

June 29, 2014

Honorable John Ehsa  
Governor, State of Pohnpei  
Federated States of Micronesia

Dear Governor Ehsa:

We have performed an audit of the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Pohnpei (the State) as of and for the year ended September 30, 2013, 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 29, 2014.

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 State 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, has been described in our engagement letter dated September 11, 2013. As described in that letter, the objective of a financial statement audit conducted in accordance with the aforementioned standards is:

- To express an opinion on the fairness of each opinion unit in the State’s basic financial statements and the accompanying supplementary information, and to disclaim an opinion on the required supplementary information for the year ended September 30, 2013 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;
- To report on the State’s internal control over financial reporting and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the year ended September 30, 2013 based on an audit of financial statements performed in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*; and

- To report on the State's compliance with requirements applicable to each major program and on internal control over compliance in accordance with the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* (OMB Circular A-133).

Our responsibilities under generally accepted auditing standards include forming and expressing an opinion about whether the financial statements that have been prepared by management with the oversight of the Office of the Governor 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 Office of the Governor of their responsibilities.

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

We also considered the State's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133. Our audit does not, however, provide a legal determination of the State's compliance with those requirements.

## **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 ordinarily based on knowledge and experience about past and current events and on assumptions about future events. Significant accounting estimates reflected in the State's 2013 financial statements include management's estimate of the allowance for uncollectible accounts, which is determined based upon past collection experience and aging of the accounts, and management's estimate of depreciation expense, which is based on estimated useful lives of the respective capital assets. During the year ended September 30, 2013, we are not aware of any significant changes in accounting estimates or in management's judgments relating to such estimates.

## **UNCORRECTED MISSTATEMENTS**

Our audit of the financial statements was designed to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. We have attached to this letter, as Appendix A to Attachment I, a summary of uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

## **MATERIAL CORRECTED MISSTATEMENTS**

Material misstatements were brought to the attention of management as a result of our audit procedures and were corrected by management during the current period. We have attached to this letter, as Attachment II, a summary of misstatements corrected by management.

## **SIGNIFICANT ACCOUNTING POLICIES**

The State's significant accounting policies are set forth in Note 1 to the State's 2013 financial statements. During the year ended September 30, 2013, there were no significant changes in previously adopted accounting policies or their application, except for the following pronouncements adopted by the State:

- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which addressed how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into.
- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, which improved 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 implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which enhanced 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 issued on or before November 30, 1989, which does not conflict or contradict GASB pronouncements. GASB Statement no. 62 superceded GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*.
- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which established guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. These Statements amend the net asset reporting requirements in Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. With the implementation of GASB Statement No. 63 and Statement No. 65, the Statement of Net Assets was renamed the Statement of Net Position. In addition, the Statement of Net Position includes two new classifications separate from assets and liabilities. Amounts reported as deferred outflows of resources are reported in a separate section following assets. Likewise, amounts reported as deferred inflows of resources are reported in a separate section following liabilities.

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

In April 2012, GASB issued Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of the State.

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans, and Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 67 are effective for financial statements for periods beginning after June 15, 2013. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of these statements on the financial statements of the State.

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*, which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The provisions in Statement 69 are effective for fiscal years beginning after December 15, 2013. Management has not yet determined the effect of implementation of this statement on the financial statements of the State.

In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. The provisions in Statement 70 are effective for fiscal years beginning after June 15, 2013. Management has not yet determined the effect of implementation of this statement on the financial statements of the State.

#### **DISAGREEMENTS WITH MANAGEMENT**

We have not had any disagreements with management related to matters that are material to the State's 2013 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 2013.

#### **MANAGEMENT'S REPRESENTATIONS**

We have made specific inquiries of the State's management about the representations embodied in the financial statements. Additionally, we have requested that management provide to us the written representations the State 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.

Honorable John Ehsa  
Governor, State of Pohnpei  
Federated States of Micronesia  
June 29, 2014

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## **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 State's management and staff and had unrestricted access to the State's senior management in the performance of our audit.

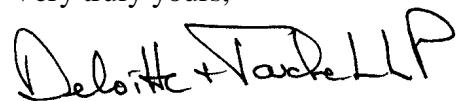
## **CONTROL-RELATED MATTERS**

We have issued a separate report to you, also dated June 29, 2014, containing certain matters involving the State's internal control over financial reporting that we consider to be material weaknesses or significant deficiencies under standards established by the American Institute of Certified Public Accountants, and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. We have also issued a separate report to you, also dated June 29, 2014, concerning the State's compliance with requirements applicable to each major program and on internal control over compliance in accordance with OMB Circular A-133. Although we have included management's written responses to our comments contained in those reports, such responses have not been subjected to the auditing procedures applied in our audit of the basic financial statements and, accordingly, we do not express an opinion or provide any form of assurance on the appropriateness of the responses or the effectiveness of any corrective actions described therein.

\* \* \* \* \*

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

Very truly yours,

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



# POHNPEI STATE GOVERNMENT

ATTACHMENT I

Department of Treasury and Administration

P.O. Box 1567

Kolonia, Pohnpei FM 96941

Tel: (691) 320-2243/2323, Fax: (691) 320-5505

Email: pnidota@mail.fm

Office of the Director

June 29, 2014

Deloitte & Touche LLP  
361 SOUTH MARINE CORPS DRIVE  
TAMUNING, GU 96913

We are providing this letter in connection with your audit of the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Pohnpei (the "State"), as of and for the year ended September 30, 2013, which collectively comprise the State's basic financial statements for the purpose of expressing an opinion as to whether the basic financial statements present fairly, in all material respects, the financial position, results of operations or changes in fund balances, and cash flows of the State in conformity with accounting principles generally accepted in the United States of America (GAAP).

We confirm that we are responsible for the following:

- a. The fair presentation in the basic financial statements of financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information, in conformity with GAAP.
- b. The design, implementation, and maintenance of programs and controls to prevent and detect fraud, including fraud related to federal awards.
- c. Establishing and maintaining effective internal control over financial reporting.
- d. The review and approval of the financial statements and related notes and acknowledge your role in the preparation of this information. Specifically, we acknowledge that your role in the preparation of the financial statements was a matter of convenience rather than one of necessity. We have reviewed the financial statement preparation assistance provided by you and acknowledge that the financial statements are prepared in accordance with GAAP. Our review was based on the use of the financial statement disclosure checklist for a general-purpose government obtained from the Government Finance Officers Association.

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

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

1. The basic financial statements referred to above are fairly presented in conformity with GAAP. In addition:
  - a. The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.
  - b. Net asset components (invested in capital assets, net of related debt; restricted; and unrestricted) and fund balance reserves and designations are properly classified and, if applicable, approved.
  - c. Deposits and investment securities are properly classified in the category of custodial credit risk.
  - d. Capital assets, including infrastructure assets, are properly capitalized, reported, and, if applicable, depreciated.
  - e. Required supplementary information is measured and presented within prescribed guidelines.
  - f. Applicable laws and regulations are followed in adopting, approving, and amending budgets.
  - g. Federal awards expenditures have been charged in accordance with applicable cost principles.
  - h. The financial statements properly classify all funds and activities, including special and extraordinary items.
  - i. All funds that meet the quantitative criteria in the GASB Codification of Government Accounting and Financial Reporting Standards ("GASB Codification") section 2200.153 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.
  - j. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
  - k. 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.
  - l. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
  - m. Fund balance restrictions, commitments, and assignments are properly classified and, if applicable, approved.

2. The State has provided to you all relevant information and access as agreed in the terms of the audit engagement letter.
3. The State has provided you:
  - a. Public Laws as enacted by the State Legislature.
  - b. Financial records and related data for all financial transactions of the State and for all funds administered by the State. The records, books, and accounts, as provided to you, record the financial and fiscal operations of all funds administered by the State and provide the audit trail to be used in a review of accountability. Information presented in financial reports is supported by the books and records from which the financial statements have been prepared.
  - c. Contracts and grant agreements (including amendments, if any) and any other correspondence that has taken place with federal agencies.
4. There has been no:
  - a. Action taken by State management that contravenes the provisions of federal laws and FSM laws and regulations, or of contracts and grants applicable to the State.
  - b. Communication from other regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices or other matters that could have a material effect on the financial statements.
5. We believe the effects of any uncorrected financial statement misstatements aggregated by you during the current audit engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. A summary of such uncorrected misstatements has been attached as Appendix A.
6. The State has not performed a risk assessment, including the assessment of the risk that the financial statements may be materially misstated as a result of fraud. However, management has made available to you their understanding about the risks of fraud in the State and do not believe that the financial statements are materially misstated as a result of fraud.
7. We have no knowledge of any fraud or suspected fraud affecting the State 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.
8. We have no knowledge of any allegations of fraud or suspected fraud affecting the State received in communications from employees, former employees, analysts, regulators, or others.
9. There are no unasserted claims or assessments that legal counsel has advised us are probable of assertion and must be disclosed in accordance with GASB Codification Section C50, *Claims and Judgments*, except as disclosed in note 9 to the financial statements.

10. Significant assumptions used by us in making accounting estimates are reasonable.
11. The Schedule of Expenditures of Federal Awards was prepared in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. We have identified in that schedule all awards provided by federal agencies in the form of grants, contracts, loans, loan guarantees, property, cooperative agreements, interest subsidies, insurance, or direct appropriations. We have also properly identified subrecipient expenditures. In addition, we have accurately completed the appropriate sections of the data collection form.
12. We are responsible for compliance with local, state, and federal laws, rules, and regulations, including compliance with the requirements of OMB Circular A-133, and provisions of grants and contracts relating to the State'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 State is responsible for maintaining accounting and administrative control over revenues, obligations, expenditures, assets, and liabilities.
13. We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance for federal programs that provides reasonable assurance that we are managing federal awards in compliance with laws, regulations, and provisions of contracts or grant agreements that could have a material effect on its federal programs.
14. We have disclosed to you all deficiencies in the design or operation of internal control over financial reporting identified as part of our evaluation, including separately disclosing to you all such deficiencies that are significant deficiencies or material weaknesses in internal control over financial reporting.
15. We have:
  - a. Identified the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each federal program as identified in Part 3 of the Compliance Supplement dated July 2013.
  - b. Complied, in all material respects, with the requirements identified above in connection with federal awards.
  - c. Identified and disclosed interpretations of any compliance requirements that have varying interpretations.
  - d. Made available all information related to federal financial reports and claims for advances and reimbursements. Federal financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared and are prepared on a basis consistent with that presented in the Schedule of Expenditures of Federal Awards. The copies of federal program financial reports provided are true copies of the reports submitted, or electronically transmitted, to the federal agency or pass-through entity, as applicable.
  - e. Identified and disclosed all amounts questioned and any known noncompliance with the requirements of federal awards, including the results of other audits or program reviews related to the objectives of the audit.

- f. Identified previous financial audits, attestation engagements, performance audits, or other studies related to the objectives of the audit and the corrective actions taken to address significant findings and recommendations, including the status of follow-up on prior audit findings (and information about all management decisions) by federal awarding agencies and pass-through Entities.
  - g. Provided to you our views on the reported findings, conclusions, and recommendations for your report.
16. We are responsible for follow-up on all prior-year(s) findings. We have prepared a summary schedule of prior-year findings reporting the status of our efforts in implementation of the prior-year's corrective action plan.
  17. We have included in the corrective action plan for current-year findings, the name of the person in our organization responsible for implementation of the actions, the best actions to be taken, and the estimate of a completion date. We have taken timely and appropriate steps to remedy fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse that you report.
  18. 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.
  19. We have adopted the provisions of GASB Codification Section 2100, *Defining the Financial Reporting Entity*. We believe that we have properly identified and reported as a component unit of the State each organization that meets the criteria established in GASB Codification Section 2100, *Defining the Financial Reporting Entity*.

Except where otherwise stated below, matters less than \$60,000 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 basic financial statements.

20. Except as listed in Appendix A, there are no transactions that have not been properly recorded in the accounting records underlying the financial statements.
21. The State has no plans or intentions that may affect the carrying value or classification of assets and liabilities.
22. The following, to the extent applicable, have been appropriately identified, properly recorded, and disclosed in the financial statements:
  - a. Related-party transactions and associated amounts receivable or payable, including sales, purchases, loans, transfers, leasing arrangements, and guarantees (written or oral).
  - b. Guarantees, whether written or oral, under which the State is contingently liable.
23. In preparing the financial statements in conformity with accounting principles generally accepted in the United States of America, management uses estimates. All estimates have been disclosed in the financial statements for which known information available prior to the issuance of the financial statements indicates that both of the following criteria are met:

- 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.
- 24. 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.
- 25. 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 GASB Codification Section C50, *Claims and Judgments*, except as disclosed in note 9 to the financial statements.
- 26. The State 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 note 1K to the financial statements.
- 27. The State has complied with all aspects of contractual agreements that may have an effect on the financial statements in the event of noncompliance.
- 28. No department or agency of the State has reported a material instance of noncompliance to us.
- 29. The State has identified all derivative instruments as defined by GASB Codification Section D40, *Derivative Instruments*, and appropriately recorded and disclosed such derivatives in accordance with GASB Codification Section D40.
- 30. No events have occurred after September 30, 2013, but before June 29, 2014, the date the financial statements were available to be issued that require consideration as adjustments to or disclosures in the financial statements.

## 31. Regarding required supplementary information:

- a. We confirm that we are responsible for the required supplementary information.
- b. The required supplementary information is measured and presented in accordance with GASB Codification Section 2200, *Comprehensive Annual Financial Report*.
- c. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period.

## 32. Regarding supplementary information:

- a. We are responsible for the fair presentation of the supplementary information in accordance with GASB Codification Section 2200, *Comprehensive Annual Financial Report*.
- b. We believe the supplementary information, including its form and content, is fairly presented in accordance with GASB Codification Section 2200, *Comprehensive Annual Financial Report*.
- c. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period.

## 33. During fiscal year 2013, the State implemented the following pronouncements, implementation of which did not have a material effect on the financial statements:

- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which addressed how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into.
- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, which improved 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.
- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which enhanced 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 issued on or before November 30, 1989, which does not conflict or contradict GASB pronouncements. GASB Statement No. 62 superseded GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*.

- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which established guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. These Statements amend the net asset reporting requirements in Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. With the implementation of GASB Statement No. 63 and Statement No. 65, the Statement of Net Assets was renamed the Statement of Net Position.
34. In April 2012, GASB issued Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of the State.
  35. In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans, and Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 67 are effective for financial statements for periods beginning after June 15, 2013. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of these statements on the financial statements of the State.
  36. In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*, which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The provisions in Statement 69 are effective for fiscal years beginning after December 15, 2013. Management has not yet determined the effect of implementation of these statements on the financial statements of the State.
  37. In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. The provisions in Statement 70 are effective for fiscal years beginning after June 15, 2013. Management has not yet determined the effect of implementation of these statements on the financial statements of the State.

38. Management of the State believes that it is in compliance with all significant limitations and restrictions of Asian Development Bank loan covenants as of September 30, 2013.
39. The State is exposed to various risks of loss related to torts; theft of damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. It is the policy of the primary government not to purchase commercial insurance for the risks of loss to which it is exposed. Instead, the State management believes it is more economical to manage its risks internally. In the event of claim settlements and judgments, the State reports all of its risk management activities in its General Fund. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. No losses have occurred as a result of these risks in any of the past three fiscal years.
40. We have appropriately identified and properly recorded and disclosed in the financial statements, where applicable, all interfund transactions, including repayment terms.
41. 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.
42. No evidence of fraud, possible irregularities, or dishonesty in fiscal operations of federal programs administered by the State has been discovered.



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Christina Elnei  
Acting Director of Treasury & Administration

**APPENDIX A  
UNCORRECTED MISSTATEMENTS**

<b>GENERAL FUND</b>				
Entry Description	Assets	Liabilities	Fund balance	Income Statement
	Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)
PAJE<1> Dr. Revenue Share Cr. AR from National Gov't To adjust GL to equal confirmation	(147,653)			147,653
PAJE<2> Dr. Cash in bank Cr. Stale Checks (Liability) Dr. Misc expense To adjust GL to equal bank recons	53,574	(70,935)		17,361
PAJE<3> Dr. Investment earnings Cr. Miscellaneous revenue To adjust investment earning to equal bank statement				147,162 (147,162)
PAJE<4> Dr. Miscellaneous expense Cr. Debt service payment To reconcile the GL to equal confirmation				24,485 (24,485)
PAJE<5> Dr. Travel Advance Cr. Travel expense To adjust GL to equal SL	6,936			(6,936)
PAJE<6> Dr. AR Cr. Other revenue	94,119			(94,119)

<b>GRANT ASSISTANCE FUND</b>				
Entry Description	Assets	Liabilities	Fund balance	Income Statement
	Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)
PAJE<1> Dr. Bad debt expense Cr. Allowance for doubtful accounts To value AR at net realizable value	(43,852)			43,852
PAJE<2> Dr. Allowance for doubtful account Cr. Other revenue To value AR at net realizable value	14,781			(14,781)

<b>GOVERNMENT WIDE</b>				
Entry Description	Assets	Liabilities	Fund balance	Income Statement
	Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)
General Fund	6,977	(70,935)		63,958
Grant Assistance fund, no pajes	(98,066)	0		98,066
Long-Term Debt Account Group		145,418		(145,418)

**ACKNOWLEDGEMENT:**

We have reviewed the above adjusting entries and believe that they are immaterial to the September 30, 2013 financial statements, individually and in aggregate. These adjustments are due to errors, not due to fraud or illegal activities.

  
Acting Director



# ATTACHMENT II, CONTINUED

19-80-80-19500-11-7995	YE Rev Accrual	-	1,751.25
		506,249.18	506,249.18
<b>2 AJE To adjust federal grants revenue</b>			
20-00-00-00000-00-1410	A/R FSM FG	82,688.24	-
20-04-11-30001-03-7995	YE Rev Accrual	-	82,688.24
		82,688.24	82,688.24
<b>3 AJE To adjust CFM revenue</b>			
25-00-00-00000-00-1510	A/R Other Govts & NGO's	1,892.71	-
25-00-00-00000-00-4110	Fund Balance Surplus	-	-
25-02-05-40873-00-7995	YE Rev Accrual	-	1,892.71
		1,892.71	1,892.71
<b>4 AJE To correct sector revenue to equal expenditure</b>			
12-00-00-00000-00-1420	A/R FSM Natl Compact	29,401.56	-
15-00-00-00000-00-1420	A/R FSM Natl Compact	-	256,124.40
11-00-00-00000-00-3710	Deferred revenue	-	319,020.32
13-00-00-00000-00-3710	Deferred Revenue	3,014.15	-
10-00-00-00000-00-3710	Deferred Revenue	-	68,878.35
14-00-00-00000-00-3710	Deferred Revenue	9,969.48	-
19-00-00-00000-00-1420	A/R FSM FG	6,188.12	-
10-10-29-10000-12-7995	YE Rev Accrual	68,878.35	-
13-10-29-13000-12-7995	YE Rev Accrual	-	3,014.15
11-10-29-11000-13-7050	Cmpct II Revenues	319,020.32	-
12-10-29-12000-13-7050	Cmpct II Revenues	-	29,401.56
14-10-29-14000-13-7050	Cmpct II Revenues	-	9,969.48
15-10-29-15000-12-7050	Cmpct II Revenues	256,124.40	-
16-10-21-16100-13-7050	Cmpct II Revenues	-	4,085.37
19-80-80-19600-13-7050	Cmpct II Revenues	-	6,188.12
16-00-00-00000-00-1420	A/R FSM FG	4,085.37	-
		696,681.75	696,681.75

# ATTACHMENT II, CONTINUED

## 5 AJE To record PSG's adjustment

20-00-00-00000-00-1410	A/R FSM FG	-	491,927.20
25-00-00-00000-00-1510	A/R Other Govts & NGO's	491,927.20	-
20-00-00-00000-00-1999	Due To/Due From	491,927.20	-
25-00-00-00000-00-1999	Due To/Due From	-	491,927.20
		<u>983,854.40</u>	<u>983,854.40</u>

## 6 AJE To record AJE to close out income

15-00-00-00000-00-1999	Due To/Due From	-	103.00
15-60-60-15175-07-6619	Sales of Seedlings	103.00	-
		<u>103.00</u>	<u>103.00</u>

## 7 AJE To record operating transfer in to fund 23

23-00-00-00000-00-1999	Due To/Due From	261,468.00	-
23-7910-10-29-00199-00	Transfer in	-	261,468.00
		<u>261,468.00</u>	<u>261,468.00</u>

## Debit Credit

## 1 AJE To adjust opening fund balance to equal PY audit

89-10-29-89900-00-7899	Investment Income	-	102,432.13
89-00-00-00000-00-1110	Investments - Portfolio	1,819,738.13	-
89-00-00-00000-00-4110	Fund Balance Surplus	-	1,717,306.00
		<u>1,819,738.13</u>	<u>1,819,738.13</u>

## Debit Credit

## 1 AJE to ADJUST beginning fund balance

18-00-00-00000-00-4110	Fund Balance Surplus	-	612,352.12
18-80-80-18000-08-7050	Cmpct II Revenues	300,000.00	-
18-80-80-18000-09-7050	Cmpct II Revenues	300,000.00	-
18-80-80-18000-10-7050	Cmpct II Revenues	253,881.80	-
18-00-00-00000-00-3710	Deferred revenue	-	241,529.68
		<u>853,881.80</u>	<u>853,881.80</u>

## 2 AJE To record erroneous entry

27-00-00-00000-00-1999	Due To/Due From	103.00	-
27-31-47-80051-00-6616	Ag Sales	-	103.00
		<u>103.00</u>	<u>103.00</u>

## 3 AJE To record operating transfer

32-00-00-00000-00-1999	Due To/Due From	12,700.00	-
37-00-00-00000-00-1999	Due To/Due From	10,930.00	-
38-00-00-00000-00-1999	Due To/Due From	2,347.00	-
32-90-91-09862-00-7910	Operating Transfer in	-	12,700.00
37-10-29-01095-00-7910	Transfer in	-	10,930.00
38-10-29-01095-00-7910	Transfer in	-	2,347.00
		<u>25,977.00</u>	<u>25,977.00</u>

# ATTACHMENT II, CONTINUED

		Debit	Credit
	<b>1 AJE To adjust Annual Leave</b>		
92-00-00-00000-00-2925	Amounts T/B Prvd	-	167,515.73
92-00-00-00000-00-3410	Leave Payable	167,515.73	-
		<u>167,515.73</u>	<u>167,515.73</u>
	<b>2 AJE ADB loans</b>		
92-00-00-00000-00-2925	Amounts T/B Prvd	437,303.46	-
92-00-00-00000-00-3823	LTD ADB Loan	-	437,303.46
		<u>437,303.46</u>	<u>437,303.46</u>

## ACKNOWLEDGEMENT:

We have reviewed the above adjusting entries and agreed for them to be recorded in the September 30, 2013 financial statements. These adjustments are due to errors, not due to fraud or illegal activities.



Acting Director