

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

**Federated States of Micronesia
National Government**

Year ended September 30, 2023



**Shape the future
with confidence**



Shape the future
with confidence

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December 22, 2025

Honorable Wesley Simina
President
Federated States of Micronesia

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 National Government) as of and for the year ended September 30, 2023, 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 December 22, 2025.

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

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 National Government is responsible. We summarize these required communications as follows:

Overview of the planned scope and timing of the audit

Our audit scope and timing is consistent with the plan communicated in our engagement letter dated May 6, 2024 and at our audit planning meeting with management.

Auditors' Responsibilities under Auditing Standards Generally Accepted in the United States (US GAAS) and Generally Accepted Government Auditing Standards (GAGAS)

The financial statements, required supplementary information and supplementary information are the responsibility of the National 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 June 2025 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 National Government's ability to continue as a going concern.

Our views about the qualitative aspects of the entity'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 National Government's operations. These budgets include determining how existing financial resources will be used in the National 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 National Government's relationships and transactions with related parties to the financial statements.

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

None.

Significant unusual transactions

We are not aware of any significant unusual transactions executed by the National 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 the "Management Representations Letter" in Appendix A.

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

Refer to the "Management Representations Letter" in Appendix A.

Significant deficiencies and material weaknesses in internal control over financial reporting

We have identified material weaknesses and significant deficiencies in internal control during the course of our audit which have been included in our separately issued report of the National 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 December 22, 2025.

Fraud and noncompliance with laws and regulations (illegal acts)

We are not aware of any matters that require communication.

Obtain information relevant to the audit

Inquiries regarding matters relevant to the audit were performed during the June 2025 meeting and at the update status meetings during the audit.

Independence matters

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

New accounting pronouncements

Management is still assessing the impact of adopting the following GASB Statements:

- GASB Statement No. 99
- GASB Statement No. 100
- GASB Statement No. 101
- GASB Statement No. 102
- GASB Statement No. 103
- GASB Statement No. 104

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

None.

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

Management expressed their disagreement over EY's audit procedures over ALN 15.875. We performed the audit of ALN 15.875 in accordance with the requirements of 2 CFR 200 Subpart F in conjunction with Article VIII *Audit* of the Fiscal Procedures Act (FPA). We considered both requirements in planning and performing our audit. The Single Audit Act is governed by the requirements set forth in 2 CFR 200 *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (UG) and in particular, Subpart F *Audit Requirements*.

Management also expressed they are not required to perform subrecipient monitoring over Compact of Free Association funds that are passed down to the FSM state governments. EY concluded that subrecipient monitoring is required and, as a result, EY cited a finding for noncompliance with subrecipient monitoring requirements.

Management's consultations with other accountants

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

Other material written communications with management

None.

Other matters

There are no other matters arising from the audit that are significant and relevant to those charged with governance regarding the oversight of the financial reporting process.

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.

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 B.

Engagement team's involvement with preparation of the financial statements

Under GAS 2018 Revision, Chapter 3 Ethics, Independence and Professional Judgment, Paragraphs 3.73-74 explains that the audit team should make consideration of management's ability to effectively oversee the non-audit services to be provided. The engagement team should determine that the audited entity has designated an individual who possesses suitable skill, knowledge or experience and that the individual understands 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 National Government's trial balance with our understanding that the National Government's underlying books and records are maintained by the National Government's accounting department and that the final trial balance prepared by the National Government is complete.
- All adjusting journal entries that Ernst & Young posted to the trial balance have been approved by management of the National Government.
- The National Government's Senior Financial Analysts have the skill sets to oversee and review the completeness and accuracy of the financial statements and footnote disclosures.

This communication is intended solely for the information and use of those charged with governance and 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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December 22, 2025

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In connection with your audits of the basic financial statements of the Federated States of Micronesia National Government (the National Government) as of September 30, 2023 and for the period then ended, and the related notes to the financial statements, 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 aggregate discretely presented component units, 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 accordance with accounting principles generally accepted in the United States of America (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 6, 2024, for the preparation and fair presentation of the financial statements (including disclosures) in accordance with US GAAP applied on a basis consistent with that of the preceding periods.

A – Management Representations Letter, continued

In preparing the basic 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 basic financial statement date.

We acknowledge our responsibility for the design, implementation and maintenance of internal controls 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, documentation and other matters. This responsibility includes identifying the use of new technologies or techniques in preparing such information (e.g., the use of generative artificial intelligence), and additional details you may require regarding the use of any such technologies and techniques in order to perform your audit procedures.
- 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.

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

From October 1, 2022 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 for each opinion unit. Refer to the “Schedule of Uncorrected Misstatements” in Appendix A.

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 for each opinion unit.

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

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, 2023.

Contracts and internal audit reports

We have made available to you all significant agreements and contracts, including amendments, and have communicated to you all significant oral agreements. We have complied with all aspects of contractual agreements that have a material effect on the financial statements.

We also have 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

Except for assets accounted for in accordance with GASB Statements No. 87, 94 and 96—as amended, for which we were provided a right-to-use another entity’s nonfinancial asset (the underlying asset), the National Government has satisfactory title to all assets appearing in the statements 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 statements of net position.

Receivables and revenues

Adequate provision has been made for any receivable as of the statement of net position dates that may not be collectible, including any losses, costs and expenses that may be incurred related to the collection of those receivables.

Revenues and other governmental fund financial resources are recognized in the period in which they became both measurable and available to finance expenditures of the fiscal period.

A – Management Representations Letter, continued

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, 2023 and none are contemplated.

Leases

We have identified and accounted for all contracts that meet the criteria to be accounted for as a lease under GASB Statement No. 87—as amended. We have appropriately considered any modifications, termination or purchase options in the contract.

To measure the lease liability, we used the rate the lessor charges to us or the rate implicit in the lease. When the interest rate could not be readily determined, we then estimated our incremental borrowing rate (IBR). We believe our IBR is a reasonable estimate and represents an estimate of the interest rate that would be charged for borrowing the lease payment amounts during the lease term.

Prepayments

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

Fair value measurements

Any changes made in the valuation technique or its application used to measure fair value have resulted in a measurement that is more representative of fair value in the circumstances.

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.

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.

A – Management Representations Letter, continued

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 financial statements, and information concerning these transactions and amounts have been made available to you.

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.

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.

Events of default under debt agreements

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

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.

Oral or written guarantees

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

A – Management Representations Letter, continued

Purchase commitments

At September 30, 2023, 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, 2023 as a result of being a party to futures or forwards contracts, short sales or hedge transactions.

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.

We acknowledge our responsibility for the design, implementation and maintenance of internal controls 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 disclosed to you all known actual or suspected noncompliance with laws and regulations whose effects should be considered when preparing the financial statements.

We have disclosed to you all significant facts relating to any frauds or suspected frauds, or allegations of fraud known to us that may have affected the National Government (regardless of the source or form and including, without limitation, allegations by "whistle-blowers"), whether involving management or employees who have significant roles in internal control. Similarly, we have disclosed to you our knowledge of fraud or suspected fraud affecting the entity involving others where the fraud could have a material effect on the financial statements. We have also disclosed to you all information in relation to any allegations of fraud or suspected fraud communicated by employees, former employees, analysts, regulators or others, that could affect the financial statements.

Independence

We have communicated to you the names of National Government's affiliates, as described in the AICPA Code of Professional Conduct ET section 1.224.020 *State and Local Government Client 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 (any of which, an "EY Firm"), other than one pursuant to which an EY Firm performs professional services.

A – Management Representations Letter, continued

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

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.

Effects of adopting new accounting standards

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. 99
- GASB Statement No. 100
- GASB Statement No. 101
- GASB Statement No. 102
- GASB Statement No. 103
- GASB Statement No. 104

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.

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, 2023, the Federated States of Micronesia has approximately \$8.1 million in an account entitled “Federated States of Micronesia-Early Retirement Program Trust Fund”. Of the \$8.1 million, approximately \$700 thousand is recorded in the books of the FSM National Government and the remaining \$7.4 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 \$7.4 million that is recorded by the State Governments.
- We concluded the fiduciary activity (the \$7.4 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 \$78,261,187 of federal awards passed down to subrecipients including \$72,071,497 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 recorded \$78,261,187 of revenues and expenditures in our grants assistance fund as required by paragraph 5 of GASB Statement No. 24.

We represent that we have administrative involvement in the Compact Funds like compilation of government financial and performance reports as stated in the Fiscal Procedures Agreement (FPA).

Other representations

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 basic 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

A – Management Representations Letter, continued

investments, including collateral requirements on depository accounts and investments and tax levies and refunds.

The basic 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 basic financial statements include all fiduciary activities as required by GASB Statement No.84.

The basic 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, derivative transactions, and land and other real estate held by endowments are properly valued.

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.

If the modified approach is used to account for eligible infrastructure assets, the National Government meets the GASB-established requirements for doing so.

A – Management Representations Letter, continued

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.

We have properly separated information in debt disclosures related to direct borrowings and direct placements of debt from other debt and disclosed any unused lines of credit, collateral pledged to secure debt, terms in debt agreements related to significant default or termination events with finance-related consequences, and significant subjective acceleration clauses in accordance with GASB Statement No. 88.

We recognize that we are responsible for the National Government's compliance with the laws, regulations, provisions of contracts and grant agreements that are applicable to it. We have identified and disclosed to you all laws, regulations, provisions of contracts and grant agreements that have a direct and material effect on the determination of financial statement amounts.

We have provided you all previous audits, attestation engagements, and other studies related to the audit objectives and whether the related recommendations have been implemented.

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 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.

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.

We are responsible for the presentation of the Schedule of Expenditures of Federal Awards ("the SEFA") in accordance with the Uniform Guidance, 2 CFR 200.510(b). We believe the SEFA, including its form and content, is presented in accordance with the Uniform Guidance, 2 CFR 200.510(b). There have been no changes in the methods of measurement or presentation of the SEFA from those used in the prior period.

A – Management Representations Letter, continued

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

Other matters

We have received a draft copy of our financial statements as of and for the years ended September 30, 2023 and 2022. The accuracy and completeness of the financial statements, including footnote disclosures, are our responsibility.

You have assisted in the preparation of our financial statements based on information in our trial balance and accounting records. It is our understanding that:

- Our underlying books and records are maintained by our accounting department and that the final trial balance prepared by us is complete and,
- All adjusting journal entries posted to 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.

We have reviewed the draft financial statements for accuracy and completeness.

We acknowledge that we have reviewed them and taken responsibility for them.

Subsequent events

Subsequent to September 30, 2023, 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, except for subsequent compact funding provided by the U.S. Government, which is disclosed in the notes to the basic financial statements.

* * * * *

We understand that your audit was conducted in accordance with 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 an opinion on the basic financial statements 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.

A – Management Representations Letter, continued

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-govt wide

Period Ended: 30-Sep-2023

Currency: USD

Uncorrected misstatements			Analysis of misstatements Debit/(Credit)								Income statement effect of the prior period	
No.	WIP 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			
(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:												
3F SAD0	G1	To record the correct amount of ADB shares as other assets										
		Beginning fund balance							497,746	X		
		Other assets		(497,746)								
3F SAD0	HD.01	To record the proper amount of investments with BoFSM as of 9/30/2023										
		Internal investment pool	650,010									
		Net change in the fair value investments							(650,010)	X		
3F SAD0	E1	To create allowance on Receivables										
		01-8812-00-00-00000-00 (bad debt expense)							468,864	X		
		01-2221-00-00-00000-00 (Allowance for Bad Debt)	(142,407)									
		25-2221-00-00-00000-00 (Allowance for Bad Debt)	(108,167)									
		53-2221-00-00-00000-00 (Allowance for Bad Debt)	(218,290)									
3F SAD0	C1	<Title of the misstatement>										
		Cash - 99-1040-00-00-00000-00-AS-1	240,020									
		Accounts payable				(240,020)						
AF SAD		To record variance between FSMNG and FSM States records										
		Due to FSM State Governments				351,668						
		Other income							(351,668)	X		
Total of uncorrected misstatements before income tax			421,166	(497,746)	0	111,668	0	0	(35,088)		0	
Total of uncorrected misstatements			421,166	(497,746)	0	111,668	0	0	(35,088)		0	
Financial statement amounts			595,551,172	252,779,258	(47,354,876)	(34,133,595)	(766,842,159)		(19,915,276)			
Effect of uncorrected misstatements on FIS amounts			0.1%	-0.2%	0.0%	-0.3%	0.0%		0.2%		0.0%	
Memo: Total of non-taxable items (marked 'X' above)									(35,088)		0	
Uncorrected misstatements before income tax								0.0%	(35,088)		0	
Less: Tax effect of misstatements at current year marginal rate									0		0	
Uncorrected misstatements in income tax									0		0	
Cumulative effect of uncorrected misstatements after tax but before turnaround								0.2%	(35,088)		0	
Turnaround effect of prior period uncorrected misstatements												
All factual and projected misstatements:									0		0	
Judgmental misstatements (Note 3):									0		0	
Cumulative effect of uncorrected misstatements, after turnaround effect								0.2%	(35,088)			
Current year income before tax												
Current year income after tax									(19,915,276)			

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-2023

Currency: USD

Uncorrected misstatements		Analysis of misstatements Debit/(Credit)										Income statement effect of the prior period	
No.	WIP 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)	Debit/(Credit)	Non taxable		
Factual misstatements:													
SAD 01	G1	To record the correct amount of ADB shares as other assets											
		Beginning fund balance							497,748	X			
		Other assets		(497,748)									
SAD 02	HD.01	To record the proper amount of investments with BoFSM as of 9/30/2023											
		Internal investment pool	650,010										
		Net change in the fair value investments							(650,010)	X			
SAD03	E1	To create allowance on Receivables											
		01-8812-00-00-00000-00 (bad debt expense)							488,884	X			
		01-2221-00-00-00000-00 (Allowance for Bad Debt)	(142,407)							X			
		25-2221-00-00-00000-00 (Allowance for Bad Debt)	(108,167)							X			
		53-2221-00-00-00000-00 (Allowance for Bad Debt)	(218,290)							X			
SAD04	C1	To adjust for stale outstanding checks											
		Cash - 99-1040-00-00-00000-00-AS-1	240,020										
		Accounts payable				(240,020)							
SAD05		To adjust allowance for doubtful loans - MLFC											
		91-1811-00-00-00000-00-AS-1 - Allowance for D/A	1,034,768										
		91-7999-10-92-01095-00-RE-1 - Recovery of bad debt							(1,034,768)	X			
Total of uncorrected misstatements before income tax			1,455,934	(497,748)	0	(240,020)	0	0	(718,168)			0	
Total of uncorrected misstatements			1,455,934	(497,748)	0	(240,020)	0	0	(718,168)			0	
Financial statement amounts			827,659,580			(58,477,908)	(588,181,672)		(25,105,812)				
Effect of uncorrected misstatements on FIS amounts			0.0%	-0.1%	0.0%	0.4%	0.0%		2.9%			0.0%	
Memo: Total of non-taxable items (marked 'X' above)									(718,168)			0	
Uncorrected misstatements before income tax								0.0%	(718,168)			0	
Less: Tax effect of misstatements at current year marginal rate									0			0	
Uncorrected misstatements in income tax									0			0	
Cumulative effect of uncorrected misstatements after tax but before turnaround								2.9%	(718,168)			0	
Turnaround effect of prior period uncorrected misstatements													
All factual and projected misstatements:									0			0	
Judgmental misstatements (Note 3):									0			0	
Cumulative effect of uncorrected misstatements, after turnaround effect								2.9%	(718,168)			0	
Current year income before tax													
Current year income after tax									(25,105,812)				

A – Management Representations Letter, continued

Appendix A – Schedule of Uncorrected Misstatements, continued

Communication schedule for uncorrected misstatements

Entity:	FSM National Government - Compact Trust Fund		Period Ended:				30-Sep-2023		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)	Debit/(Credit)	Non taxable	
Factual misstatements:												
Total of uncorrected misstatements before income tax			0	0	0	0	0	0	0	0		0
Total of uncorrected misstatements			0	0	0	0	0	0	0	0		0
Financial statement amounts				26,259,987			(26,259,987)			(2,277,119)		
Effect of uncorrected misstatements on F/S amounts			0.0%	0.0%	0.0%	0.0%	0.0%		0.0%		0.0%	
Memo: Total of non-taxable items (marked 'X' above)										0		0
Uncorrected misstatements before income tax								0.0%	0	0		
Less: Tax effect of misstatements at current year marginal rate									0	0		
Uncorrected misstatements in income tax									0	0		
Cumulative effect of uncorrected misstatements after tax but before turnaround								0.0%	0	0		
Turnaround effect of prior period uncorrected misstatements										After tax	Memo: Before tax	
All factual and projected misstatements:								0	0			
Judgmental misstatements (Note 3):									0			
Cumulative effect of uncorrected misstatements, after turnaround effect								0.0%	0			
Current year income before tax												
Current year income after tax									(2,277,119)			

Communication schedule for uncorrected misstatements

Entity:

FSM National Government - Grant Assistance Fund

Period Ended:

30-Sep-2023

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	E.01	To record variance between FSMNG and FSM States records										
		Due to FSM State Governments					351,688					
		Other income							(351,688)	X		
Total of uncorrected misstatements before income tax			0	0	0	351,688	0	0	(351,688)			
Total of uncorrected misstatements			0	0	0	351,688	0	0	(351,688)			
Financial statement amounts				38,912,664		(21,760,864)	(17,151,800)		2,767,836			
Effect of uncorrected misstatements on F/S amounts			0.0%	0.0%	0.0%	-1.6%	0.0%		-12.7%		0.0%	
Memo: Total of non-taxable items (marked 'X' above)									(351,688)		0	
Uncorrected misstatements before income tax									0.0%	(351,688)		0
Less: Tax effect of misstatements at current year marginal rate										0		0
Uncorrected misstatements in income tax										0		0
Cumulative effect of uncorrected misstatements after tax but before turnaround									-12.7%	(351,688)		0
Turnaround effect of prior period uncorrected misstatements												
All factual and projected misstatements:									After tax	0		0
Judgmental misstatements (Note 3):										0		0
Cumulative effect of uncorrected misstatements, after turnaround effect									-12.7%	(351,688)		
Current year income before tax												
Current year income after tax										2,767,836		

A – Management Representations Letter, continued

Appendix A – Schedule of Uncorrected Misstatements, continued

Communication schedule for uncorrected misstatements

Entity: FSM National Government-aggregate remaining fund information

Period Ended: 30-Sep-2023

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
			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:												
100 SADQFS.50 To record the should be investment custodial fund balance												
		Net position custodial fund					382,151			X		
		Investment custodial fund		(382,151)								
Total of uncorrected misstatements before income tax			0	(382,151)	0	0	382,151	0	0			
Total of uncorrected misstatements			0	(382,151)	0	0	382,151	0	0			
Financial statement amounts			69,041,801		(683,181)		(68,358,640)		(4,646,485)			
Effect of uncorrected misstatements on F/S amounts			0.0%	-0.5%	0.0%	0.0%	-0.5%		0.0%		0.0%	
Memo: Total of non-taxable items (marked 'X' above)												
Uncorrected misstatements before income tax							0.0%	0				
Less: Tax effect of misstatements at current year marginal rate								0				
Uncorrected misstatements in income tax								0				
Cumulative effect of uncorrected misstatements after tax but before turnaround							0.0%	0				
Turnaround effect of prior period uncorrected misstatements												
All factual and projected misstatements:								0				
Judgmental misstatements (Note 3):												
Cumulative effect of uncorrected misstatements, after turnaround effect							0.0%	0				
Current year income before tax												
Current year income after tax									(4,646,485)			

A – Management Representations Letter, continued

Appendix B – Schedule of Corrected Misstatements

Communication schedule for corrected misstatements

Entity: FSM National Government-govt wide

Period ended: 30-Sep-2023

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
AJE01	HH4.0	To record the proper amount of investments with Wilshire as of 9/30/2023								
		Internal investment pool	1,091,429							
		Net change in the fair value investments							(1,091,429)	X
AJE02	LRE	To record the should be balances of ROU, lease liability and related accounts for the adoption of GASB 87								
		Right of use asset		(902,671)						
		Lease liability - non current				902,671				
		Amortization expense							258,328	X
		Leased Housing & Offices							(258,328)	X
V CAJE		To reverse out incorrect entry posted by client to Fund 95 Capital Assets Account Group								
	95-285	Due to/from Treasury Fund	3,377,039							
	95-199	Leased Buildings		(3,377,039)						
AJE03	LRE	To record the amount of ROU, Lease liability and related expenses due to the adoption of GASB 87								
		Right of use asset		1,428,331						
		Lease liability - non current			(207,562)	(756,736)				
		Interest- lease							76,641	X
		Amortization expense- lease							24,018	X
		Accumulated amortization - lease		(564,692)						
		Lease liability - current								
CAJE 1	KG1	To reclass expense charged to buildings accumulated depreciation account to infrastructure accumulated depreciation account								
		Accu. Deprec Buildings (2855)		10,700,081						
		Accum Deprec Infrastructure (2857)		(10,700,081)						

Communication schedule for corrected misstatements

Entity: FSM National Government-govt wide

Period ended: 30-Sep-2023

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
JE 10		To Correct Depreciation Expense								
		Depreciation Expense (8812)							1,396,584	X
		Accumulated Dep. (8851)		(961,701)						
		Accumulated Dep. (8852)		(337,336)						
		Accumulated Dep. (8853)		(71,085)						
		Accumulated Dep. (8855)		(26,462)						
CAJE 1		To reclass capital expense to contractual expense								
		Contractual Expense (8226)							1,281,767	X
		Furniture and Fixture (8610)							(1,281,767)	
Total of corrected misstatements before income tax			4,468,468	(4,812,655)	(207,562)	145,935	0	0	405,814	
Financial statement amounts			595,551,172	252,779,258	(47,354,676)	(34,133,595)	(766,842,159)		(19,915,276)	
Effect of corrected misstatements on F/S amounts			0.8%	-1.9%	0.4%	-0.4%	0.0%		-2.0%	

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-2023

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
AJE01	HH4.0	To record the proper amount of investments with Wilshire as of 9/30/2023								
		Internal investment pool	1,091,429							
		Net change in the fair value of investments							(1,091,429)	X
AJE02	LRE	To remove ROU and lease liability in general fund and to record the proper amount of lease expense								
		Right of use asset		(902,671)						
		Lease liability - non current				902,671				
		Amortization expense							258,328	X
		Leased Housing & Offices							(258,328)	X
AJE03	T1	To correct opening fund balance to equal prior year audited fund balance								
	01-411	Fund balance					27,713			
	01-799	Other revenue							(27,713)	X
CAJ04	JK	To transfer to GF the effect of the erroneous entry posted to Fund 95 Capital Assets								
	01-299	Right of Use Asset	3,377,039							
	01-199	Due To/From Treasury Fund	(3,377,039)							
	99-1999-00-00-00000-01-AS-1		3,377,039							
	99-1999-00-00-00000-95-AS-1		(3,377,039)							
AJE 1		To correct allowance for Advance Receivable								
		Bad Debt Expense (01-8812-00-00-00000-00)							1,215,084	X
		Allowance for Doubtful Advances (01-2211-00-00-00000-00)		(1,215,084)						
AJE 1		To Accrue 1813 receivable								
		Corporate Tax (1813)	1,176,267							
		Payable (3626)			(470,506)					

Communication schedule for corrected misstatements

Entity: FSM National Government-General Fund

Period ended: 30-Sep-2023

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
		Revenue (6074)							(705,761)	X
Total of corrected misstatements before income tax			1,052,612	(902,671)	(470,506)	902,671	27,713	0	(609,819)	
Financial statement amounts			0	627,659,580	0	(59,477,908)	(568,181,672)		(25,105,812)	
Effect of corrected misstatements on F/S amounts			0.0%	-0.1%	0.0%	-1.5%	0.0%		2.4%	

A – Management Representations Letter, continued

Appendix B – Schedule of Corrected Misstatements, continued

Communication schedule for corrected misstatements

Entity: FSM National Government - Compact Trust Fund

Period ended: 30-Sep-2023

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
Total of corrected misstatements before income tax			0	0	0	0	0	0	0
Financial statement amounts			0	26,259,987	0	0	(26,259,987)		(2,277,119)
Effect of corrected misstatements on F/S amounts			0.0%	0.0%	0.0%	0.0%	0.0%		0.0%

Communication schedule for corrected misstatements

Entity: FSM National Government - Grant Assistance Fund

Period ended: 30-Sep-2023

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
NF AJB TA2 To correct opening fund balance to reflect prior year audited balance									
	26-789	Net change in fair value of investment							91,513 X
	26-411	Fund balance					(91,513)		
NF AJB To record client adjustment to record expenditure and revenue for Passed Through grants									
	10-892	Payment to state governments and others							26,403,145 X
	11-892	Payment to state governments and others							25,318,631 X
	12-892	Payment to state governments and others							102,870 X
	13-892	Payment to state governments and others							140,348 X
	14-892	Payment to state governments and others							903,306 X
	15-892	Payment to state governments and others							11,526,227 X
	16-892	Payment to state governments and others							1,421,793 X
	18-892	Payment to state governments and others							686,761 X
	19-892	Payment to state governments and others							5,568,416 X
	20-892	Payment to state governments and others							6,189,690 X
	10-702	Compact funding - state government and others						(26,403,145)	X
	11-702	Compact funding - state government and others						(25,318,631)	X
	12-702	Compact funding - state government and others						(102,870)	X
	13-702	Compact funding - state government and others						(140,348)	X
	14-702	Compact funding - state government and others						(903,306)	X
	15-702	Compact funding - state government and others						(11,526,227)	X
	16-702	Compact funding - state government and others						(1,421,793)	X
	18-702	Compact funding - state government and others						(686,761)	X
	19-702	Compact funding - state government and others						(5,568,416)	X
	20-712	Federal grants - state government and others						(6,189,690)	X
Total of corrected misstatements before income tax			0	0	0	0	(91,513)	0	91,513
Financial statement amounts			0	38,912,664	0	(21,760,864)	(17,151,800)		2,767,836
Effect of corrected misstatements on F/S amounts			0.0%	0.0%	0.0%	0.0%	0.5%		3.3%

A – Management Representations Letter, continued

Appendix B – Schedule of Corrected Misstatements, continued

Communication schedule for corrected misstatements

Entity: FSM National Government-aggregate remaining fund information

Period ended: 30-Sep-2023

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
Total of corrected misstatements before income tax			0	0	0	0	0	0	0
Financial statement amounts			0	69,041,801	0	(683,161)	(68,358,640)		(4,546,485)
Effect of corrected misstatements on F/S amounts			0.0%	0.0%	0.0%	0.0%	0.0%		0.0%

A – Management Representations Letter, continued

Appendix C – Subsequent Events

FSM National Government
September 30, 2023 Audit
Subsequent Events Questionnaire

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

Question	Response Yes, No or Not applicable.	If yes, please provide additional information.
1 Have there been any business combinations, acquisitions of significant assets, segment 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	No evidence of such transactions.
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, realization of deferred charges, provisions for warranties or employee benefits or unearned income)?	No	Fisheries and public sector trends continued, but no abrupt changes beyond known COFA transition.
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?	Yes	Additional contributions to the Compact Trust Fund (including \$500 million U.S. front-load) and new grant structures under the 2024 COFA amendments significantly affect long-term funding and capital.
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 inconclusive data?	Yes	Constitutional amendment to share 50% of Fishing Fees with the States implemented in the 4th quarter of FY2023
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 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? This includes subsequent events of material investees accounted for by the equity method.	Yes	Approval and implementation of the 2024 COFA Amendments Act, providing renewed U.S. economic assistance, trust fund enhancements, and elimination of prior projected post-2023 funding shortfalls. This has a material positive effect on future revenues and financial position.
10 Any significant new contracts or agreements (including amendments) and written communications with the SEC or other regulatory agencies (if applicable) with which the entity files financial statements, that could have an effect on the audited financial statements?	Yes	Signing (2023) and U.S. congressional approval/funding (March 2024) of the Amended COFA, including new Fiscal Procedures Agreement and Trust Fund Agreement.
11 Minutes, if any, of the meetings of owners, management and those charged with governance that have been held subsequent to the balance sheet date to determine whether any subsequent events have occurred that may affect the financial statements	No	
12 Matters discussed at meetings held subsequent to the balance sheet date, for which minutes are not yet available	No	
13 Cash receipts records for significant or large amounts (e.g., proceeds of loans, significant sales of productive assets or other unusual items).	No	

A – Management Representations Letter, continued

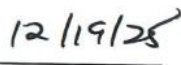
Appendix C – Subsequent Events, continued

14	Cash disbursements records for unusual payments and payments of liabilities not recorded as of the balance sheet date.	No	
15	Collections on accounts receivable and credit memoranda issued for sales returns and allowances, and determine whether there is significant time lag in issuing credits.	No	
16	General journal entries for entries that would have a material effect on the financial statements as of the balance sheet date.	No	
17	Knowledge of any fraud or suspected fraud affecting the entity 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 financial statements.	No	
18	Knowledge of allegations of financial improprieties, 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 the entity.	No	


Rose N. Nakanaga
Secretary of FSM NG Department of Finance & Administration


Date


Christina Elnel
Assistant Secretary of FSM NG Treasury & Accounting


Date