

June 21, 2018

The Honorable Johnson Elimo
Governor, State of Chuuk
Federated States of Micronesia

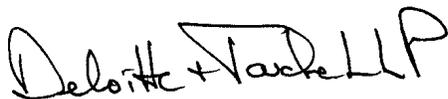
Dear Governor Elimo:

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 Chuuk (the State) as of and for the year ended September 30, 2017, 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 21, 2018.

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.

This report is intended solely for the information and use of the State's management, the Office of the Governor, the Office of the FSM National Public Auditor, federal awarding agencies, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Most respectfully,

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

cc: To Management of the State of Chuuk

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 August 7, 2017. As described in that letter, the objective of a financial statement audit conducted in accordance with the aforementioned standards are:

- To express an opinion on the fairness of the State’s financial statements and the accompanying supplementary information, in relation to the financial statements as a whole, for the year ended September 30, 2017 (the “financial statements”), in accordance with accounting principles generally accepted in the United States of America (“generally accepted accounting principles”) in all material respects, and to perform specified procedures on the required supplementary information for the year ended September 30, 2017;
- To express an opinion on whether the supplementary information that accompanies the financial statements, including the Schedule of Expenditures of Federal Awards, is fairly stated, in all material respects, in relation to the financial statements 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 ending September 30, 2017, based on an audit of financial statements performed in accordance with generally accepted government auditing standards; and
- To express an opinion on the State’s compliance with requirements applicable to each major program and report on the State’s internal control over compliance in accordance with Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the Uniform Guidance).

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

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 State’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 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 was not designed to 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 the Uniform Guidance. 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 2017 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, 2017, we are not aware of any significant changes in accounting estimates or in management's judgments relating to such estimates.

AUDIT ADJUSTMENTS AND 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. As the result of our audit work, we identified matters that resulted in audit adjustments that we believe, either individually or in aggregate, would have a significant effect on the State's financial reporting process. Such adjustments, listed in Appendix A to Attachment I, have been recorded in the accounting records and are reflected in the 2017 financial statements.

In addition, we have attached to this letter, as Appendix B to Attachment I, a summary of uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

SIGNIFICANT ACCOUNTING POLICIES

The State's significant accounting policies are set forth in Note 1 to the State's 2017 financial statements. During the year ended September 30, 2017, 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. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements 67 and 68 with the reporting requirements in Statement 68.
- GASB 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).
- GASB Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements.
- 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*.
- GASB 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.

SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

- GASB 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 implementation of these statements did not have a material effect on the accompanying financial statements.

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 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 financial statements.

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs) associated with the retirement of a tangible capital asset. The provisions in Statement No. 83 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 financial statements.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of all state and local governments. The provisions in Statement No. 84 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In March 2017, GASB issued Statement No. 85, *Omnibus 2017*, which address practice issues that have been identified during implementation and application of certain GASB Statements including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). The provisions in Statement No. 85 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 financial statements.

In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*, which improves consistency in accounting and financial reporting for in-substance defeasance of debt. The provisions in Statement No. 86 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 financial statements.

In June 2017, GASB issued Statement No. 87, *Leases*, which establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The provisions in Statement No. 87 are effective for fiscal years beginning after December 15, 2019. Management has yet to determine whether the implementation of this statement will have a material effect on the financial statements.



SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

We have evaluated the significant qualitative aspects of the State'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 OF THE STATE

When audited financial statements are included in documents containing other information such as Annual Reports, 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. In the event that the State issues an Annual Report or other documentation that includes the audited financial statements, we will be required to read the other information in the State's 2017 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 Office of the Governor.

DISAGREEMENTS WITH MANAGEMENT

We have not had any disagreements with management related to matters that are material to the State's 2017 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 2017.

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 Office of the Governor.

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.

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.

MODIFICATIONS TO OUR OPINION

As discussed in Note 12 to the financial statements, the State has not recorded a liability for land leases and related claims payable in the governmental activities and the General Fund and, accordingly, has not recorded an expenditure/expense for the current period change in that liability. Accounting principles generally accepted in the United States of America require that liabilities incurred attributable to services already rendered and that are not contingent upon a specific event that is outside of the control of the State be accrued as liabilities and expenditures/expenses, which would increase the liabilities, decrease net position, and change the expenses of the governmental activities and increase the liabilities, increase fund deficit, and change the expenditures of the General Fund. The amount by which this departure would affect the liabilities, net position and expenses of the governmental activities and the liabilities, fund deficit, and expenditures of the General Fund is not reasonably determinable. Our opinion is modified with respect to this matter and the proposed wording of the modification follows:

"In our opinion, except for the matters described in the "Basis for Qualified Opinions on Governmental Activities and General Fund" paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the General Fund of the State of Chuuk as of September 30, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America."

EMPHASIS-OF-MATTER PARAGRAPH

As discussed in Note 3 to the financial statements, the State is in discussions with the FSM National Government to determine the ultimate collectability of certain receivables due from the FSM National Government in consultation with federal grantor agencies arising from Compact sector grant transactions. Our opinion is not modified with respect to this matter.

CONTROL-RELATED MATTERS

We have issued a separate report to you, also dated June 21, 2018, concerning certain matters involving 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, which was based on the audit performed in accordance with *Government Auditing Standards*. We have also issued a separate report to you, also dated June 21, 2018, concerning the State's compliance with requirements applicable to each major program and on internal control over compliance in accordance with the Uniform Guidance. Although we have included management's written response to our findings, 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.



DEPARTMENT OF ADMINISTRATIVE SERVICES
 STATE OF CHUUK
 Federated States of Micronesia

JESSE MORI
 Director
 JONAS PAUL
 Deputy Director

P.O. BOX 849
 WENO, STATE OF CHUUK
 F.S.M. 96942

TEL. (691) 330-2230/2239
 FAX: (691) 330-2233

June 21, 2018

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 and each major fund of the State of Chuuk Federated States of Micronesia (the "Government"), as of and for the year ended September 30, 2017, which collectively comprise the Government'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 of the Government 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 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 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 general purpose financial statements obtained from the Government Finance Officers Association. Additionally, we agree with the adjusting 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 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 position components (net investment in capital assets; restricted; and unrestricted) 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. The financial statements properly classify all funds and activities, including special and extraordinary items.
 - h. All funds that meet the quantitative criteria in the GASB Codification of Government Accounting and Financial Reporting Standards ("GASB Codification) Section 2200.159 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.
 - i. 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.
 - j. 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.
 - k. The Government's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available and appropriately disclosed and that net position is properly recognized under the policy.
 - l. The Government has followed GASB Codification Section 1800.178 regarding which resources (restricted, committed, assigned, or unassigned) are considered to be spent for expenditures to determine the fund balance classifications for financial reporting purposes.
 - m. Interfund, internal, and intra-Government activity and balances have been appropriately classified and reported.

ATTACHMENT I, CONTINUED

- n. Fund balance restrictions, commitments, and assignments are properly classified and, if applicable, approved.
2. The Government has provided to you all relevant information and access as agreed in the terms of the audit engagement letter.
3. The Government has made available to you:
 - a. All financial records and related data for all financial transactions of the Government and for all funds administered by the Government. The records, books, and accounts, as provided to you, record the financial and fiscal operations of all funds administered by the Government 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.
 - b. 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 Government management that contravenes the provisions of federal laws, or Guam laws, and laws and regulations, or of contracts and grants applicable to the Government.
 - 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, which have been provided to you.
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 B.
6. The Government 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 Government 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 Government involving:
 - a. Management.
 - b. Employees who have significant roles in internal control over financial reporting.
 - c. Others, when 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 Government's financial statements communicated by 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

ATTACHMENT I, CONTINUED

Section C50, *Claims and Judgments*, except as disclosed in Note 10 to the financial statements.

10. Significant assumptions used by us in making accounting estimates are reasonable.
11. We are responsible for the preparation of the Schedule of Expenditures of Federal Awards in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("OMB Uniform Guidance"). We have identified and disclosed all of the Government's government programs and related activities subject to the OMB Uniform Guidance compliance audit. 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 Uniform Guidance, and provisions of grants and contracts relating to the Government'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 Government 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. No events have occurred subsequent to September 30, 2017 that require consideration as adjustments to or disclosures in the schedule of federal awards and related notes or that existed at the end of the reporting period that affect noncompliance during the reporting period.
16. We have disclosed all known noncompliance with direct and material compliance requirements occurring subsequent to September 30, 2017.
17. There have been no changes in internal control over compliance or other factors that might significantly affect internal control, including any corrective action taken by the Government with regard to significant deficiencies and material weaknesses in internal control over compliance, subsequent to September 30, 2017.
18. Federal awards expenditures have been charged in accordance with applicable cost principles.
19. The Reporting Package submitted to the Federal Audit Clearinghouse (FAC) as defined by the Uniform Grant Guidance section 2CFR200.512(3)(c) does not contain protected personally identifiable information.
20. We have disclosed all contracts or other agreements with service organizations.
21. We have disclosed to you all communications from service organizations relating to noncompliance with the requirements of federal statutes, regulations, and terms and conditions of federal awards at those organizations.

22. We have:

- a. Identified and disclosed to you 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 under audit.
- b. Complied, in all material respects, with the requirements identified above in connection with federal awards except as disclosed in the Schedule of Findings and Questioned Costs.
- 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.
- h. Monitored subrecipients to determine that they have expended pass-through assistance in accordance with applicable laws and regulations and have met the requirements of OMB Uniform Guidance.
- i. Issued management decisions for audit findings that relate to federal awards made to subrecipients. Such management decisions were issued within six months of acceptance of the audit report by the FAC. Additionally, we have followed up to determine whether the subrecipient has taken timely and appropriate action on all deficiencies detected through audits, on-site reviews, and other means that pertain to the federal award provided to the subrecipient from the Government.
- j. Considered the results of the subrecipient's audits and made any necessary adjustments to the auditee's own books and records.

23. 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. The summary schedule of prior audit findings includes all findings required to be included in accordance with OMB Uniform Guidance.

ATTACHMENT I, CONTINUED

24. We are responsible for taking corrective action plan on audit findings and have developed a corrective action plan that meets the requirements of OMB Uniform Guidance. 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.
25. 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.
26. We have adopted the provisions of GASB Codification Section 2100, *Defining the Financial Reporting Government*. We believe that we have properly identified and reported as a component unit of the Government each organization that meets the criteria established in GASB Codification Section 2100, *Defining the Financial Reporting Government*.

Except where otherwise stated below, matters less than \$216,800 collectively for the governmental activities, \$46,000 collectively for the General Fund, \$177,600 collectively for the Grants Assistance Fund, \$112,000 collectively for the Compact Trust Fund, and \$1,260 collectively for Other Governmental Funds are not considered to be exceptions that require disclosure for the purpose of the following representations. These amounts are not necessarily indicative of amounts that would require adjustment to, or disclosure in, the basic financial statements.

27. Except as listed in Appendix B, there are no transactions that have not been recorded and reflected in the financial statements.
28. The Government has no plans or intentions that may affect the carrying value or classification of assets and liabilities.
29. Regarding related parties:
 - a. We have disclosed to you the identity of the Government'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 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.
30. 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 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.
31. 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 Government 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.
32. 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*, except as discussed in Note 10 to the financial statements.
33. The Government 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 discussed in Notes 1K and 6 to the financial statements.
34. The Government has complied with aspects of contractual agreements that may affect the financial statements.
35. No department or agency of the Government has reported a material instance of noncompliance to us.
36. The Government 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.
37. No events have occurred after September 30, 2017, but before June 21, 2018, the date the financial statements were issued that requires consideration as adjustments to or disclosures in the financial statements.
38. 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.
39. Regarding supplementary information:
- a. We are responsible for the preparation and 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.
40. 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.
41. During the year ended September 30, 2017, the Government implemented the following pronouncements:
- *GASB Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statement 67 and 68 with the reporting requirements in Statement 68.*
 - *GASB 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).*
 - *GASB Statement No. 77, Tax Abatement Disclosures, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements.*
 - *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.*
 - *GASB 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.*
 - *GASB 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 implementation of these statements did not have a material effect on the financial statements.

42. In June 2015, GASB issued Statements No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replace 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 provide 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 financial statements.

43. 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 financial statements.
44. In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs) associated with the retirement of a tangible capital asset. The provisions in Statement No. 83 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 financial statements.
45. In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of all state and local governments. The provisions in Statement No. 84 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.
46. In March 2017, GASB issued Statement No. 85, *Omnibus 2017*, which address practice issues that have been identified during implementation and application of certain GASB Statements including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). The provisions in Statement No. 85 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 financial statements.
47. In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*, which improves consistency in accounting and financial reporting for in-substance defeasance of debt. The provisions in Statement No. 86 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 financial statements.
48. In June 2017, GASB issued Statement No. 87, *Leases*, which establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The provisions in Statement No. 87 are effective for fiscal years beginning after December 15, 2019. Management has yet to determine whether the implementation of this statement will have a material effect on the financial statements.
49. Management of the Government believes that it is in compliance with all significant limitations and restrictions of the Asian Development Bank loan covenants as of September 30, 2017.
50. Management is in discussion with the FSM National Government to determine the ultimate collectability of certain receivables due from the FSM National Government in consultation with federal grantor agencies arising from Compact sector grant transactions. Management believes that the recorded balances are correct.

51. 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.
52. Financial instruments with significant individual or group concentration of credit risk have been appropriately identified, properly recorded, and disclosed in the financial statements.
53. The Government 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 Government management believes it is more economical to manage its risks internally. In the event of claim settlements and judgments, the Government 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.
54. We have appropriately identified and properly recorded and disclosed in the financial statements, where applicable, all interfund transactions, including repayment terms.
55. No evidence of fraud, possible irregularities, or dishonesty in fiscal operations of federal programs administered by the Government has been discovered.

Very truly yours,



Mr. Jesse Mori,
Director of Administrative Services

CSG

APPENDIX A

LIST OF CORRECTED MISSTATEMENTS
SEPTEMBER 30, 2017

	<u>Dr (Cr)</u>	<u>Dr (Cr)</u>	<u>Dr (Cr)</u>	<u>Dr (Cr)</u>
GF AJE<1>				
Advance to Vendor			(32,541.13)	
Fund Balance Surplus				
Other Miscellaneous Revenue	32,542.96			
<i>To correct opening fund balance to reflected FY16 audited balance</i>				(1.83)
GF AJE<2>				
Marketable Securities				
Investment-Early Rtrmt Trust	151.36			
Compact Investment	11,343.88			
<i>To adjust GL to reflect investment confirmation as of 9/30/17</i>				(11,495.24)
GF AJE<3>				
Investment				
Investment earnings	17,420.40			
<i>To record client's adjustment for GL to equal investment confirmation</i>				(17,420.40)
GF AJE<4>				
Allow D/A General				
Acctg & Treasury Ops-Other Miscellaneous Revenue	113,685.00			
<i>To adjust general and local tax receivable to reflect net realizable value</i>				(113,685.00)
GF AJE<5>				
Compact Investment				(113,685.00)
Compact Investment				
Loan Principal Payment	(256,253.00)			
Inerest Expense				
<i>To record interest expense and loan repayments charged for tthe ADB loans. Payments were taken from the ER investment account</i>	(108,115.00)			
				256,253.00
				108,115.00
GF AJE<6>				
Due to Treasury Fund				
Due to Cmpt II Ed Fund				
Due to Cmpt II Hlth Fund				
Due to Cmpt II Environ Fund	(391,107.00)			
Due to Cmpt II Priv Sctr Fund	1,166,271.00			
Due to Cmpt II Pblc Cpty Fund	643,069.00			
Due to Cmpt II SEG Fund	(66,273.00)			
Acctg & Treasury Ops-Other Miscellaneous Revenue	(169,145.00)			
Due to General Fund	(1,757,004.00)			
Due to ERA Fund	(284,524.00)			
<i>To adjust sector grants receivable to equal detailed subledger</i>	391,107.00			391,107.00
	76,499.00			

CSG
LIST OF CORRECTED MISSTATEMENTS
SEPTEMBER 30, 2017

	Balance Sheet			Income Statement
	Assets	Liabilities	Equity	Operations
	<u>Dr (Cr)</u>	<u>Dr (Cr)</u>	<u>Dr (Cr)</u>	<u>Dr (Cr)</u>
GF AJE<7>				
Due to Treasury Fund	690,043.16			
Due to Cmpt II Priv Sctr Fund	(49,998.58)			
Due to Cmpt II Pblc Cpty Fund	149,999.93			
Acctg & Treasury Ops-Other Miscellaneous Revenue				(690,043.16)
Due to General Fund	(690,043.16)			
Due to ERA Fund	82,507.20			
Due to Educ Sector Carryover	297,534.54			
Due to Health Sector Carryover	150,000.07			
Due to Non-Sector Carry Over	60,000.00			
<i>To adjust sector grants receivable to equal detailed subledger</i>				
GRANT ASSISTANCE FUND				
GAF AJE<1>				
Accounts Payable		34,150		
Fund Balance Surplus			34,150	
<i>To correct opening fund balance to equal 2016 audited balance</i>				
GAF AJE<2>				
Due to Treasury Fund	(1,166,271)			
Due to Treasury Fund	(643,069)			
Due to Treasury Fund	66,273			
A/R Compact	(169,145)			
Due to Treasury Fund	169,145			
Due to Treasury Fund	1,757,004			
Due to Treasury Fund	284,524			
A/R Compact	(66,273)			
A/R Compact	(1,757,004)			
A/R Compact	(284,524)			

CSG

APPENDIX A

LIST OF CORRECTED MISSTATEMENTS

SEPTEMBER 30, 2017

A/R Compact	1,166,271		
A/R Compact	643,069		
Due to Treasury Fund	(76,499)		
A/R Compact	76,499		
<i>To adjust sector grants receivable to equal detailed ledger</i>			
GAF AJE<3>			
A/R Compact	(49,999)		
Due to Treasury Fund	49,999		
Due to Treasury Fund	(150,000)		
A/R Compact	150,000		
Due to Treasury Fund	(82,507)		
A/R Compact	82,507		
Due to Treasury Fund	(297,535)		
Due to Treasury Fund	(150,000)		
A/R Compact	297,535		
A/R Compact	150,000		

	Balance Sheet			Income Statement
	Assets	Liabilities	Equity	Operations
	<u>Dr (Cr)</u>	<u>Dr (Cr)</u>	<u>Dr (Cr)</u>	<u>Dr (Cr)</u>
Due to Treasury Fund	(60,000)			
A/R Compact	60,000			
<i>To adjust sector grants receivable to equal detailed ledger</i>				
COMPACT TRUST FUND				
CT AJE<1>				
Compact Investment				(1,877,570)
Marketable Securities	1,877,570			
<i>To adjust GL balance to equal confirmation from National Government</i>				
LONG-TERM DEBT ACCOUNT GROUP				
LTD AJE<1>				
Amt to be Provided	(295,124)			

CSG

APPENDIX A

LIST OF CORRECTED MISSTATEMENTS
SEPTEMBER 30, 2017

ADB Loans 1873 and 1874 (PSDP)	73,120	
ADB Loan 1816 (BSSP) Payable	74,612	
LTD Retirement ADB loan 1520	38,518	
ADB Loans 1459 (Water Supply)	108,874	
<i>To adjust GL to equal confirmation from National Government.</i>		
GOVERNMENT WIDE		
GW#2		
Accrued annual leave	1,805	
General Government		(1,805)
<i>To record annual leave net deletions for the year</i>		
GW#2		
Annual leave payable	427,958	
Annual leave payable - current	(427,958)	
<i>To record annual leave net deletions for the year</i>		
GW#4		
Loans payable - ADB 1459	155,240	
Loans payable - ADB 1520	100,668	
Loans payable - ADB 1816	97,045	
Loans payable - ADB 1873	37,839	
Loans payable - ADB 1874	50,184	
Debt service		440,976
<i>To record repayment of ADB loans</i>		
GW#5		
Loans payable - ADB 1459	(29,231)	
Loans payable - ADB 1520	(42,782)	
Loans payable - ADB 1816	(15,033)	
Loans payable - ADB 1873	(2,921)	
Loans payable - ADB 1874	(8,247)	
Debt service		98,214
<i>To record SDR adjustment</i>		

CSG
LIST OF CORRECTED MISSTATEMENTS
SEPTEMBER 30, 2017

APPENDIX A

	Balance Sheet			Income Statement
	Assets	Liabilities	Equity	Operations
	<u>Dr (Cr)</u>	<u>Dr (Cr)</u>	<u>Dr (Cr)</u>	<u>Dr (Cr)</u>
GW#6				
Loans payable - ADB 1459		159,898		
Loans payable - ADB 1520		215,294		
Loans payable - ADB 1816		9,402		
Loans payable - ADB 1873		27,478		
Loans payable - ADB 1874		47,657		
Long-term debt current portion				
<i>To reclassify current portion of LTD</i>		(459,729)		
GW#7				
Land	309,220			
Capital assest	982,155			
General government				(481,210)
Health services				(215,205)
Education				(538,843)
Public safety				(14,946)
Public works and transportation				(7,000)
Judiciary				(34,171)
<i>To record fixed assets additions</i>				
GW#8				
Investment - Noncurrent	588,072			
Investment	(588,072)			
<i>To reclassify local equity investment - noncurrent</i>				
GW#9				
Investment - Noncurrent	17,890,754			
Investment	(17,890,754)			
<i>To reclassify investment in ER and Trust Account - noncurrent</i>				
GW#10				
Due to from	13,718,685			
Due to from	(13,718,685)			

CSG

APPENDIX A

LIST OF CORRECTED MISSTATEMENTS

SEPTEMBER 30, 2017

<i>To eliminate interfund receivable/payable</i>				
GW#11				
Unrestricted fund balance			1,007,193	
Restricted - Compact			(1,007,135)	
Restricted - Other			(58)	
<i>To restricted unrestricted fund balance for annual leave payable for Compact and Other funds</i>				
GW#12				
Accumulated Depreciation	(2,322,846)			
General government				1,227,162
Health services				207,489
Education				215,366
Economic development				-
Public safety				8,499
Public works and transportation				664,330
		Balance Sheet		Income Statement
	Assets	Liabilities	Equity	Operations
	<u>Dr (Cr)</u>	<u>Dr (Cr)</u>	<u>Dr (Cr)</u>	<u>Dr (Cr)</u>
<i>To record depreciation expense</i>				
GW#13				
Net increase in FV of investments				1,877,570
<i>To reclass earning from the Trust Fund to contribution to permanent fund</i>				(1,877,570)
GW#14				
Unrestricted fund balance			60,663,136	
Invested in capital assets, net of debt			(38,068,703)	
Restricted net assets - Future operations			(14,246,906)	
Restricted net assets - Compact			(4,547,035)	
Restricted net assets - Debt service			(3,643,848)	
Restricted net assets - Other			(156,644)	
<i>To restricted fund balance for special purpose</i>				

We have reviewed the uncorrected misstatements summarized above.

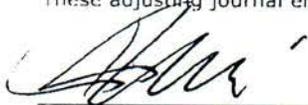
These adjusting journal entries are the results of errors and not results of fraud, irregularities, or illegal acts.

CSG
LIST OF CORRECTED MISSTATEMENTS
SEPTEMBER 30, 2017

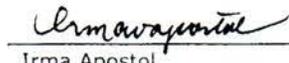
APPENDIX A

	Balance Sheet			Income Statement
	Assets	Liabilities	Equity	Operations
	<u>Dr (Cr)</u>	<u>Dr (Cr)</u>	<u>Dr (Cr)</u>	<u>Dr (Cr)</u>
<i>To record depreciation expense</i>				
GW#13				
Net increase in FV of investments				1,877,570
<i>To reclass earning from the Trust Fund to contribution to permanent fund</i>				(1,877,570)
GW#14				
Unrestricted fund balance			60,663,136	
Invested in capital assets, net of debt			(38,068,703)	
Restricted net assets - Future operations			(14,246,906)	
Restricted net assets - Compact			(4,547,035)	
Restricted net assets - Debt service			(3,643,848)	
Restricted net assets - Other			(156,644)	
<i>To restricted fund balance for special purpose</i>				

We have reviewed the uncorrected misstatements summarized above.
These adjusting journal entries are the results of errors and not results of fraud, irregularities, or illegal acts.



Jesse Mori
Director
Department of Administrative Services
State of Chuuk



Irma Apostol
Accounting Advisor
Department of Administrative Services
State of Chuuk

CSG
LIST OF UNCORRECTED MISSTATEMENTS
SEPTEMBER 30, 2017

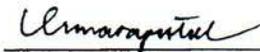
APPENDIX B

	Balance Sheet			Income Statement
	Assets	Liabilities	Equity	Operations
	<u>Dr (Cr)</u>	<u>Dr (Cr)</u>	<u>Dr (Cr)</u>	<u>Dr (Cr)</u>
GENERAL FUND				
PAJE<1>				
Dr. Revenue - revenue share				19,556
Cr. AR from National Government	(19,556)			
To adjust Gl to equal confirmation				
PAJE<2>				
Dr. Revenue - revenue share				19,436
Cr. AR from National Government	(19,436)			
To adjust Gl to equal confirmation				
PAJE<3>				
Dr. Cash in bank	43,011			
Cr. Misc. Income				(43,011)
To reverse out erroneous original entry				
PAJE<4>				
Dr. Unreserved fund balance			349,289	
Cr. Fund Balance - assigned			(349,289)	
<i>To reclassify unreserved fund balance for outstanding encumbrance</i>				
GRANT ASSISTANCE FUND				
PAJE <1>				
Dr. Medical Supplies				96,124
Cr. Accounts Payable		96,124		
To record payable based on search for unrecorded liab.				
	4,019	96,124	-	92,105

We have reviewed the uncorrected misstatements summarized above.
These adjusting journal entries are the results of errors and not results of fraud, irregularities, or illegal acts.



Jesse Mori
Director
Department of Administrative Services
State of Chuuk



Irma Apostol
Accounting Advisor
Department of Administrative Services
State of Chuuk