

*The Auditor's Communication with Those Charged
With Governance*

**Federated States of Micronesia
National Government**

Year ended September 30, 2022



October 10, 2024

Management and Those Charged with Governance
Federated States of Micronesia
National Government

We have performed an audit of the financial statements of the governmental activities, the aggregate discreetly presented component units, each major fund and the aggregate remaining fund information of the Federated States of Micronesia National Government (the Government) as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise basic financial statements of the Government, in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and have issued our report thereon dated October 10, 2024.

This report summarizes our communications with those charged with governance as required by our professional standards to assist you in fulfilling your obligation to oversee the financial reporting and disclosure process.

REQUIRED COMMUNICATIONS

Auditors' Responsibilities under GAAS, including our discussion of the type of auditor's report we are issuing and the circumstances that affect the form and content of our auditor's report, if applicable

Professional standards require the auditor to provide those charged with governance with additional information regarding the scope and results of the audit that may assist those charged with governance in overseeing the financial reporting and disclosure processes which the management of the Government is responsible. We summarize these required communications as follows:

Our audit scope and timing is consistent with the plan communicated in our engagement letter dated May 11, 2023 and at our audit planning meeting with management.

The financial statements, required supplementary information and supplementary information are the responsibility of the Government's management as prepared with the oversight of those charged with governance. Our audit was designed in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, to obtain reasonable, rather than absolute, assurance that the financial statements are free of material misstatement.

An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, we express no such opinion.

An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation.

Our responsibilities are included in our audit engagement letter.

Changes to the audit strategy, timing of the audit and significant risks identified

Our audit strategy is consistent with the plan communicated during the planning meeting.

Matters relevant to our evaluation of the entity's ability to continue as a going concern

We did not identify any events or conditions that led us to believe there was substantial doubt about the Government's ability to continue as a going concern.

Our views about the qualitative aspects of the Government's significant accounting practices, including:

- **Accounting policies**
- **Accounting estimates**

Management has not selected or changed any significant policies or changed the application of those policies in the current year.

We have provided a discussion of significant accounting policies and our views regarding significant accounting estimates and financial statement disclosures and related matters in Note 1 of the basic financial statements.

We determined that those charged with governance are informed about management's process for formulating particularly sensitive estimates and about the basis to our conclusions regarding the reasonableness of those estimates.

Management's judgment is called upon in:

- Preparing budgets that are used to administer and monitor the Government's operations. These budgets include determining how existing financial resources will be used in the Government's operations.
- Determining the adequacy of the allowance for doubtful accounts receivable.
- Determining the assumptions used in measuring significant accounting estimates for financial reporting purposes.

Related party relationships and transactions

We noted no significant matters regarding the Government's relationships and transactions with related parties.

Changes to the terms of the audit with no reasonable justification for the change

We are not aware of any matters that require communication.

Significant unusual transactions

We are not aware of any significant unusual transactions executed by the Government.

Difficult or contentious matters subject to consultation outside of the audit team

There were no difficult or contentious matters that required consultation outside of the audit team.

Material corrected misstatements related to accounts and disclosures

Refer to "Management Representations Letter" in Appendix A.

Uncorrected misstatements related to accounts and disclosures, considered by management to be immaterial

Certain uncorrected misstatements accumulated by us were identified during the audit and pertaining to the latest period presented, which were determined by the Government's management to be immaterial, both individually and in the aggregate, to the financial statements as a whole (see Appendix A – Management Representations Letter).

Significant deficiencies and material weaknesses in internal control over financial reporting

We have identified material weaknesses and significant deficiencies in the internal control during the course of our audit which have been included in our separately issued report of the Government's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters, dated October 10, 2024.

Fraud and noncompliance with laws and regulations (illegal acts)

We were informed of alleged embezzlement of cash during the years 2020 to 2022 by a Travel Advance Manager. The alleged embezzlement of cash was executed through generating her own request for unauthorized checks. The exact dollar amount of loss due to alleged embezzlement has yet to be determined as investigation is ongoing with National Government officials.

Obtain information relevant to the audit

Inquiries regarding matters relevant to the audit were documented in our period status reports

Independence matters

We are not aware of any matters that in our professional judgment would impair our independence.

Other material written communications with management

None.

New accounting pronouncements

- GASB Statement No. 91
- GASB Statement No. 94
- GASB Statement No. 96
- GASB Statement No. 99
- GASB Statement No. 100
- GASB Statement No. 101
- GASB Statement No. 102

Significant issues discussed with management in connection with the auditor's initial appointment or recurring retention

We are not aware of any matters that require communication.

Disagreements with management and significant difficulties encountered in dealing with management when performing the audit

There were no material disagreements with the Government's management on financial accounting and reporting matters during the audit.

Management's consultations with other accountants

We are not aware of any consultations made by management with other accountants or specialists.

Representations we are requesting from management

We have obtained from management a representations letter related to the audit and a copy of the management representations letter is included in Appendix A.

Other findings or issues regarding the oversight of the financial reporting process

There are no other findings or issues arising from the audit that are, in our judgment, significant and relevant to those charged with governance regarding the oversight of the financial reporting process.

Engagement team's involvement with preparation of the financial statements

Under GAS 2018 Revisions, Chapter 3 General Standards, Paragraph 3.37 Requirements for Performing Non-audit Services explains that the audit team should make consideration of management's ability to effectively oversee the non-audit (or non-attest) services to be performed. The engagement team should determine that the audited entity has designated an individual(s) who possesses suitable skill, knowledge or experience and that the individuals understand the services to be performed sufficiently to oversee them. The engagement team should document consideration of management's ability to oversee non-audit services to be performed.

The engagement team believes that this significant threat is reduced to an acceptable level upon application of the following safeguards:

- An engagement quality control review was performed by a qualified Ernst & Young Partner who was not otherwise involved in the audit.
- The preparation of the financial statements is based on the Government's trial balance with our understanding that the Government's underlying books and records are maintained by the Government's accounting department and that the final trial balance prepared by the Government is complete.
- All adjusting journal entries that Ernst & Young posted to the trial balance have been approved by management of the Government.
- The Government's Senior Financial Analysts have the skill sets to oversee and review the completeness and accuracy of the financial statements and footnote disclosures.

AICPA ethics ruling regarding third-party service providers

There are no significant matters arising from the audit that required us to subcontract portions of the Audit Services to other EY firms and that required participation of personnel from an affiliate of EY or another EY firm or any of their respective affiliates, of from independent third-party service providers.

This communication is intended solely for the information and use of the Government's management and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Ernst & Young LLP

Appendix

A – Management Representations Letter

A – Management Representations Letter



Secretary of Finance
&
Administration

**GOVERNMENT OF THE
FEDERATED STATES OF MICRONESIA**
Department of Finance and Administration

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October 10, 2024

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Tamuning, Guam 96932

In connection with your audit of the basic financial statements of the Federated States of Micronesia National Government (the National Government) as of September 30, 2022 and for the year then ended, we recognize that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion whether the financial statements present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the National Government and the respective changes in financial position and cash flows, where applicable, thereof in conformity with U.S. generally accepted accounting principles (US GAAP).

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.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief:

Management's responsibilities

We have fulfilled our responsibilities, as set forth in the terms of the audit engagement agreement dated May 11, 2023, for the preparation and fair presentation of the financial statements (including disclosures) in conformity with US GAAP applied on a basis consistent with that of the preceding periods.

In preparing the financial statements, we evaluated whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the National Government's ability to continue as a going concern for one year after the date that the financial statements are issued, and to provide appropriate financial statement disclosure, when applicable, related to going concern and using the going concern basis of accounting unless we prepared the financial statements in accordance with the liquidation basis of accounting.

We acknowledge our responsibility for 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. We have provided you with:

A – Management Representations Letter, continued

- Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements such as records, data, documentation and other matters
- Additional information that you have requested from us for the purpose of the audit
- Unrestricted access to persons within the National Government from whom you determined it necessary to obtain evidence

We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.

From October 1, 2021 through the date of this letter we have disclosed to you to the extent that we are aware, any (1) unauthorized access to our information technology systems that either occurred or is reasonably likely to have occurred, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants), to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material effect on the financial statements of any opinion unit that comprises the basic financial statements, in each case or in the aggregate, and (2) ransomware attacks when we paid or are contemplating paying a ransom, regardless of the amount.

Uncorrected misstatements

We believe that the effects of any uncorrected misstatements, summarized in the accompanying schedule, accumulated by you during the current and prior audit period presented are immaterial, both individually and in the aggregate, to the financial statements as a whole.

In addition, to the extent that uncorrected misstatements have been subsequently identified in the current period that affect prior period financial statements, we have evaluated the effect of correcting prior period financial statements and believe that the effects of the uncorrected misstatements are immaterial, both individually and in the aggregate, to both the current and prior period financial statements as a whole.

We believe that the effects of any uncorrected misstatements, summarized in the accompanying schedule, accumulated by you during the current audit and prior audit period presented are immaterial, both individually and in the aggregate, to the financial statements for each opinion unit. Refer to the “Schedule of Uncorrected Misstatements” in Appendix A.

Corrected misstatements

We have reviewed and approved the adjustments, summarized in the accompanying schedule, and reflected these adjustments in the financial statements. Refer to the “Schedule of Corrected Misstatements” in Appendix B.

A – Management Representations Letter, continued

Internal control

There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements.

We have communicated to you all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting. There have been no significant changes in internal control since September 30, 2022.

Minutes and contracts and internal audit reports

We have not prepared any minutes of the meetings of members, officers or summaries of actions of recent meetings held from October 1, 2021 to the date of this letter.

We also have made available to you all significant contracts, including amendments, and agreements and have communicated to you all significant oral agreements. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance, including all covenants, conditions or other requirements of all outstanding debt.

We have also made available to you all internal audit reports (or reports from similar functions) that were issued to management during the year that address internal control over financial reporting.

Methods, significant assumptions, and data used in making accounting estimates

The appropriateness of the methods, the consistency in application, the accuracy and completeness of data, and the reasonableness of significant assumptions used by us in developing accounting estimates and related disclosures, including those measured at fair value, are reasonable and supportable.

Ownership and pledging of assets

The National Government has satisfactory title to all assets appearing in the statement of net position. No security agreements have been executed under the provisions of the Uniform Commercial Code, and there are no liens or encumbrances on assets, nor has any asset been pledged. All assets to which the National Government has satisfactory title appear in the statement of net position.

Receivables and revenues

Receivables have been determined in accordance with all relevant GASB Statements, including GASB Statements No. 33 and 62—as amended.

A – Management Representations Letter, continued

Adequate provision has been made for losses, costs and expenses that may be incurred subsequent to the statement of net position date in respect of sales and services rendered prior to that date and for uncollectible accounts, discounts, returns and allowances, etc., that may be incurred in the collection of receivables at that date.

Prepayments

We believe that all material expenditures for which recognition has been deferred to future periods are recoverable.

Inventories

Physical counts and measurements of inventories were made by competent employees under the supervision of management and book records were appropriately adjusted after giving recognition to cut-off for materials received and products shipped.

Adequate provision has been made for losses under firm purchase commitments for goods or inventory. There have been no reductions of the selling prices of finished goods subsequent to September 30, 2022 and none are contemplated.

Long-lived assets (asset groups) to be held and used, including amortizable intangible assets

No events or changes in circumstances have occurred that indicate the carrying amounts of long-lived assets (asset groups) to be held and used, including intangible assets that are subject to amortization, may not be recoverable.

Related party relationships and transactions

We have made available to you the names of all related parties and all relationships and transactions with related parties.

The substance of transactions with related parties as defined in GASB Statement No. 56—as amended, has been considered and appropriate adjustments or disclosures are made in the basic financial statements, and information concerning these transactions and amounts have been made available to you.

Events of default under debt agreements

No events of default have occurred with respect to any of the National Government's debt agreements.

Side agreements and other arrangements

There have been no side agreements or other arrangements (either written or oral) that have not been disclosed to you.

A – Management Representations Letter, continued

Arrangements with financial institutions

Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances and line-of-credit or similar arrangements have been properly recorded or disclosed in the financial statements.

Fair value measurements

We are responsible for the estimation methods and assumptions used in measuring assets and liabilities reported or disclosed at fair value, including information obtained from brokers, pricing services or other third parties. Our valuation techniques have been consistently applied from period to period. The fair value measurements reported or disclosed represent our best estimate of fair value as of the measurement date in accordance with the requirements of GASB Statement No. 72—as amended. In addition, our disclosures related to fair value measurements are consistent with the objectives outlined in GASB Statement No. 72—as amended.

We have evaluated the fair value information provided to us by brokers, pricing services or other parties that has been used in the financial statements and believe this information to be reliable and consistent with the requirements of GASB Statement No. 72—as amended.

Contingent liabilities

There are no unasserted claims or assessments, including those our lawyers have advised us of that are probable of assertion and must be disclosed in accordance with GASB Statement No. 62—as amended other than those disclosed in the financial statements.

There have been no violations or possible violations of laws or regulations in any jurisdiction whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency other than those disclosed or accrued in the financial statements.

There have been no internal investigations or communications from regulatory agencies or government representatives concerning investigations or allegations of noncompliance with laws or regulations in any jurisdiction, noncompliance with or deficiencies in financial reporting practices, or other matters that could have a material effect on the financial statements.

There are no other liabilities or gain or loss contingencies considered material, individually or in the aggregate, that are required to be accrued or disclosed by GASB Statement No. 62—as amended, nor are there any accruals for loss contingencies included in the statements of net position or gain contingencies reflected in earnings that are not in conformity with the provisions of GASB Statement No. 62—as amended.

There are no oral or written guarantees including guarantees of the debt of others.

A – Management Representations Letter, continued

Purchase commitments

At September 30, 2022, the National Government had no purchase commitments for inventories in excess of normal requirements or at prices that were in excess of market at that date.

There were no agreements or commitments to repurchase assets previously sold. There were no material commitments outstanding at September 30, 2022 as a result of being a party to futures or forwards contracts, short sales or hedge transactions.

Conflicts of interest

There are no instances where any officer or employee of the National Government has an interest in a company with which the National Government does business that would be considered a “conflict of interest.” Such an interest would be contrary to State policy.

Gong concern

In preparing the financial statements, we evaluated the entity’s ability to continue as a going concern for twelve months after the date that the financial statements are issued, and provide appropriate financial statement disclosure, as necessary under GASB requirements.

Effects of new accounting principles

As discussed in Note 1 to the financial statements, we have not completed the process of evaluating the effects that will result from adopting the amendments to the codification provided in Governmental Accounting Standards Board (GASB):

- GASB Statement No. 91
- GASB Statement No. 94
- GASB Statement No. 96
- GASB Statement No. 99
- GASB Statement No. 100
- GASB Statement No. 101
- GASB Statement No. 102

The National Government is therefore unable to disclose the effects that adopting the amendments in the aforementioned GASB Statements will have on its financial position and the changes in its financial position when such statements are adopted.

Required supplementary information

We acknowledge our responsibility for the required supplementary information on management’s discussion and analysis and budgetary comparison information for the general fund, which have been measured and presented in conformity with the guidelines established by the Governmental Accounting Standards Board in its applicable GASB Statement. There have been no changes in the methods of measurement or presentation of the required supplementary information from those used in the prior period.

There are no significant assumptions or interpretations underlying the measurement or presentation of the information.

A – Management Representations Letter, continued

Supplementary information

We are responsible for the preparation and fair presentation of the following schedules (the “Supplementary Information”) and its form and content in conformity with GASB:

- Combining schedule of expenditures by account-Governmental Funds
- Statement of revenues, expenditures by function and changes in fund balance-General Fund
- Statement of revenues, expenditures by function and changes in fund balance-budget and actual-General Fund
- Combining balance sheet-nonmajor governmental funds-special revenues funds
- Combining statement of revenues, expenditures by function and changes in fund balances-nonmajor governmental funds-special revenues funds

- Combining statement of revenues, expenditures by account and changes in fund balances-nonmajor governmental funds-special revenues funds
- Combining balance sheet-Grants Revenue Fund
- Combining statement of revenues, expenditures by function and changes in fund balance-Grants Assistance Fund
- Combining statement of revenues, expenditures by account and changes in fund balance-Grants Assistance Fund

We believe the supplementary information, including its form and content, is fairly stated in all material respects in conformity with GASB.

There have been no changes in the methods of measurement or presentation of the supplementary information from those used in the prior period.

There are no significant assumptions or interpretations underlying the measurement or presentation of the information.

Subsequent events

Subsequent to September 30, 2022, no events or transactions have occurred or are pending that would have a material effect on the basic financial statements at that date or for the period then ended, or that are of such significance in relation to the National Government’s affairs to require mention in a note to the basic financial statements in order to make them not misleading regarding the financial position, changes in financial position and, where applicable, cash flows of National Government.

Non-compliance with laws and regulations, including fraud

We acknowledge that we are responsible to determine that the National Government’s business activities are conducted in accordance with laws and regulations and that we are responsible for identifying and addressing any non-compliance with applicable laws or regulations, including fraud.

A – Management Representations Letter, continued

We acknowledge our responsibility for the design, implementation and maintenance of a system of internal control to prevent and detect fraud.

We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

We have no knowledge of any fraud or suspected fraud involving management or other employees who have a significant role in the National Government's internal control over financial reporting. In addition, we have no knowledge of any fraud or suspected fraud involving other employees where the fraud could have a material effect on the financial statements. We have no knowledge of any allegations of financial improprieties, including fraud or suspected fraud, (regardless of the source or form and including without limitation, any allegations by "whistleblowers") which could result in a misstatement of the financial statements or otherwise affect the financial reporting of the National Government.

We have disclosed to you all known actual or suspected noncompliance with laws and regulations whose effects should be considered when preparing the financial statements.

Independence

We have communicated to you the names of National Government's affiliates, officers and directors, or individuals who serve in such capacity for the National Government.

We are not aware of any business relationship between the National Government and Ernst & Young LLP or any other member firm of the global Ernst & Young organization.

We are not aware of any reason that Ernst & Young LLP would not be independent for purposes of the National Government's audit.

Other Assets

We represent that the National Government owns shares of common stock of a commercial enterprise in the Commonwealth of the Northern Mariana Islands with a carrying value of \$1,500,000. Additionally, we own membership shares in the Asian Development Bank with a carrying value of \$6,927,442. Our ownership in these shares do not meet the definition of an investment under GASB Statement No. 72 as they are held primarily for economic development rather than for the purpose of income or profit. Accordingly, they are recorded as other assets in our financial statements.

Federated States of Micronesia-Early Retirement Program Trust Fund

The Asian Development Bank (ADB) requires the Federated States of Micronesia to have monies available to satisfy repayment terms. The purpose of the Early Retirement Program Trust Fund is to have resources in an investment account whereby withdrawals can be made to repay amounts owed (by the FSM National Government and the State Governments of Chuuk, Kosrae, Pohnpei and Yap) to the Asian Development Bank.

A – Management Representations Letter, continued

As of September 30, 2022, the Federated States of Micronesia has approximately \$8.5 million in an account entitled “Federated States of Micronesia-Early Retirement Program Trust Fund”. Of the \$8.5 million, approximately \$1 million is recorded in the books of the FSM National Government and the remaining \$7.5 is recorded by the State Governments.

We confirm to you:

- the ADB loan balance is allocated among the State Governments and the FSM National Government
- the Federated States of Micronesia National Government, along with the State Governments, have pooled their resources to create this fund, with the FSM National Government serving as the Pool Sponsor and the State Governments as Pool Participants.
- We believe the Early Retirement Program Trust Fund meets the definition of an External Investment Pool as per GASB Statement No. 31 paragraph 22.
- We have reviewed the requirements called for under GASB Statement No. 84, Fiduciary Activities, to evaluate whether the FSM National Government, as the Pool Sponsor, has fiduciary activities in respects to the \$7.5 million that is recorded by the State Governments.
- We concluded the fiduciary activity (the \$7.5 million) should be recorded in a fiduciary fund. Furthermore, in accordance with GASB No. 84 paragraph 18, the fiduciary activities meet the definition of “Custodial Funds”.

Trust Fund for the People of the Federated States of Micronesia

In May 2003, an agreement was entered into between the United States of America and the Federated States of Micronesia (FSM). The agreement created a trust known as the “Trust Fund for the People of the Federated States of Micronesia. The purpose of the Fund is to contribute to the economic advancement and long-term self-reliance of the FSM by providing an annual source of revenue after fiscal year 2023.

We confirm to you:

- the Fund meets the definition of a permanent fund as per GASB Statement No. 34 paragraph 65.

“Permanent Funds should be used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government’s programs-that is, for the benefit of the government or its citizenry”
- that annual investment income and annual investment expenses are allocated among the Federated States of Micronesia National Government, the State Governments of Kosrae, Pohnpei, Chuuk and the United States Government (the Participants) based on the percentage of each Participants total principal and earnings at the beginning of the year over the total fund balance at the beginning of the year.

A – Management Representations Letter, continued

- We believe the Fund meets the definition of an External Investment Pool as per GASB Statement No. 31 paragraph 22.

“An arrangement that commingles (pools) the moneys of more than one legally separate entity and invests, on the participants' behalf, in an investment portfolio; one or more of the participants is not part of the sponsor's reporting entity. An external investment pool can be sponsored by an individual government, jointly by more than one government, or by a nongovernmental entity. An investment pool that is sponsored by an individual state or local government is an external investment pool if it includes participation by a legally separate entity that is not part of the same reporting entity as the sponsoring government. If a government-sponsored pool includes only the primary government and its component units, it is an internal investment pool and not an external investment pool.”

GASB Statement No. 24 Paragraph 5, Pass Through Grants

Our Schedule of Expenditures of Federal Awards (SEFA) shows \$74,162,860 of federal awards passed down to subrecipients including \$63,284,236 of Compact Sector Funds. We represent that we have administrative involvement such as monitoring secondary recipients (i.e. FSM State Governments) for compliance with program specific requirements. We have administrative involvement and we are not merely a cash conduit. We acknowledge that Ernst & Young explained the difference between administrative involvement versus cash conduit. In addition, Ernst and Young informed us that paragraph 5 of GASB Statement No. 24 requires all pass through grants received by a government entity (a recipient government) should be reported in its financial statements. As a general rule, cash pass through grants should be recognized as revenue and expenditures in a governmental fund (e.g. FSM National government's grants assistance fund). We acknowledge that we have not recorded \$74,162,860 of revenues and expenditures in our grants assistance fund as required by paragraph 5 of GASB Statement No. 24 and this results to Ernst & Young issuing an adverse opinion in respects to the grants assistance fund.

Other representations

- We recognize that we are responsible for the National Government's compliance with laws, regulations, and provisions of contracts and grant agreements that are applicable to it. We have identified and disclosed to your representatives, all laws and regulations that have direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.
- We have identified to your representatives all previous audits, attestation engagements, and other studies related to the audit objectives and whether the related recommendations have been implemented.
- We have informed you of any investigations or legal proceedings that have been initiated or are in process with respect to the period under audit.
- We have a process to track the status of audit findings and recommendations.

A – Management Representations Letter, continued

- We have provided views on your reported findings, conclusions, and recommendations, as well as management's planned corrective actions, for the report.
- We have taken timely and appropriate steps to remedy fraud, and noncompliance with provisions of laws, regulations, contracts or grant agreements, that you have reported.
- There has been no noncompliance or possible noncompliance with provisions of contracts or grant agreements in any jurisdiction whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
- We have made available to your representatives all financial records and related data.
- The financial statements properly classify all funds and activities.
- We have identified and disclosed to you, all provisions of laws and regulations that could have a direct and material effect on financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds. We have identified and disclosed to you, all instances of identified or suspected noncompliance with laws, regulations, and provisions of contracts and grant agreements where the noncompliance could have a direct and material effect on the financial statements.
- We have followed all applicable laws and regulations in adopting, approving and amending budgets, tax or debt limits and covenants and secondary market disclosures, deposits and investments, including collateral requirements on depository accounts and investments and tax levies and refunds.
- 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.
- The financial statements include all fiduciary activities as required by GASB Statement No.84.
- The financial statements properly classify all funds and activities in accordance with GASB Statement No. 54—as amended.
- All funds that meet the quantitative criteria in GASB Statement No. 34, as amended and GASB Statement No. 37, for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.
- Components of net position (net investment in capital assets; restricted; and unrestricted), and classifications of fund balance (nonspendable fund balance, and restricted, committed, assigned, and unassigned) are properly classified and, if applicable, approved.
- Investments are properly valued.

A – Management Representations Letter, continued

- Provisions for uncollectible receivables have been properly identified and recorded.
- Expenses have been appropriately classified in or allocated to functions and programs in the statements of activities, and allocations have been made on a reasonable basis.
- Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments or contributions to permanent fund principal.
- Interfund, internal and intra-entity activity and balances have been appropriately classified and reported.
- Special and extraordinary items are appropriately classified and reported.
- Risk disclosures associated with deposits and investment securities and derivatives transactions are presented in accordance with GASB requirements.
- Capital assets, including infrastructure and intangible assets, are properly capitalized, reported and, if applicable, depreciated.
- Our policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available is appropriately disclosed and net position was properly recognized under the policy.
- We are following either our established accounting policy regarding which resources (that is, restricted, committed, assigned, or unassigned) are considered to be spent first for expenditures for which more than one resource classification is available or are following paragraph 18 of GASB Statement No. 54 to determine the fund balance classifications for financial reporting purposes.
- Subsequent events have been evaluated and classified as recognized or nonrecognized through the date of this letter.

Fraud and noncompliance with laws and regulations (illegal acts)

We are aware of alleged embezzlement of cash during the years 2020 to 2022 by a Travel Advance Manager. The alleged embezzlement of cash was executed through generating her own request for unauthorized checks. The exact dollar amount of loss due to alleged embezzlement has yet to be determined as investigation is ongoing with National Government officials.

Assistance with preparation of financial statements

We have received a draft copy of our financial statements as of and for the year ended September 30, 2022. The accuracy and completeness of the financial statements, including footnote disclosures, are our responsibility.

A – Management Representations Letter, continued

We acknowledge that Ernst & Young LLP assisted in preparation of our financial statements and footnotes based on information in our trial balance and accounting records. We represent that:

- Our underlying books and records are maintained by our accounting department and that the final trial balance prepared in complete and,
- All adjusting journal entries posted in the trial balance have been approved by us, and
- We have designated a competent representative to oversee your services and that our personnel have sufficient financial competence who are able to challenge and review the completeness and accuracy of the financial statements, including footnote disclosures, and
- We have reviewed the financial statements for accuracy and completeness, and
- We acknowledge that we have taken responsibility for them.

We understand that your audit was conducted in accordance auditing standards generally accepted in the United States of America as established by the American Institute of Certified Public Accountants and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America and was, therefore, designed primarily for the purpose of expressing opinions on the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the National Government and that your tests of the accounting records and other auditing procedures were limited to those that you considered necessary for that purpose.

Very truly yours,



Rose N. Nakanaga

Secretary, Department of Finance and Administration
Federated States of Micronesia National Government

A – Management Representations Letter, continued

Appendices:

A – Schedule of Uncorrected Misstatements

B – Schedule of Corrected Misstatements

C – Subsequent Events

A – Management Representations Letter, continued

Appendix A – Schedule of Uncorrected Misstatements

Communication schedule for uncorrected misstatements

| Entity: | | FSM National Government - Government Wide | | Period Ended: | | 30-Sep-2022 | | Currency: | | USD | | | |
|--|----------|---|--|-------------------------|-------------------------|-------------------------|-------------------|----------------------------------|---|------------------|-----------------------------|---|--|
| Uncorrected misstatements | | | Analysis of misstatements Debit/(Credit) | | | | | | | | | Income statement effect of the prior period | |
| No. | W/P ref. | Account (Note 1) | Assets Current | Assets Non-current | Liabilities Current | Liabilities Non-current | Equity components | Effect on the current period OCI | Income statement effect of the current period | | Prior period Debit/(Credit) | Non taxable | |
| (misstatements are recorded as journal entries with a description) | | | Debit/(Credit) (Note 2) | Debit/(Credit) (Note 2) | Debit/(Credit) (Note 2) | Debit/(Credit) (Note 2) | Debit/(Credit) | Debit/(Credit) | Debit/(Credit) | Non taxable | | | |
| Factual misstatements: | | | | | | | | | | | | | |
| 1 | K01.9b | To adjust unsupported Construction-in-progress (Government Wide) | | | | | | | | | | | |
| | | Capital assets | | (756,651) | | | | | | | | | |
| | | Accounts payable | 756,651 | | | | | | | | | | |
| 2 | G | SDR Conversion difference in ADB Investment (General Fund) | | | | | | | 1,475,153 | X | | | |
| | | Special item - loss on SDR conversion | | | | | | | | | | | |
| | | Other assets | | (1,475,153) | | | | | | | | | |
| 3 | H0102 | To adjust difference on National Trust Fund (General Fund) | | | | | | | 494,098 | X | | | |
| | | Net change in the fair value of investments | | | | | | | | | | | |
| | | Investments | (494,098) | | | | | | | | | | |
| 4 | C1 | To correct cash balance for bank account with no bank reconciliation (General Fund) | | | | | | | | | | | |
| | | Cash and cash equivalents | 789,342 | | | | | | | | | | |
| | | Expenditures | | | | | | | (789,342) | X | | | |
| 5 | E1 | To record allowance for doubtful accounts in travel advances receivable (General Fund) | | | | | | | 1,438,340 | X | | | |
| | | Expenditures | | | | | | | | | | | |
| | | Receivables, net of allowance of uncollectibles | (1,438,340) | | | | | | | | | | |
| 6 | C1 | To record expenditures for bank reconciling items without details per bank recon in FY21 (General Fund) | | | | | | | 0 | | | | |
| | | Expenditures | | | | | | | | | | | |
| | | Cash and cash equivalents | 0 | | | | | | | | | | |
| 7 | N1 | To record expenditures based on search for unrecorded payables in FY21 (General Fund) | | | | | | | 0 | | | | |
| | | Expenditures | | | 0 | | | | | | | | |
| | | Accounts payable | | | | | | | | | | | |
| Total of uncorrected misstatements before income tax | | | (398,445) | (2,231,804) | 0 | 0 | 0 | 0 | 2,618,249 | | 1,558,703 | | |
| Total of uncorrected misstatements | | | (398,445) | (2,231,804) | 0 | 0 | 0 | 0 | 2,618,249 | | 1,558,703 | | |
| Financial statement amounts | | | 844,363,993 | 226,175,859 | (100,375,601) | (86,282,520) | (733,366,334) | | 22,287,159 | | 889,030,838 | | |
| Effect of uncorrected misstatements on FIS amounts | | | -0.1% | -1.0% | 0.0% | 0.0% | 0.0% | | 11.7% | | -2.3% | | |
| Memo: Total of non-taxable items (marked 'X' above) | | | | | | | | | 2,618,249 | | 0 | | |
| Uncorrected misstatements before income tax | | | | | | | | 11.7% | 2,618,249 | | 1,558,703 | | |
| Less: Tax effect of misstatements at current year marginal rate | | | | | | | 0% | 0 | | | 0 | | |
| Uncorrected misstatements in income tax | | | | | | | | | 0 | | 0 | | |
| Cumulative effect of uncorrected misstatements after tax but before turnaround | | | | | | | | 11.7% | 2,618,249 | | 1,558,703 | | |
| Turnaround effect of prior period uncorrected misstatements | | | | | | | | | | | | | |
| All factual and projected misstatements: Judgmental misstatements (Note 3): | | | | | | | | | After tax | Memo: Before tax | | | |
| | | | | | | | | | (1,558,703) | (1,558,703) | 0 | | |
| Cumulative effect of uncorrected misstatements, after turnaround effect | | | | | | | | 4.8% | 1,059,546 | | | | |
| Current year income before tax | | | | | | | | | | 22,287,159 | | | |
| Current year income after tax | | | | | | | | | | 22,287,159 | | | |

A – Management Representations Letter, continued

Appendix A – Schedule of Uncorrected Misstatements, continued

Communication schedule for uncorrected misstatements

| Entity: | | FSM National Government - General Fund | | Period Ended: | | 30-Sep-2022 | | Currency: | | USD | | |
|--|----------|--|--|-------------------------|-------------------------|-------------------------|-------------------|----------------------------------|---|------------------|---|-------------|
| Uncorrected misstatements | | | Analysis of misstatements Debit/(Credit) | | | | | | | | Income statement effect of the prior period | |
| No. | W/P ref. | Account (Note 1) | Assets Current | Assets Non-current | Liabilities Current | Liabilities Non-current | Equity components | Effect on the current period OCI | Income statement effect of the current period | | Prior period Debit/(Credit) | Non taxable |
| | | (misstatements are recorded as journal entries with a description) | Debit/(Credit) (Note 2) | Debit/(Credit) (Note 2) | Debit/(Credit) (Note 2) | Debit/(Credit) (Note 2) | Debit/(Credit) | Debit/(Credit) | Debit/(Credit) | Non taxable | | |
| Factual misstatements: | | | | | | | | | | | | |
| 1 | G | SDR Conversion difference in ACB Investment | | | | | | | | | | |
| | | Special item - loss on SDR conversion | | | | | | | | 1,475,153 | X | |
| | | Other assets | (1,475,153) | | | | | | | | | |
| 2 | H0102 | To adjust difference on National Trust Fund Investment | | | | | | | | | | |
| | | Net change in the fair value of investments | | | | | | | | 494,098 | X | |
| | | Investments | (494,098) | | | | | | | | | |
| 3 | C1 | To correct cash balance for bank account with no bank reconciliation | | | | | | | | | | |
| | | Cash and cash equivalents | 789,342 | | | | | | | | | |
| | | Expenditures | | | | | | | (789,342) | X | | |
| 4 | E1 | To record allowance for doubtful accounts in travel advances receivable | | | | | | | | | | |
| | | Expenditures | | | | | | | | 1,438,340 | X | 796,041 |
| | | Receivables, net of allowance of uncollectibles | (1,438,340) | | | | | | | | | |
| 5 | C1 | To record expenditures for bank reconciling items without details per bank recon in FY21 | | | | | | | | | | |
| | | Expenditures | | | | | | | | 0 | | 174,097 |
| | | Cash and cash equivalents | 0 | | | | | | | | | |
| 6 | N1 | To record expenditures based on search for unrecorded payables in FY21 | | | | | | | | | | |
| | | Expenditures | | | | | | | | 0 | | 588,565 |
| | | Accounts payable | | | 0 | | | | | | | |
| Total of uncorrected misstatements before income tax | | | (2,618,249) | 0 | 0 | 0 | 0 | 0 | 2,618,249 | | 1,558,703 | |
| Total of uncorrected misstatements | | | (2,618,249) | 0 | 0 | 0 | 0 | 0 | 2,618,249 | | 1,558,703 | |
| Financial statement amounts | | | 640,587,296 | (97,511,400) | (943,075,880) | 15,516,335 | (63,573,820) | 16.9% | -2.9% | | | |
| Effect of uncorrected misstatements on F/S amounts | | | -0.4% | 0.0% | 0.0% | 0.0% | 0.0% | 16.9% | -2.9% | | | |
| Memo: Total of non-taxable items (marked 'X' above) | | | | | | | | 2,618,249 | | | 0 | |
| Uncorrected misstatements before income tax | | | | | | | | -17.1% | 2,618,249 | | 1,558,703 | |
| Less: Tax effect of misstatements at current year marginal rate | | | | | | | | 0% | 0 | | 0 | |
| Uncorrected misstatements in income tax | | | | | | | | | 0 | | 0 | |
| Cumulative effect of uncorrected misstatements after tax but before turnaround | | | | | | | | 16.9% | 2,618,249 | | 1,558,703 | |
| Turnaround effect of prior period uncorrected misstatements | | | | | | | | | | | | |
| All factual and projected misstatements: | | | | | | | | | After tax | Memo: Before tax | | |
| Judgmental misstatements (Note 3): | | | | | | | | | (1,558,703) | (1,558,703) | 0 | |
| Cumulative effect of uncorrected misstatements, after turnaround effect | | | | | | | | 6.8% | 1,089,545 | | | |
| Current year income before tax | | | | | | | | | (15,334,603) | | | |
| Current year income after tax | | | | | | | | | (5,816,338) | | | |

A – Management Representations Letter, continued

Appendix B – Schedule of Corrected Misstatements

Communication schedule for corrected misstatements

Entity: FSM National Government - Government Wide

Period ended: 30-Sep-2022

Currency: USD

| Corrected misstatements | | | Analysis of misstatements Debit/(Credit) | | | | | | | |
|--|----------|--|--|--------------------|---------------------|-------------------------|-------------------|----------------------------------|---|-------------|
| No. | W/P ref. | Account | Assets Current | Assets Non-current | Liabilities Current | Liabilities Non-current | Equity components | Effect on the current period OCI | Income statement effect of the current period | |
| | | (misstatements are recorded as journal entries with a description) | Debit/(Credit) | Debit/(Credit) | Debit/(Credit) | Debit/(Credit) | Debit/(Credit) | Debit/(Credit) | Debit/(Credit) | Non taxable |
| 1 | K | To adjust G/L to equal subledger (Government Wide) | | | | | | | | |
| | | 95-4020-00-00-00000-00-FB - Investment in Fixed Assets | | | | | 5,828,076 | | | |
| | | 95-7999-00-00-00000-00-RE - Capital outlay | | | | | (5,828,076) | | | |
| 2 | E1 | To write off long-term receivable (General Fund) | | | | | | | | |
| | | Special Item - Loss on long-term receivable related to ADB loans | | | | | | | 4,219,872 | X |
| | | Long-term receivable | (4,219,872) | | | | | | | |
| 3 | E1 | To adjust unearned revenue (General Fund) | | | | | | | | |
| | | 01-1811-00-00-00000-00-AS - Allow for D/A General | 1,375,038 | | | | | | | |
| | | 01-3713-00-00-00000-00-AS - Deferred revenue - noaa | | | (1,375,038) | | | | | |
| 4 | H1 | To adjust G/L to equal confirmation (General Fund) | | | | | | | | |
| | | 92-7890-10-27-91160-00-RE - Realized gain On Equities | | | | | | | 345,332 | X |
| | | 92-1158-00-00-00000-00-AS - Early Retirement-PSRP Boh | (345,332) | | | | | | | |
| 5 | Q | To adjust G/L to equal subledger (General Fund) | | | | | | | | |
| | | 94-2328-00-00-00000-00-AS - Amt. For Retirement Ltd | | | | | 361,965 | | | |
| | | 94-3410-00-00-00000-00-LI - Vacation Leave Accrual | | | | | (361,965) | | | |
| 6 | T1 | To correct opening fund balances (General Fund) | | | | | | | | |
| | | 98-3301-00-00-00000-00-LI - P/R Payal Net Pay Liability | | | 387 | | | | | |
| | | 01-1999-00-00-00000-99-AS - Due To/From Treasury Fund | 37,641 | | | | | | | |
| | | 96-1999-00-00-00000-99-AS - Due to/from Treasury Fund | | | (387) | | | | | |
| | | 01-4110-00-00-00000-00-FB-1 - Unreserved Fund Balance | | | | | (32,705) | | | |
| | | 01-7999-00-00-00000-00-RE - Other Miscellaneous | | | | | | | (4,936) | X |
| 7 | T2 | To correct opening fund balance (Grants Assistance Fund) | | | | | | | | |
| | | 23-1999-00-00-00000-99-AS - Due to/from Treasury Fund | 540 | | | | | | | |
| | | 23-3112-00-00-00000-00-LI - A/P Other not on Subledger | | | (2) | | | | | |
| | | 23-4110-00-00-00000-00-FB-1 - Unreserved Fund Balance | | | | | (538) | | | |
| 8 | I1 | To correct interfund balance (Grants Assistance Fund) | | | | | | | | |
| | | 13-1999-00-00-00000-99-AS - Due to/from Treasury Fund | | | 2,893 | | | | | |
| | | 13-3634-00-00-00000-00-LI - Sector DD Payable PNI | (2,893) | | | | | | | |
| 9 | VE2/UA2 | To record Revenue and Expense of Passthrough Grants | | | | | | | | |
| | | Passthrough Grant Expense | | | | | | | 74,162,860 | X |
| | | Federal Grants Revenue | | | | | | | (74,162,860) | X |
| 10 | UA1 | To Reclassify Special Items to Other Revenue | | | | | | | | |
| | | Recovery Loss from Litigation | | | | | | | 3,500,454 | X |
| | | SDR Exchange gain ADB Loans Payable | | | | | | | 177,703 | X |
| | | Write-off Receivable Balance | | | | | | | (2,607,193) | X |
| | | Decrease in Loan Receivable from Sub-Borrowers | | | | | | | (3,378,908) | X |
| | | Other Revenue | | | | | | | 2,307,944 | X |
| Total of corrected misstatements before income tax | | | (3,154,878) | 0 | (1,372,147) | 0 | (33,343) | 0 | 4,560,288 | |
| Financial statement amounts | | | 644,383,993 | 226,175,856 | (100,378,691) | (36,255,824) | (733,905,334) | | 22,287,159 | |
| Effect of corrected misstatements on F/S amounts | | | -0.5% | 0.0% | 1.4% | 0.0% | 0.0% | | 20.5% | |

[For US PCAOB audits we are required to communicate all misstatements that are accumulated on our SAD.]

A – Management Representations Letter, continued

Appendix B – Schedule of Corrected Misstatements, continued

Communication schedule for corrected misstatements

Entity: FSM National Government - General Fund

Period ended: 30-Sep-2022

Currency: USD

| Corrected misstatements | | | Analysis of misstatements Debit/(Credit) | | | | | | | |
|--|----------|--|--|--------------------|---------------------|-------------------------|-------------------|----------------------------------|---|-------------|
| No. | W/P ref. | Account | Assets Current | Assets Non-current | Liabilities Current | Liabilities Non-current | Equity components | Effect on the current period OCI | Income statement effect of the current period | |
| | | (misstatements are recorded as journal entries with a description) | Debit/(Credit) | Debit/(Credit) | Debit/(Credit) | Debit/(Credit) | Debit/(Credit) | Debit/(Credit) | Debit/(Credit) | Non taxable |
| 1 | E1 | To adjust unearned revenue | | | | | | | | |
| | | 01-1811-00-00-00000-00-AS - Allow for D/A Gener | 1,375,038 | | | | | | | X |
| | | 01-3710-00-00-00000-00-LI - Deferred revenue - noaa | | | (1,375,038) | | | | | |
| 2 | H1 | To adjust G/L to equal confirmation | | | | | | | | |
| | | 92-7890-10-27-91160-00-RE - Realized gain On Equities | | | | | | | 345,332 | X |
| | | 92-1158-00-00-00000-00-AS - Early Retirement-PS | (345,332) | | | | | | | |
| 3 | Q | To adjust G/L to equal subledger | | | | | | | | |
| | | 94-2326-00-00-00000-00-AS - Amt For Retirement Ltd | | | | 361,965 | | | | |
| | | 94-3410-00-00-00000-00-LI - Vacation Leave Accrual | | | (361,965) | | | | | |
| 4 | E1 | To record allowance for doubtful accounts | | | | | | | | |
| | | Special item - Loss on long-term receivable related to ADB loans | | | | | | | 4,219,872 | X |
| | | Allowance for doubtful account | (4,219,872) | | | | | | | |
| 5 | UA1 | To Reclassify Special Items to Other Revenue | | | | | | | | |
| | | Recovery Loss from Litigation | | | | | | | 3,500,454 | X |
| | | SDR Exchange gain ADB Loans Payable | | | | | | | 177,703 | X |
| | | Write-off Receivable Balance | | | | | | | (2,607,193) | X |
| | | Decrease in Loan Receivable from Sub-Borrowers | | | | | | | (3,378,908) | X |
| | | Other Revenue | | | | | | | 2,307,944 | X |
| Total of corrected misstatements before income tax | | | (3,190,166) | 0 | (1,737,003) | 361,965 | 0 | 0 | 4,565,204 | |
| Financial statement amounts | | | 640,587,266 | 0 | (97,511,406) | 0 | (543,075,860) | | 15,516,338 | |
| Effect of corrected misstatements on F/S amounts | | | -0.5% | 0.0% | 1.8% | 0.0% | 0.0% | | 29.4% | |

[For US PCAOB audits we are required to communicate all misstatements that are accumulated on our SAD.]

A – Management Representations Letter, continued

Appendix B – Schedule of Corrected Misstatements, continued

Communication schedule for corrected misstatements

Entity: FSM National Government - Grants Assistance Fund

Period ended: 30-Sep-2022

Currency: USD

| Corrected misstatements | | | Analysis of misstatements Debit/(Credit) | | | | | | | |
|--|----------|---|--|-----------------------|------------------------|----------------------------|----------------------|--|--|----------------|
| No. | W/P ref. | Account | Assets Current | Assets Non-current | Liabilities Current | Liabilities Non-current | Equity components | Effect on the current period OCI | Income statement effect of the current period | |
| | | (misstatements are recorded as journal entries with a description) | Debit/(Credit) | Debit/(Credit) | Debit/(Credit) | Debit/(Credit) | Debit/(Credit) | Debit/(Credit) | Debit/(Credit) | Non taxable |
| 1 | T2 | To correct opening fund balance | | | | | | | | |
| | | 23-1999-00-00-00000-99-AS - Due to/from Treasury | 540 | | | | | | | |
| | | 23-3112-00-00-00000-00-LI - A/P Other not on Subledger | | | (2) | | | | | |
| | | 23-4110-00-00-00000-00-FB-1 - Unreserved Fund Balance | | | | | (538) | | | |
| 2 | I1 | To correct interfund balance | | | | | | | | |
| | | 13-1999-00-00-00000-99-AS - Due to/from Treasury Fund | | | 2,893 | | | | | |
| | | 13-3634-00-00-00000-00-LI - Sector DD Payable PI | (2,893) | | | | | | | |
| 3 | VE2/UA2 | To record pass through grants revenue and expense. | | | | | | | | |
| | | Passthrough Grant Expense | | | | | | | 74,162,860 | X |
| | | Federal Grants Revenue | | | | | | | (74,162,860) | X |
| | | | | | | | | | | |
| | | | | | | | | | | |
| Total of corrected misstatements before income tax | | | (2,353) | 0 | 2,891 | 0 | (538) | | 0 | 0 |
| Financial statement amounts | | | 53,379,723 | 0 | (46,481,636) | 0 | (6,898,087) | | | 84,840 |
| Effect of corrected misstatements on F/S amounts | | | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | | | 0.0% |

[For US PCAOB audits we are required to communicate all misstatements that are accumulated on our SAD.]

A – Management Representations Letter, continued

Appendix C – Subsequent Events

FSM National Government
September 30, 2022 Audit
Subsequent Events Questionnaire

Coverage: For the period from October 1, 2023 to audit report date


| Question | Response Yes or No | If yes, please provide additional information |
|--|-----------------------|---|
| 1. Have there been any business combinations, acquisitions of significant assets, significant disposals, disposals of significant assets or extraordinary, unusual or infrequently occurring transactions, except as disclosed in the financial statements? Have any other significant unusual transactions been entered into? | NO | |
| 2. Have any significant contingent liabilities or commitments arisen, except as disclosed in the audited financial statements? | NO | |
| 3. Have any significant changes occurred in trends in sales/revenues or costs that could affect accounting estimates (e.g., valuation of receivables or inventories, valuation of deferred charges, provisions for warranties or employee benefits or unearned income)? | NO | |
| 4. Have any significant changes occurred, or are pending, in the capital accounts, long term debt, including debt covenants and compliance with them, or working capital, except as disclosed in the financial statements? | NO | |
| 5. Have any significant changes occurred in the status of items, including contingent liabilities and commitments that were accounted for on the basis of tentative, preliminary or incomplete data? | NO | |
| 6. Have any significant unusual or non-recurring adjustments been recorded (or are necessary)? | NO | |
| 7. Have any communications, written or oral, occurred with regulatory agencies with which the entity files financial statements? | NO | |
| 8. Have there been any changes in the entity's related parties? | NO | |
| 9. Have any significant new related party transactions occurred? | NO | NO NEW related relations |
| 10. Have any other events occurred, other than those disclosed in response to the previous questions or those reflected or disclosed in the financial statements that could have a material effect on the audited financial statements? | NO | |
| 11. In connection with the preceding inquiries, if any, provide any significant new contracts or agreements (including amendments) and written communications with the regulatory agencies (if applicable) with which the entity files financial statements, that could have an effect on the audited financial statements. List below or in a separate attachment the documents read. | NO | |
| 12. Are there any minutes of meetings of owners, management and those charged with governance that have been held subsequent to the balance sheet date which may indicate any subsequent events have occurred that may affect the September 30, 2022 financial statements? | NO | |
| 13. Any meetings held subsequent to the balance sheet date, for which minutes are not yet available? If yes, please provide minutes of the meeting. If no minutes are not yet available, please provide us a summary of matters discussed. | NO | |
| 14. Are you aware of any fraud or suspected fraud affecting FSM National Government involving (1) management, (2) employees who have significant roles in internal control or (3) others, when the fraud could have a material effect on the audited financial statements? | NO | |
| 15. Are you aware of any allegations of financial irregularities, including fraud or suspected fraud (regardless of the source or form and including, without limitation, allegations by "whistle-blowers"), when such allegations could result in a misstatement of the financial statements or otherwise affect the financial reporting of FSM National Government? | NO | |
| 16. Are you aware whether conditions or events have occurred, that individually or collectively may raise substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time? | NO | |
| 17. Are you aware of any close relationships, or business, employment or other relationships that could bear on the entity's independence (e.g. business/financial relationships, litigation with the entity, family relationships, employment, loans, cooperative arrangements, etc.)? | NO | |

[Signature]
Secretary of Finance

10/04/2024
Date

A – Management Representations Letter, continued

Appendix C – Subsequent Events

| | |
|--|---------------------------------|
|  _____ Christina Gray Assistant Secretary of Finance | <u>10/4/24</u> _____ Date |
|--|---------------------------------|