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April 17, 2017

The Board of Directors
Federated States of Micronesia Development Bank

Dear Members of the Board of Directors:

We have performed audits of the financial statements of the Federated States of Micronesia Development Bank (the Bank) and the fiduciary financial statements of the Investment Development Fund and the Yap Development Loan Fund (the Funds) as of and for the year ended December 31, 2016, in accordance with auditing standards generally accepted in the United States of America ("generally accepted auditing standards") and have issued our reports thereon dated April 17, 2017.

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

This report is intended solely for the information and use of the Board of Directors, management, 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

cc: The Management of Federated States of Micronesia Development Bank

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

Our responsibility under auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, have been described in our engagement letter dated February 6, 2017. As described in that letter, the objective of a financial statement audit conducted in accordance with the aforementioned standards is:

- To express an opinion on whether the statement of net position of the Bank as of December 31, 2016 and the related statements of revenues, expenses and changes in net position and of cash flows for the year then ended (the "financial statements"), are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America ("generally accepted accounting principles") and perform specified procedures on the required supplementary information for the year ended December 31, 2016;

- To express an opinion on whether the respective statements of fiduciary net position of the Funds, administered by the Bank, as of December 31, 2016 and the related statements of changes in fiduciary net position for the year then ended (collectively the "Fund financial statements"), are presented fairly, in all material respects, in accordance with generally accepted accounting principles; and

- To report on the Bank's and the Funds' internal control over financial reporting and on their compliances with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the year ended December 31, 2016 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.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether caused by fraud or error. In making those risk assessments, we considered internal control over financial reporting relevant to the Bank's preparation and fair presentation of the financial statements in order to design audit procedures that were appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the 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 and the Funds' 2016 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, 2016, we are not aware of any significant changes in accounting estimates or in management's judgments relating to such estimates.

AUDIT ADJUSTMENTS

Our audits of the financial statements were designed to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. As the result of our audit work, we identified matters that resulted in audit adjustments that we believe, either individually or in the aggregate, would have a significant effect on the Bank's financial reporting process. Such proposed adjustments, listed as Appendix A to Attachment I, have been recorded in the accounting records and are reflected in the 2016 financial statements.

SIGNIFICANT ACCOUNTING POLICIES

During the year ended December 31, 2016, the Bank implemented the following pronouncements:

- GASB Statement No. 72, *Fair Value Measurement and Application*, which addresses accounting and financial reporting issues related to fair value measurements and requires entities to expand their fair value disclosures by determining major categories of debt and equity securities within the fair value hierarchy on the basis of the nature and risk of the investment. The implementation of this statement resulted in additional disclosures about fair value measurements, the level of fair value hierarchy, and valuation techniques. Additionally, the implementation resulted in the re-measurement of equity investment from cost-basis to NAV, as cost-basis measurement is no longer an allowable measureable method for equity investment. Such implementation had a material effect on the financial statements resulting in the restatement of the Bank's 2015 financial statements to reflect the required adjustments as follows:

	As Previously Reported	Adjustment	As Restated
As of December 31, 2014:			
Net position	$ 47,466,312	$ 2,746,932	$ 50,213,244
For the year ended December 31, 2015:			
Investment earnings, net	$ 24,523	$ 166,080	$ 190,603
Change in net position	$ 606,985	$ 166,080	$ 773,065
As of December 31, 2015:			
Equity investment	$ 1,912,188	$ 2,913,012	$ 4,825,200

SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Total assets	$ 49,700,400	$ 2,913,012	$ 52,613,412
Total net position	$ 48,073,297	$ 2,913,012	$ 50,986,309

- GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which eliminates two of the four categories of authoritative GAAP that exist under the existing hierarchy prescribed by Statement No. 55. The two categories that will remain under the new standard are (1) GASB Statements and (2) GASB technical bulletins and implementation guides in addition to AICPA guidance that the GASB clears. The implementation of this statement did not have a material effect on the Bank's financial statements.

- GASB Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements. The implementation of this statement did not have a material effect on the financial statements.

- GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, which addresses a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The implementation of this statement did not have a material effect on the Bank's financial statements.

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

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements No. 67 and No. 68 with the reporting requirements in Statement No. 68. The provisions in Statement No. 73 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the Bank's financial statements.

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and addresses financial reporting requirements for governments whose employees are provided with postemployment benefits other than pensions (other postemployment benefits or OPEB). The provisions in Statement No. 74 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the Bank's financial statements.

SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. The provisions in Statement No. 75 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the Bank's financial statements.

In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14*, which improves financial reporting by clarifying the financial statement presentation requirements for certain component units. The provisions in Statement No. 80 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the Bank's financial statements.

In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*, which improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The provisions in Statement No. 81 are effective for fiscal years beginning after December 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the Bank's financial statements.

In March 2016, GASB issued Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*, which addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The provisions in Statement No. 82 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the Bank's financial statements.

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, which establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for Asset Retirement Obligations (ARO). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. The provisions in Statement No. 82 are effective for fiscal years beginning after June 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the Bank's financial statements.

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

OTHER INFORMATION IN THE ANNUAL REPORTS

When audited financial statements are included in documents containing other information such as the Bank's 2016 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 2016 Annual Report and will inquire as to the methods of measurement and presentation of such information. If we note a material inconsistency or if we obtain any knowledge of a material misstatement of fact in the other information, we will discuss this matter with management and, if appropriate, with the Board of Directors.

DISAGREEMENTS WITH MANAGEMENT

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

OUR VIEWS ABOUT SIGNIFICANT MATTERS THAT WERE THE SUBJECT OF CONSULTATION WITH OTHER ACCOUNTANTS

We are not aware of any consultations that management may have had with other accountants about auditing and accounting matters during 2016.

SIGNIFICANT FINDINGS OR ISSUES DISCUSSED, OR SUBJECT OF CORRESPONDENCE, WITH MANAGEMENT PRIOR TO OUR RETENTION

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

OTHER SIGNIFICANT FINDINGS OR ISSUES ARISING FROM THE AUDIT DISCUSSED, OR SUBJECT OF CORRESPONDENCE, WITH MANAGEMENT

Throughout the year, routine discussions were held, or were the subject of correspondence, with management. In our judgment, such discussions or correspondence did not involve significant findings or issues requiring communication to the Board of Directors.

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.

EMPHASIS OF MATTER

The Bank adopted GASB Statement No. 72, *Fair Value Measurement and Application*. As a result, the Bank has elected to restate its 2015 financial statements to reflect the adoption of this standard. Our opinion is not modified with respect to this matter.

CONTROL-RELATED MATTERS

We have issued a separate report to you, dated April 17, 2017, 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 a separate letter also dated April 17, 2017, other matters that we identified during our audit.

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April 17, 2017

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

We are providing this letter in connection with your audits of the statements of net position of the Federated States of Micronesia Development Bank (the "Bank"), a component unit of the FSM National Government, as of December 31, 2016 and 2015, and the related statements of revenues, expenses, and changes in net position and of cash flows for the years then ended, and the statements of fiduciary net position and of changes in fiduciary net position of the Investment Development Fund and the Yap Development Loan Fund (together, the "Funds") as of and for the year ended December 31, 2016, and the related notes to the financial statements, for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows of the Bank and of the Funds in conformity with accounting principles generally accepted in the United States of America (GAAP).

We confirm that we are responsible for the following:

a. The preparation and fair presentation in the financial statements of financial position of the Bank and the Funds in conformity with GAAP.

b. The design, implementation, and maintenance of internal control:

   - Relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error

   - To prevent and detect fraud.

c. The review and approval of the financial statements and related notes and acknowledge your role in the preparation of this information. Specifically, we acknowledge that your role in the preparation of the financial statements was a matter of convenience rather than one of necessity. We have reviewed the financial statement preparation assistance provided by you and acknowledge that the financial statements are prepared in accordance with GAAP. Our review was based on the use of the financial statement disclosure checklist for stand-alone business-type activities obtained from the Government Finance Officers Association. Additionally, we agreed with the adjusting and reclassification entries included in Appendix A.

The FSM Development Bank is an equal opportunity employer, provider and lender. For Discrimination Complaints, please write to: the Chairman of the Board of Directors, P.O. Box M, Kolonia, Pohnpei FM 96941
Telephone: (691) 320-2840/5300/2419; Fax: (691) 320-2842/2056; E-mail: info@fsmdb.fm

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 position components (net investment in capital assets; restricted; and unrestricted) are properly classified and, if applicable, approved.

    b. Deposits and investments securities are properly classified in the category of custodial credit risk.

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

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

    e. Revenues and expenses are appropriately classified in the statements of revenues, expenses and changes in net position within operating revenues, non-operating revenues and expenses.

    f. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.

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

3. The Bank has made available to you:

    a. All minutes of the meetings of the Board of Directors or summaries of actions of recent meetings for which minutes have not yet been prepared. Specifically, the following meetings from January 1, 2016 to the date of this letter, have been provided to you:

        - January 25, 2016
        - April 19, 2016
        - April 20, 2016
        - July 23, 2016
        - October 26-27, 2016
        - January 25-26, 2017

    b. All financial records and related data for all financial transactions of the Bank and for all funds administered by the Bank. The records, books, and accounts, as provided to you,

record the financial and fiscal operations of all funds administered by the Bank 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 the Bank's management that contravenes the provisions of federal laws and FSM laws and regulations, or of contracts and grants applicable to the Bank and to all funds administrated by the Bank. Specifically, the Bank is authorized to undertake loan administrative actions including collections and charge-offs of IDF loans.

   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 of the Bank and of the Funds.

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 their understanding about the risks of fraud in the Bank and do 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, where 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's financial statements communicated by employees, former employees, analysts, regulators, or others.

8. There are no unasserted claims or assessments that we are aware of or that legal counsel has advised us are probable of assertion and must be disclosed in accordance with GASB Codification of Governmental Accounting and Financial Reporting Standards ("GASB Codification") Section C50, *Claims and Judgments*.

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

10. We are responsible for the compliance with local, state, and federal 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 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.

Except where otherwise stated below, immaterial matters less than $98,000 (the Bank) and $3,800 (the Funds) 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.

12. There are no transactions that have not been properly recorded and reflected in the financial statements.

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

14. Regarding related parties:

    a. We have disclosed to you the identity of the Bank's related parties and all the related-party relationships and transactions of which we are aware.

    b. To the extent applicable, related parties and all the related-party relationships and transactions, including sales, purchases, loans, transfers, leasing arrangements, and guarantees (written or oral) have been appropriately identified, properly accounted for, and disclosed in the financial statements.

15. To the extent applicable, guarantees have been appropriately identified, properly recorded and disclosed in the financial statements, whether written or oral, under which the Bank is contingently liable. The Bank, from time to time, is contingently liable on loan guarantees ranging from 50% to 90% of the outstanding loan balances for commercial projects within the FSM. There were no outstanding guaranteed loan balances as of December 31, 2016 and 2015.

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. There are no:

    a. Instances of identified or suspected noncompliance with laws and regulations whose effects should be considered when preparing the financial statements

    b. Known actual or possible litigation and claims whose effects should be considered when preparing the financial statements that have not been disclosed to you and accounted for

and disclosed in accordance with GAAP

c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB Codification Section C50, *Claims and Judgments*.

18. 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.

19. The Bank has complied with all aspects of contractual agreements that may affect the financial statements in the event of noncompliance, including all requirements associated with the terms in the August 2010 Finance Contract with the European Investment Bank (the EIB Finance Contract).

20. No department or agency of the Bank has reported a material instance of noncompliance to us.

21. There were no control deficiencies in the design or operation of internal control over financial reporting that could adversely affect the Bank's ability to initiate, record, process and report financial information.

22. The Bank has disclosed whether, subsequent to December 31, 2016, any changes in internal control or other factors that might significantly affect internal control, including any corrective action taken by management with regard to significant deficiencies and material weaknesses, have occurred.

23. No evidence of fraud, possible irregularities, or dishonesty in fiscal operations of programs administered by the Bank has been discovered.

24. 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.

25. Regarding supplementary information:

    a. We are responsible for the fair presentation of the supplementary information in accordance with GAAP and the EIB Finance Contract.

    b. We believe the supplementary information, including its form and content, is fairly presented in accordance with GAAP and the EIB Finance Contract.

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

26. With regard to the fair value measurements and disclosures of certain assets, we believe that:

    a. The measurement methods, including the related assumptions, used in determining fair value were appropriate and were consistently applied in accordance with GAAP.

    b. The completeness and adequacy of the disclosures related to fair values are in conformity with GAAP.

    c. No events have occurred after December 31, 2016, but before April __, 2017, the date the financial statements were available to be issued that require adjustment to the fair value measurements and disclosures included in the financial statements.

27. During the year ended December 31, 2016, the Bank implemented the following pronouncements:

- GASB Statement No. 72, *Fair Value Measurement and Application*, which addresses accounting and financial reporting issues related to fair value measurements and requires entities to expand their fair value disclosures by determining major categories of debt and equity securities within the fair value hierarchy on the basis of the nature and risk of the investment. The implementation of this statement resulted in additional disclosures about fair value measurements, the level of fair value hierarchy, and valuation techniques. Additionally, the implementation resulted in the re-measurement of equity investment from cost-basis to NAV, as cost-basis measurement is no longer an allowable measureable method for equity investment. Such implementation had a material effect on the financial statements resulting in the restatement of the Bank's 2015 financial statements to reflect the required adjustments as follows:

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Equity investment	$ 1,912,188	$ 2,913,012	$ 4,825,200
Total assets	$ 49,700,400	$ 2,913,012	$ 52,613,412
Net position	$ 48,073,297	$ 2,913,012	$ 50,986,309

- GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which eliminates two of the four categories of authoritative GAAP that exist under the existing hierarchy prescribed by Statement No. 55. The two categories that will remain under the new standard are (1) GASB Statements and (2) GASB technical bulletins and implementation guides in addition to AICPA guidance that the GASB clears. The implementation of this statement did not have a material effect on the Bank's financial statements.

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Component Units - an amendment of GASB Statement No. 14, which improves financial reporting by clarifying the financial statement presentation requirements for certain component units. The provisions in Statement No. 80 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the Bank's financial statements.

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28. Financial instruments with significant individual or group concentration of credit risk have been appropriately identified, properly recorded, and disclosed in the financial statements.

29. 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.

30. The Bank is responsible for determining and maintaining the adequacy of the allowance for doubtful notes, loans, interfund receivables and accounts receivable, as well as estimates used to determine such amounts for the Bank's and the Funds' financial statements. Management believes the allowances are adequate to absorb estimated bad debts in account balances.

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

32. The Bank's retirement plan (the Plan) is a self-administered program established to pay retirement, disability and survivor income to employees and their survivors to supplement similar benefits that employees receive from the FSM Social Security System. The Plan is a contributory plan in which the Bank matches 100% of the participants' contributions up to a maximum of 10 percent of the participant's annual salary, if the participant contributes 3 or

more percent from his or her annual salary. Employee participation is optional. The Bank's Chief Financial Officer is the designated Plan Administrator. Matching contributions to the Plan during the years ended December 31, 2016 and 2015 were $55,467 and $49,434, respectively. Total Plan assets as of December 31, 2016 and 2015 were $845,119 and $706,804, respectively. Management is of the opinion that the Plan does not represent an asset or a liability of the Bank.

33. 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 law. Such obligation, expenditure, receipt or use of public funds was in accordance with any limitations, conditions, or mandatory directions imposed by FSM law.

34. No events have occurred after December 31, 2016, but before April 17, 2017, 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
President/CEO

Alik Alik
SVP/Chief Operating Officer

Brandon Tara
Chief Financial Officer

Appendix A
Corrected Misstatements

GL	Name	Debit	Credit
	1 AJE Beginning balance		
10285-006 IDF	ALLOWANCE FOR D/L - PSIDF	41,260.11	
36000-000	RETAINED EARNINGS	9,826.00	
10250-001	ALLOWANCE FOR D/L-HQ		9,379.00
36000-005	PREVIOUS RETAINED EARNINGS - YDLF		1,591.00
37000-000 IDF	Retained Earnings		19,283.11
10700-006 IDF	Due From FSMDB		20,833.00
		51,086.11	51,086.11
	2 AJE Recalculation of allowance for IDF loans		
10285-006 IDF	ALLOWANCE FOR D/L - PSIDF	136,545.00	
DT4 (IDF TB)	Bad debt expense - IDF		136,545.00
		136,545.00	136,545.00
	3 AJE Accumulated depreciation		
70400-001	DEPRECIATION EXPENSE - HQ	1,194.84	
40500-001	MISCELLANEAOUS INCOME - HQ		1,194.84
		1,194.84	1,194.84
	4 AJE GASB 72 investment (current year)		
10120-001	INV - BOFSM	275,040.00	
60100-001	INCOME/LOSS FROM BFSM STOCK - HQ		275,040.00
		275,040.00	275,040.00
	5 AJE GASB 72 investment (restatement)		
10120-001	INV - BOFSM	2,913,012.00	
36000-000	RETAINED EARNINGS		2,913,012.00
		2,913,012.00	2,913,012.00
	6 AJE To adjust allowance for loan losses		
10250-001	ALLOWANCE FOR D/L-HQ	342,070.00	
10250-002	ALLOWANCE FOR D/L-KOSRAE	65,773.00	
10250-004	ALLOWANCE FOR D/L-CHUUK	45,112.00	
10250-005	ALLOWANCE FOR D/L-YAP	1,150,338.00	
71800-001	PROV FOR D/L -HQ		342,070.00
71800-002	PROV FOR D/L - KOSRAE		65,773.00
71800-004	PROV FOR D/L - CHUUK		45,112.00
71800-005	PROV FOR D/L - YAP		1,150,338.00
		1,603,293.00	1,603,293.00