audit findings and have developed a corrective action plan that meets the requirements of OMB Uniform Guidance. We have included in the corrective action plan for current-year findings, the name of the person in our organization responsible for implementation of the actions, the best actions to be taken, and the estimate of a completion date. We have taken timely and appropriate steps to remedy fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse that you report.

24. 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.
25. We have adopted the provisions of GASB Codification Section 2100, *Defining the Financial Reporting Entity*. We believe that we have properly identified, reported, and classified each component unit of the Entity and each organization that meets the criteria established in GASB Codification Section 2100.
26. We believe that internal control over the receipt and recording of contributions is adequate.
27. We have included in the financial statements all assets and liabilities under COM-FSM's control.
28. COM-FSM has maintained an appropriate composition of assets in amounts needed to comply with all donor restrictions.

Except where otherwise stated below, matters less than \$88,600 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.

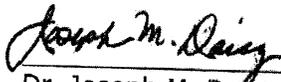
29. Except as listed in Appendix B, there are no transactions that have not been properly recorded in the accounting records underlying the financial statements.
30. COM-FSM has no plans or intentions that may affect the carrying value or classification of assets and liabilities.
31. Regarding related parties:
 - a. We have disclosed to you the identity of COM-FSM's related parties and all the related party relationships and transactions of which we are aware.
 - b. To the extent applicable, related parties and all the related-party relationships and transactions, including sales, purchases, loans, transfers, leasing arrangements, and guarantees (written or oral) have been appropriately identified, properly accounted for, and disclosed in the financial statements.
32. In preparing the financial statements in conformity with GAAP, 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:
 - c. It is 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.
 - d. The effect of the change would be material to the financial statements.
33. There are no:
 - a. Instances of identified or suspected noncompliance with laws and regulations whose effects should be considered when preparing the financial statements.

- b. Known actual or possible litigation and claims whose effects should be considered when preparing the financial statements that have not been disclosed to you and accounted for and disclosed in accordance with GAAP.
 - c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB Codification Section C50, *Claims and Judgments*, except as disclosed in Note 8 to the basic financial statements.
34. 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 except as disclosed in the note to the financial statements.
35. COM-FSM has complied with all aspects of contractual agreements that may affect the financial statements.
36. No department or agency of the COM-FSM has reported a material instance of noncompliance to us.
37. Regarding required supplementary information:
- a. We confirm that we are responsible for the required supplementary information.
 - b. The required supplementary information is measured and presented in accordance with GASB Codification Section 2200, *Comprehensive Annual Financial Report*.
 - c. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period.
38. Receivables recorded in the financial statements represent valid claims against debtors for sales or other charges arising on or before the balance sheet date and have been appropriately reduced to their estimated net realizable value.
39. Quantitative and qualitative information regarding the allowance for doubtful accounts has been properly disclosed in the financial statements.
40. COM-FSM is responsible for determining and maintaining the adequacy of the allowance for doubtful accounts receivable, as well as estimates used to determine such amounts. Management believes the allowances are adequate to absorb currently estimated bad debts in the account balances.
41. Provision has been made, where applicable, to reduce excess or obsolete inventories to their estimated net realizable value. All inventories are the property of COM-FSM and do not include any items consigned to it or any items billed to customers.
42. We believe that all expenditures that have been deferred to future periods are recoverable.
43. We have no intention of terminating any of our retirement plan or taking any other action that could result in an effective termination or reportable event for the plan. We are not aware of any occurrences that could result in the termination of our retirement plan to which we contribute.
44. COM-FSM is periodically a defendant in legal actions inherent to the nature of its operations, the ultimate impact of which is not currently predictable. Therefore, no liability has been recorded in the accompanying financial statements due to management's inability to predict the ultimate outcome of these proceedings.

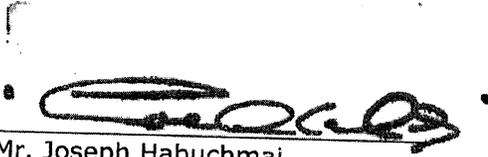
45. During fiscal year 2016, COM-FSM implemented the following pronouncements:
- GASB Statement No. 72, *Fair Value Measurement and Application*, which addresses accounting and financial reporting issues related to fair value measurements and requires entities to expand their fair value disclosures by determining major categories of debt and equity securities within the fair value hierarchy on the basis of the nature and risk of the investment.
 - GASB 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 No. 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 implementation of this statement did not have a material effect on the financial statements.
 - GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, which addresses for certain external investment pools and their participants the accounting and financial reporting implications that result from changes in the regulatory provisions referenced by previous accounting and financial reporting standards. Those provisions were based on the Investment Company Act of 1940, Rule 2a7. Rule 2a7 contains the Securities and Exchange Commission's regulations that apply to money market funds and were significantly amended in 2014. The implementation of this statement did not have a material effect on the financial statements.
46. 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 No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements No. 67 and No. 68 with the reporting requirements in Statement No. 68. The provisions in Statement No. 73 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.
47. 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.
48. 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.

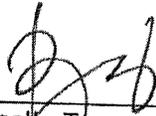
49. In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements. The provisions in Statement No. 77 are effective for fiscal years beginning after December 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements.
50. In December 2015, GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, which addresses a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The provisions in Statement No. 78 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.
51. In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14*, which improves financial reporting by clarifying the financial statement presentation requirements for certain component units. The provisions in Statement No. 80 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.
52. In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*, which improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The provisions in Statement No. 81 are effective for fiscal years beginning after December 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.
53. In March 2016, GASB issued Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*, which addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The provisions in Statement No. 82 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.
54. No events have occurred after September 30, 2016, but before June 28, 2017, the date the financial statements were available to be issued that require consideration as adjustments to or disclosures in the financial statements.



Dr. Joseph M. Daisy
President



Mr. Joseph Habuchmai
Vice President for Administrative Services



Ms. Roselee Togonon
Comptroller

APPENDIX A - POSTED ADJUSTMENTS AND FINANCIAL STATEMENTS RECLASSIFICATION ENTRIES

| Audit Adjustments | | | |
|-------------------|--|--|--|
|-------------------|--|--|--|

Fund 101

| # | Description | Debit | Credit |
|------|---|------------|------------|
| | AJE 1) DEFERRED REVENUE - FSM NATIONAL REVERSAL | | |
| 5801 | Deferred revenue - FSM National grants | 351,646.97 | |
| 7599 | Miscellaneous revenue | | 351,646.97 |
| | | 351,646.97 | 351,646.97 |

To reverse long outstanding deferred revenue from FSM National.

| | | | |
|------|--|------------|------------|
| | AJE 2) TO INCREASE ALLOWANCE FOR DOUBTFUL ACCOUNTS | | |
| 9101 | Bad debts expense | 77,014.73 | |
| 2102 | Allow, rec. students -National | | 77,014.73 |
| 9101 | Bad debts expense | 44,718.99 | |
| 2122 | Allow, rec. students - Pohnpei | | 44,718.99 |
| | | 121,733.72 | 121,733.72 |

To increase provision for doubtful receivables accounts.

| | | | |
|------|--|------------|------------|
| | RJE 1) TO RECLASS ACCRUED LEAVE NONCURRENT | | |
| 5502 | Accrued annual leave | 226,716.02 | |
| 5503 | Accrued annual leave - noncurrent portion | | 226,716.02 |
| | | 226,716.02 | 226,716.02 |

To reclass noncurrent portion of accrued annual leave.

Fund 151

| | | | |
|------|-------------------------------|-----------|-----------|
| | AJE 1) TO INCREASE ADA | | |
| 9101 | Bad debts expense | | |
| 2132 | Allow, rec. students - Chuuk | 13,878.74 | |
| 9101 | Bad debts expense | | 13,878.74 |
| 2141 | Receivable, students - Kosrae | 9,228.82 | |
| 9101 | Bad debts expense | | 9,228.82 |
| 2152 | Allow., rec. students - Yap | 9,328.16 | |
| | | | 9,328.16 |
| | | 32,435.72 | 32,435.72 |

To increase provision for doubtful receivables accounts.

Fund 201

| | | | |
|------|---|-----------|-----------|
| | AJE 1) TO REVERSE OLD DEFERRED REVENUE - FSM NATIONAL | | |
| 5801 | Deferred revenue - FSM National grants | | |
| 7599 | Miscellaneous revenue | 56,722.93 | |
| | | | 56,722.93 |
| | | 56,722.93 | 56,722.93 |

To reverse long outstanding deferred revenue from FSM National.

| | | | |
|------|---|-----------|-----------|
| | RJE 1) TO RECLASS ANNUAL LEAVE NONCURRENT | | |
| 5502 | Accrued annual leave | | |
| 5503 | Accrued annual leave - noncurrent portion | 24,648.40 | |
| | | | 24,648.40 |
| | | 24,648.40 | 24,648.40 |

To reclass noncurrent portion of accrued annual leave.

ATTACHMENT I, CONTINUED

APPENDIX B - UNPOSTED ADJUSTMENTS AND FINANCIAL STATEMENT RECLASSIFICATION ENTRIES

| Misstatement Description | Type of Misstatement | Balance Sheet | | | Income Statement |
|--|----------------------|----------------|---------------------|----------------------|--------------------------|
| | | Assets Dr (Cr) | Liabilities Dr (Cr) | Net Position Dr (Cr) | Revenue Expenses Dr (Cr) |
| 1) To close out non-moving/inactive other liabilities balances | Judgmental | | 68,760 | | (68,760) |
| 2) To increase inventory obsolescence allowance | Factual | (17,555) | | | 17,555 |
| 3) To adjust prepayments | Factual | 21,511 | | | (21,511) |
| 4) To reclassify donated equipment to capital contributions. | Factual | | | | 0 |
| | | <u>3,956</u> | <u>68,760</u> | <u>0</u> | <u>(72,716)</u> |

APPENDIX C - PRIOR YEAR ERRORS IDENTIFIED IN THE CURRENT YEAR

| Misstatement Description | Type of Misstatement | Balance Sheet | | | Income Statement |
|------------------------------------|----------------------|-------------------|------------------------|----------------------------|--------------------------------|
| | | Assets Dr (Cr) | Liabilities Dr (Cr) | Equities BRE Dr (Cr) | Revenue Expenses Dr (Cr) |
| 1. To recognize prior year revenue | Factual | | | (22,950) | 22,950 |
| | | 0 | 0 | (22,950) | 22,950 |