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June 20, 2012

The Board of Directors
Federated States of Micronesia Development Bank

Dear Members of the Board of Directors:

We have performed an audit of the financial statements of the Federated States of Micronesia Development Bank (the Bank) as of and for the year ended December 31, 2011, in accordance with auditing standards generally accepted in the United States of America ("generally accepted auditing standards") and have issued our report thereon dated June 20, 2012.

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

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

Our responsibility under generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States ("generally accepted government auditing standards"), have been described in our engagement letter dated September 14, 2011, a copy of which has been provided to you. As described in that letter, the objectives of an audit conducted in accordance with the aforementioned standards are to:

- To express an opinion on the fairness of the Bank's basic financial statements and the accompanying supplementary information, and to disclaim an opinion on the required supplementary information for the year ended December 31, 2011 in conformity with accounting principles generally accepted in the United States of America ("generally accepted accounting principles"), in all material respects;

- To express an opinion on whether the supplementary information that accompanies the basic financial statements is presented fairly, in all material respects, in relation to the basic financial statements taken as a whole; and

- To report on the Bank's internal control over financial reporting and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the year ended December 31, 2011 based on an audit of financial statements performed in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*.

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

We considered the Bank's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Bank's internal control over financial reporting. Our consideration of internal control over financial reporting was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

MANAGEMENT JUDGMENTS AND ACCOUNTING ESTIMATES

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and on assumptions about future events. Significant accounting estimates reflected in the Bank's 2011 financial statements include management's estimate of the allowance for loan losses, which is determined by management based upon periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect individual borrowers' ability to repay and estimated value of any underlying collateral, management's estimate of recording of assets at the lower of cost or market, which is based on net present value of future cashflows using market rental rates, and management's estimate of depreciation expense, which is based on estimated useful lives of the respective capital assets. During the year ended December 31, 2011, we are not aware of any significant changes in accounting estimates or in management's judgments relating to such estimates.

AUDIT ADJUSTMENTS AND RECLASSIFICATIONS

Our audit of the financial statements was designed to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. As the result of our audit work, we identified matters that resulted in audit adjustments and account reclassifications that we believe, either individually or in the aggregate, would have a significant effect on the Bank's financial reporting process. Such proposed adjustments and reclassifications, listed in Appendix A to Attachment I, have been recorded in the accounting records and are reflected in the 2011 financial statements.

SIGNIFICANT ACCOUNTING POLICIES

The Bank's significant accounting policies are set forth in note 1 to the Bank's 2011 financial statements. During the year ended December 31, 2011, there were no significant changes in previously adopted accounting policies or their application, except for the following pronouncements adopted by the Bank:

- GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions.

- GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which amends Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and addresses issues related to measurement of OPEB obligations by certain employers participating in agent multiple-employer OPEB plans.

SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

- GASB Statement No. 59, *Financial Instruments Omnibus*, which updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools.

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

In December 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements,* which addresses how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Bank.

In December 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus,* which is designed to improve financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity,* and No. 34*, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments,* to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively. The provisions of this statement are effective for periods beginning after June 15, 2012. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Bank.

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Bank.

In July 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which establishes guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Bank.

In July 2011, GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions (an amendment of GASB Statement No. 53)*, which will improve financial reporting by state and local governments by clarifying the circumstances in which hedge accounting continues to be applied when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The provisions of this statement are effective for periods beginning after June 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Bank.

ALTERNATIVE ACCOUNTING TREATMENTS

We had no discussions with management regarding alternative accounting treatments within generally accepted accounting principles for policies and practices related to material items, including recognition, measurement, and disclosure considerations related to the accounting for specific transactions as well as general accounting policies, related to the year ended December 31, 2011.

DISAGREEMENTS WITH MANAGEMENT

We have not had any disagreements with management related to matters that are material to the Bank's 2011 financial statements.

CONSULTATION WITH OTHER ACCOUNTANTS

We are not aware of any consultations that management may have had with other accountants about auditing and accounting matters during 2011.

OTHER INFORMATION IN THE ANNUAL REPORTS

When audited financial statements are included in documents containing other information such as the Bank's 2011 Annual Report, we will read such other information and consider whether it, or the manner of its presentation, is materially inconsistent with the information, or the manner of its presentation, in the financial statements audited by us. We will read the other information in the Bank's 2011 Annual Report and will inquire as to the methods of measurement and presentation of such information. If we note a material inconsistency or if we obtain any knowledge of a material misstatement of fact in the other information, we will discuss this matter with management and, if appropriate, with the Board of Directors.

MAJOR ISSUES DISCUSSED WITH MANAGEMENT PRIOR TO OUR RETENTION

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

SIGNIFICANT DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

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

MANAGEMENT'S REPRESENTATIONS

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

CONTROL-RELATED MATTERS

We have issued a separate report to you, dated June 20, 2012, on the Bank's internal control over financial reporting and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters, which was based upon the audit performed in accordance with *Government Auditing Standards*. We have communicated to management, in separate letters also dated June 20, 2012, other matters that we identified during our audit.

* * * * * * * *

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

Very truly yours,

Deloitte & Touche LLP

FEDERATED STATES OF MICRONESIA
DEVELOPMENT BANK
Corporate Office
P.O. Box M
POHNPEI, FSM 96941

June 20, 2012

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

Gentlemen:

We are providing this letter in connection with your audits of the statements of net assets of the Federated States of Micronesia Development Bank (the "Bank"), a component unit of the FSM National Government as of December 31, 2011, and 2010, and the related statements of activities and changes in net assets and of cash flows for the years then ended, for the purpose of expressing an opinion as to whether the basic financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows of the Bank in conformity with accounting principles generally accepted in the United States of America (GAAP). Furthermore, we are providing this letter in connection with your audits of the respective statements of net assets of the Investment Development Fund (IDF), the Pohnpei Development Loan Fund (PDLF), and the Yap Development Loan Fund (YDLF) (the Funds), funds administered by the Bank, as of December 31, 2011, and the related statements of changes in fiduciary net assets for the year then ended, for the purpose of expressing an opinion as to whether the respective financial statements present fairly, in all material respects, the financial position and results of operations of the Funds in conformity with GAAP. We confirm that we are responsible for the following:

a. The fair presentation in the Bank's basic financial statements of financial position, results of operations, and cash flows, in conformity with GAAP.

b. The fair presentation in the Funds' respective financial statements of final position and results of operations in conformity with GAAP.

c. The fair presentation of the required supplementary information including, Management's Discussion and Analysis, accompanying the Bank's basic financial statements that is presented for the purpose of additional analysis of the basic financial statements.

d. The design, implementation, and maintenance of programs and controls to prevent and detect fraud.

e. Establishing and maintaining effective internal control over financial reporting.

f. The review and approval of the financial statements and related notes and acknowledge your role in the preparation of this information. Specifically, we acknowledge that your role in the preparation of the financial statements was a matter of convenience rather than one of necessity.

We have reviewed the financial statement preparation assistance provided by you and acknowledge that the financial statements are prepared in accordance with GAAP. Our review was based on the use of the stand-alone business-type activities checklist by the Government Finance Officers Association. Additionally, we agreed with the adjusting and reclassification entries included in Appendix A.

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

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

1. The financial statements referred to above are fairly presented in conformity with GAAP. In addition:

    a. Net asset components (invested in capital assets, net of related debt; restricted; and unrestricted) are properly classified and, if applicable, approved.

    b. Capital assets, including infrastructure assets, are properly capitalized, reported, and, if applicable, depreciated.

    c. Deposits and investment securities are properly classified in the category of custodial credit risk.

    d. Required supplementary information is measured and presented within prescribed guidelines.

2. The Bank has provided to you all relevant information and access as agreed in the terms of the engagement letter.

3. The Bank has provided you:

    a. Financial records and related data.

    b. Summaries of actions of the Board of Directors which are dated as follows:

        - January 26, 2011 (regular meeting)
        - April 26, 2011 (regular meeting)
        - June 22, 2011 (special meeting)
        - July 27, 2011 (regular meeting)
        - November 22, 2011 (regular meeting)
        - January 26, 2012 (regular meeting)
        - May 2, 2012 (regular meeting)

    c. Board meeting minutes for a special meeting on June 5, 2012 are not yet available; however, there were no items discussed or actions taken up in those meetings that would require disclosures to or adjustments in the December 31, 2011 financial

statements.

d. Contracts and grant agreements (including amendments, if any) and any other correspondence that has taken place with federal agencies.

4. There have been no:

   a. Actions taken by the Bank's management that contravene the provisions of federal laws and FSM National laws and regulations, or of contracts and grants applicable to the Bank.

   b. Communications from regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices or other matters that could have a material effect on the financial statements.

5. The Bank has not performed a formal risk assessment, including the assessment of the risk that the financial statements may be materially misstated as a result of fraud. However, management has made available to you its understanding about the risks of fraud in the Bank and does not believe that the financial statements are materially misstated as a result of fraud.

6. We have no knowledge of any fraud or suspected fraud affecting the Bank involving:

   a. Management

   b. Employees who have significant roles in internal control over financial reporting

   c. Others if the fraud could have a material effect on the financial statements.

7. We have no knowledge of any allegations of fraud or suspected fraud affecting the Bank received in communications from employees, former employees, regulators, or others.

8. The Bank is involved in various legal actions in the normal course of business, including a variety of legal actions and claims that seek monetary damages or punitive damages. Based on current information, including legal consultation, management believes any ultimate liability that could possibly arise from these actions would not materially affect the Bank's financial position, results of operations or cash flows. This condition has been disclosed in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification (ASC) Topic No. 450 *Contingencies*.

9. Significant assumptions used by us in making accounting estimates are reasonable.

10. We are responsible for compliance with FSM laws, rules, and regulations, and provisions of grants and contracts relating to the Bank's operations. We are responsible for establishing and maintaining the components of internal control relating to our activities in order to achieve the objectives of providing reliable financial reports, effective and efficient operations, and compliance with laws and regulations. The Bank is responsible for maintaining accounting and administrative control over revenues, obligations, expenditures, assets, and liabilities.

11. Management has identified and disclosed to you all laws and regulations that have a direct and material effect on the determination of financial statement amounts.

12. There are no reportable conditions, including significant deficiencies and material weaknesses, in the design or operation of internal control that could adversely affect the Bank's ability to initiate record, process and report financial information.

Except where otherwise stated below, matters less than 1) $77,000 for the Bank, 2) $17,400 for IDF, 3) $4,500 for PDLF and 4) $1,620 for YDLF, collectively are not considered to be exceptions that require disclosure for the purpose of the following representations. This amount is not necessarily indicative of amounts that would require adjustment to or disclosure in the financial statements.

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

14. The Bank has no plans or intentions that may affect the carrying value or classification of assets and liabilities.

15. The following, to the extent applicable, have been appropriately identified, properly recorded, and disclosed in the financial statements:

    a. Related-party transactions and associated amounts receivable or payable, including sales, purchases, loans, transfers, leasing arrangements, and guarantees (written or oral) as described in note 8 to the financial statements.

    b. Guarantees, whether written or oral, under which the Bank is contingently liable. The Bank, from time to time, may issue conditional guarantees to commercial banks for commercial loan borrowers that may represent 50% to 90% of the total outstanding loan balances. There were no outstanding loan guarantees to which the Bank are contingently liable as of December 31, 2011 and 2010.

16. In preparing the financial statements in conformity with GAAP, management uses estimates. All estimates have been disclosed in the financial statements for which known information available prior to the issuance of the financial statements indicates that both of the following criteria are met:

    a. It is at least reasonably possible that the estimate of the effect on the financial statements of a condition, situation, or set of circumstances that existed at the date of the financial statements will change in the near term due to one or more future confirming events.

    b. The effect of the change would be material to the financial statements.

17. Risks associated with concentrations, based on information known to management, that meet all of the following criteria have been disclosed in the financial statements:

    a. The concentration exists at the date of the financial statements.

b. The concentration makes the enterprise vulnerable to the risk of a near-term severe impact.

c. It is at least reasonably possible that the events that could cause the severe impact will occur in the near term.

18. There are no:

a. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.

b. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB ASC 450, *Contingencies*.

19. The Bank has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral except as disclosed in the financial statements.

20. The Bank has complied with all aspects of contractual agreements that may have an effect on the financial statements in the event of noncompliance.

21. Regarding required supplementary information:

a. We confirm that we are responsible for the required supplementary information

b. The required supplementary information is measured and presented in accordance with GAAP.

c. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period.

22. During the year ended December 31, 2011, the Bank implemented the following pronouncements:

- GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions.

- GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which amends Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and addresses issues related to measurement of OPEB obligations by certain employers participating in agent multiple-employer OPEB plans.

- GASB Statement No. 59, *Financial Instruments Omnibus*, which updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools.

The implementation of these pronouncements did not have a material effect on the Bank's 2011 financial statements.

In December 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which addresses how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of Bank.

In December 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus*, which is designed to improve financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity*, and No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively. The provisions of this statement are effective for periods beginning after June 15, 2012. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Bank.

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Bank.

In July 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which establishes guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Bank.

In July 2011, GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions (an amendment of GASB Statement No. 53)*, which will improve financial reporting by state and local governments by clarifying the circumstances in which hedge accounting continues to be applied when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The provisions of this statement are effective for periods beginning after June 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Bank.

23. The Bank entered into a memorandum of understanding with the U.S. Department of Agriculture's Office of Rural Economic and Community Development to provide guarantees for housing loans in the FSM. An escrow account amounting to $520,295 as of December 31, 2010 was established for the housing guarantee. The agreement was later rescinded during the year ended December 31, 2011 as such the account was presented as unrestricted in the December 31, 2011 financial statements.

24. On August 30, 2010, the Bank entered into a line of credit agreement in the amount of EUR 4,000,000 with European Investment Bank for a term of fifteen years. The loan is uncollateralized and bears interest at the London Interbank Offered Rate on the date of drawdown plus a 1.76% risk premium per annum. No drawdowns have occurred as of December 31, 2011.

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

26. The equity investment in Bank of the FSM, carried at cost, represents 100,000 common shares and approximately an 11% ownership interest. Since the book value of the shares exceeds the carrying value, management believes that the equity investment has not become impaired.

27. We believe that all expenditures that have been deferred to future periods are recoverable.

28. Receivables recorded in the financial statements represent valid claims against debtors for sales or other charges arising on or before the balance-sheet date and have been appropriately reduced to their estimated net realizable value.

29. All impaired loans receivables have been properly recorded and disclosed in the financial statements.

30. The Bank is responsible for determining and maintaining the adequacy of the allowance for doubtful accounts receivable, as well as estimates used to determine such amounts. Management believes the allowances are adequate to absorb currently estimated bad debts in the account balances. Additionally, the Bank has been authorized for determining and maintaining the adequacy of the allowance for doubtful accounts receivables for the Trust Funds.

31. The Bank carries insurance to cover its potential risks from vehicle usage. The Bank is substantially self-insured for all other risks. Management is of the opinion that no material losses have been sustained as a result of this practice during the past three year.

32. The Bank has obligated, expended, received, and used public funds in accordance with the purpose for which such funds have been appropriated or otherwise authorized by FSM and federal laws. Such obligations, expenditures, receipt, or use of public funds was in accordance with any limitations, conditions, or mandatory directions imposed by FSM or federal laws.

33. Money or similar assets handled by the Bank on behalf of the Government of the FSM or its component states or the U.S. Federal Government have been properly and legally administered and the accounting and recordkeeping related thereto is proper, accurate and in accordance with law.

34. No events have occurred after December 31, 2011 but before June 20, 2012, the date the financial statements were available to be issued, that require consideration as adjustments to or disclosures in the financial statements.

Very truly yours,

Anna Mendiola
CEO/President

Sihna Lawrence
CFO

APPENDIX A			
AUDIT ADJUSTING ENTRIES			
#	Name	Debit	Credit
	1 AJE To reconcile beginning net assets		
71700-000	Miscelaneous Expense/ Bank Charges	-	15,096
35200-000	Adjust to Previous Retained Earnings	15,096	-
		15,096	15,096
	2 AJE To reconcile beginnging net assets		
32010-003	Unreserved - PDLF	1,516	-
DT6	Misc Exp - PDLF	-	1,516
DT7	Misc Exp - YDLF	6,134	-
DT8	Misc Income - IDF	1,885	-
36000-005	PREVIOUS RETAINED EARNINGS - YDLF	-	6,134
Dup5164 - 35	PREVIOUS RETAINED EARNINGS - IDF	-	1,885
		9,535	9,535
	3 AJE To zeroout IRP interfund balances		
71700-000	Miscelaneous Expense/ Bank Charges	59	-
10800-001	DUE FROM IRP-HQ	-	13,655
20451-007IRI	DUE TO FSMDB	13,596	-
10700-007IRI	DUE FROM FSMDB	-	30,850
20449-001	DUE TO IRP-HQ	28,303	-
20448-001	DUE TO IRP	2,547	-
		44,505	44,505
	4 AJE To zero out interfund balances		
10732-001	DUE FROM CONSUMER LENDING S/A-HQ	-	26,762
10732-002	DUE FROM CONSUMER LENDING S/A-KOS	-	2,000
10732-004	DUE FROM CONSUMER LENDING S/A-CKK	-	18,000
10732-005	DUE FROM CONSUMER LENDING S/A-YAP	-	12,600
10733-001	DUE FROM FSMDB-CONSUMER-HQ	-	83,969
10733-004	DUE FROM FSMDB-CONSUMER-CKK	-	41,734
10733-005	DUE FROM FSMDB-CONSUMER-YAP	-	2,584
20420-001	DUE TO CONSUMER LENDING REVOLVING-HQ	85,619	-
20420-004	DUE TO CONSUMER LENDING REVOLVING-CKK	40,084	-
20420-005	DUE TO CONSUMER LENDING REVOLVING-YAP	2,584	-
20430-001	DUE TO FSMDB-CONSUMER LENDING S/A-HQ	26,762	-
20430-002	DUE TO FSMDB-CONSUMER LENDING S/A-KOS	2,000	-
20430-004	DUE TO FSMDB-CONSUMER LENDING S/A-CKK	18,000	-
20430-005	DUE TO FSMDB-CONSUMER LENDING S/A-YAP	12,600	-
		187,649	187,649
	5 AJE To zero out residential lending		
10720-005	DUE FROM FSMDB-RESIDENTIAL-YAP	-	1,903
10720-004	DUE FROM FSMDB-RESIDENTIAL-CKK	-	1,825
10730-001	DUE FROM FSMDB-SLRF-HQ	-	14,805
20452-001	DUE TO RESIDENTIAL-HQ	13,151	-
20480-001	DUE TO SLRF-HQ	14,805	-
10720-001	DUE FROM FSMDB-RESIDENTIAL-HQ	-	9,422
10720-002	DUE FROM FSMDB-RESIDENTIAL-KOS	-	668
10820-002	DUE FROM RESIDENTIAL-KOS	-	545
20452-002	DUE TO RESIDENTIAL-KOS	667	-

APPENDIX A

AUDIT ADJUSTING ENTRIES

#	Name	Debit	Credit
20453-002	DUE TO FSMDB-RESIDENTIAL-KOS	545	-
		29,168	29,168
	6 AJE To adjust for reconciliation of GL loan balances		
20100-001	ACCOUNTS PAYABLE - HQ	26,554	-
10200-001	LOAN RECEIVABLE-HQ	-	26,554
		26,554	26,554
	7 AJE To adjust for reconciliation of GL loan balances		
10250-001	ALLOWANCE FOR D/L-HQ	36,171	-
10200-001	LOAN RECEIVABLE-HQ	-	36,171
		36,171	36,171
	8 AJE To adjust the interfund balances		
20451-005	DUE TO FSMDB - YDLF	-	25,584
10710-005	DUE FROM YDLF	25,584	-
10700-001	Due From IDF - HQ	3,164	-
20450-006	Due To FSMDB	-	3,164
10710-001	DUE FROM PDLF-HQ	18,933	-
20451-001	DUE TO FSMDB-PDLF	-	18,933
		47,681	47,681
	9 AJE To reverse double recording of PY AJE #7		
10285-000	Allowance for IDF loans	-	19,501
10285-003	ALLOWANCE FOR D/L - PIDF	13,900	-
10285-006	ALLOWANCE FOR D/L - PSIDF	-	113,406
40450-006	LOAN RECOVERY-PSIDF	119,007	-
		132,907	132,907
	10 AJE To adjust for allowance for trust funds		
71600-006	Bad debts expense	1,030,123	-
10285-002	ALLOWANCE FOR D/L - KIDF	-	1,472,558
10285-006	ALLOWANCE FOR D/L - PSIDF	-	1,030,123
71600-002	Bad debt expense-KIDF	1,472,558	-
		2,502,681	2,502,681
	11 AJE To adjust for allowance of DB		
10250-001	ALLOWANCE FOR D/L-HQ	683,920	-
71800-000	Provision for D/L	-	683,920
		683,920	683,920

FINANCIAL STATEMENT RECLASSIFICATION ENTRY

	1 RJE To reclass accrued int. on bonds		
10500-001	INV INT REC - UNREST	31,121	-
10116-001	INVESTMENTS-FSMDB (ABROAD)	-	31,121
		31,121	31,121