

June 26, 2018

The Honorable Peter M. Christian
President
Federated States of Micronesia:

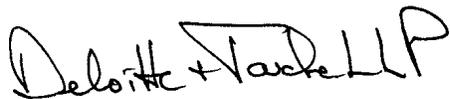
Dear Mr. President:

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 Federated States of Micronesia (FSM) National Government 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 26, 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 FSM National Government is responsible.

This report is intended solely for the information and use of management, the Office of the President, 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.

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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 28, 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 whether each opinion unit of the FSM National Government's basic financial statements and the accompanying supplementary information, in relation to the basic financial statements as a whole, as of and or the year ended September 30, 2017 (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 September 30, 2017;
- 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;
- Report on the FSM National Government's internal control over financial reporting and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the year ended September 30, 2017, based on an audit of financial statements performed in accordance with generally accepted government auditing standards; and
- Express an opinion on the FSM National Government's compliance with requirements applicable to each major program and report on the FSM National Government's internal control over compliance in accordance with the 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 by management with the oversight of the Office of the President 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 President 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 FSM National Government'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 FSM National Government's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of FSM National Government'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.

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

We also considered the FSM National Government'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 FSM National Government'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 FSM National Government'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 the aggregate, would have a significant effect on the FSM National Government'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 presented 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 FSM National Government's significant accounting policies are set forth in Note 1 to the FSM National Government's 2017 financial statements. During the year ended September 30, 2017, there was not significant changes in previously adopted accounting policies or their application, except for the following pronouncements adopted by the FSM National Government:

- 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.

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SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

- 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 accompanying financial statements.

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 Statements 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.

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SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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.

OTHER INFORMATION IN THE ANNUAL REPORTS OF THE FSM NATIONAL GOVERNMENT

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 FSM National Government issues an Annual Report or other documentation that includes the audited financial statements, we will be required to read the other information in the FSM National Government'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 President.

DISAGREEMENTS WITH MANAGEMENT

We have not had any disagreements with management related to matters that are material to the FSM National Government's 2017 financial statements.

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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.

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.

SIGNIFICANT DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

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

MANAGEMENT'S REPRESENTATIONS

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

Social Security Obligations

In January 2014, the FSM Social Security Administration (FSMSSA) obtained an actuarial valuation of the Retirement Fund as of January 1, 2014. The valuation reported actuarial accrued liabilities for the Retirement Fund of \$307,613,000 and a funded ratio of 16%. As of December 31, 2017, FSMSSA recorded total fund equity of \$55,506,444 in the Fund, as funds available to fund future benefit obligations. These conditions indicate that FSMSSA may be unable to meet its future benefit obligations. The wording of the emphasis-of-matter paragraph follows:

"As discussed in Note 10 to the financial statements, the FSM Social Security Administration may be unable to meet its future obligations." Our opinion is not modified with respect to these matters.



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CONTROL-RELATED MATTERS

We have issued a separate report to you, also dated June 26, 2018, containing certain matters involving the FSM National Government's internal control over financial reporting that we consider to be material weaknesses or significant deficiencies under standards established by the American Institute of Certified Public Accountants, and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. We have also issued a separate report to you, also dated June 26, 2018, concerning the FSM National Government'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 responses to our comments contained in those reports, such responses have not been subjected to the auditing procedures applied in our audit of the basic financial statements and, accordingly, we do not express an opinion or provide any form of assurance on the appropriateness of the responses or the effectiveness of any corrective actions described therein.



Secretary of Finance
&
Administration

**GOVERNMENT OF THE
FEDERATED STATES OF MICRONESIA**
Department of Finance and Administration

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June 26, 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, each major fund, and the aggregate remaining fund information of the Federated State of Micronesia National (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.

ATTACHMENT I, CONTINUED

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.
 - n. Fund balance restrictions, commitments, and assignments are properly classified and, if applicable, approved.

ATTACHMENT I, CONTINUED

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 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.

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 \$580,000 collectively for the governmental activities, \$420,000 collectively for the General Fund, \$331,400 collectively for the Grants Assistance Fund, \$110,000 collectively for the Compact Trust Fund, and \$29,200 collectively for the aggregate remaining fund information 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 7 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 26, 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:

ATTACHMENT I, CONTINUED

- 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 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.
 - 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

42. 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.
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,



Ms. Sihna N. Lawrence
Secretary of Finance and Administration

FSMNG
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>
GENERAL FUND				
GF AJE<1>				
FSM Shares in BFSM	177,506			
Unrealized Earnings				(177,506)
<i>To adjust investment in BOFSM to equal confirmation</i>				
GF AJE<2>				
Bad Debt Exp				947,291
Allowance for doubtful accounts - advances	(947,291)			
<i>To set up allowance for doubtful travel advances for General Fund.</i>				
GRANT ASSISTANCE FUND				
GAF AJE<1>				
Deffered Revenue		3,131		
Unreserved Fund Balance			(3,131)	
<i>To correct opening fund balance for Fund 26 to equal 2016 audited balance</i>				
GAF AJE<2>				
A/R Fed Grants FSM States	96,796			
Advance to Yap		1,126,478		
Unreserved Fund Balance			(1,223,273)	
<i>To correct opening fund balance to equal prior year audit</i>				
GAF AJE<3>				
Advance to Yap	(1,126,478)			
D/D Pybl US Federal		1,126,478		
<i>To reverse out FSM receivable from Yap State which was removed from Yap State financial records in prior years</i>				
COMPACT TRUST FUND				
CT AJE<1>				
People of FSM Trust Fund	1,087,967			
Unrealized Earnings				(1,087,967)
<i>To adjust GL to equal bank statement as of 9/30/17</i>				
GOVERNMENT WIDE				
GW#1				
Accrued annual leave		(53,037)		
Office of the President				1,057
Foreign affairs				1,845
Finance and administration				12,893
Resources and development				4,473

FSMNG
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>
Transportation, communication and infrastructure				2,209
Health and social affairs				4,971
Education				2,145
Justice				7,116
Office of the Public Defender				2,100
Environment and emergency management				1,915
National archives, cultural and historic preservation				513
Legislature				1,786
Judiciary				2,015
Office of the National Public Auditor				2,636
National government programs				5,363
<i>To record annual leave net addition/deletions for the year</i>				
GW#2				
Capital assest	6,828,420			
CIP	20,791,666			
Office of the President				(10,845)
Finance and administration				(58,444)
Resources and development				(12,215)
Transportation, communication and infrastructure				(90,703)
Health and social affairs				(42,829)
Education				(4,436,510)
Justice				(1,986,061)
Office of the Public Defender				(17,982)
Environment and emergency management				(64,365)
National archives, cultural and historic preservation				(12,814)
Legislature				(26,369)
Judiciary				(2,768)
Office of the National Public Auditor				(1,420)
National government programs				(13,921)
Agencies, boards and commissions				(51,174)
Capital projects				(20,791,666)
<i>To record fixed assets and CIP addition for the year</i>				
GW#3				
Capital assest	(286,363)			
CIP	(4,798,358)			
Accumulated depreciation	29,844			
Foreign affairs				246,675
National government programs				9,844
Capital projects				4,798,358
<i>To record fixed assets and CIP deletions for the year</i>				

FSMNG
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#4	(10,408,959)			
Accumulated depreciation				
Office of the President				52,276
Foreign affairs				186,132
Finance and administration				59,235
Resources and development				16,606
Transportation, communication and infrastructure				7,618,387
Health and social affairs				308,351
Education				321,505
Justice				523,988
Office of the Public Defender				22,630
Environment and emergency management				229,121
National archives, cultural and historic preservation				7,121
Legislature				88,872
Judiciary				49,001
Office of the National Public Auditor				33,739
National government programs				837,615
Agencies, boards and commissions				54,380
Capital projects				
<i>To record depreciation expense for the year</i>				
GW#5				
Loans payable - ADB Loan 2099		(213,491)		
Loans payable - ADB Loan 3004		(3,808,646)		
Loans payable - ADB Loan 3005		(3,619,961)		
Loan proceeds				7,642,097
<i>To record ADB loan proceeds for the year</i>				
GW#6				
Loans payable - ADB Loan 1257		(35,363)		
Loans payable - ADB Loan 1459		(69,540)		
Loans payable - ADB Loan 1520		(147,509)		
Loans payable - ADB Loan 1816		(23,128)		
Loans payable - ADB Loan 1873		(15,967)		
Loans payable - ADB Loan 1874		(42,310)		
Loans payable - ADB Loan 2099		115,685		
Loans payable - ADB Loan 2100		13,392		
Special item - gain on SDR foreign exchange				204,740
<i>To record SDR adjustment</i>				
GW#7				
Loans payable - ADB Loan 1257		216,501		
Loans payable - ADB Loan 1459		352,497		
Loans payable - ADB Loan 1520		347,094		
Loans payable - ADB Loan 1816		149,300		
Loans payable - ADB Loan 1873		206,882		

FSMNG
LIST OF CORRECTED MISSTATEMENTS
SEPTEMBER 30, 2017

APPENDIX A

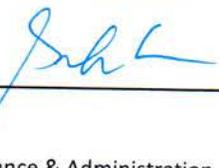
	Balance Sheet			Income Statement
	Assets	Liabilities	Equity	Operations
	<u>Dr (Cr)</u>	<u>Dr (Cr)</u>	<u>Dr (Cr)</u>	<u>Dr (Cr)</u>
Loans payable - ADB Loan 1874		257,485		
Loans payable - ADB Loan 2099		552,360		
Loans payable - ADB Loan 2100		168,502		
Debt repayments				
<i>To reclud repayment of ADB loans</i>				(2,250,620)
GW#8				
Loans payable - ADB Loan 1257		221,040		
Loans payable - ADB Loan 1459		363,218		
Loans payable - ADB Loan 1520		706,650		
Loans payable - ADB Loan 1816		151,958		
Loans payable - ADB Loan 1873		150,232		
Loans payable - ADB Loan 1874		264,256		
Loans payable - ADB Loan 2099		570,674		
Loans payable - ADB Loan 2100		186,054		
Loan payable - current		(2,614,082)		
<i>To reclassify ADB loan - current portion</i>				
GW#9				
Due to from	15,930,783			
Due to from	(15,930,783)			
<i>To eliminate interfund receivable/payable</i>				
GW#10				
Investment - Noncurrent	18,435,046			
Investment	(18,435,046)			
<i>To reclassify local equity investment - noncurrent</i>				
GW#11				
Accrued annual leave - current		(277,661)		
Accrued annual leave		277,661		
<i>To reclassify annual leave payable - current portion</i>				
GW#12				
Invested in capital assets, net of debt			(241,611,175)	
Restricted for future operations			(18,435,046)	
Restricted for Compact programs			(3,567,836)	
Restricted for other purposes			(4,265,126)	
Unrestricted Net assets			267,879,183	
<i>To restricted fund balance for special purpose</i>				

FSMNG
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#13				
Unrestricted fund balance			178,072	
Restricted - Compact			(148,920)	
Restricted - Other			(29,152)	
<i>To restricted unrestricted fund balance for annual leave payable for Compact and Other funds</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.



Sihna N. Lawrence
Secretary
Department of Finance & Administration



Renedgardo Merencillo
Accounting Advisor
Department of Finance & Administration

FSMNG
 LIST OF UNCORRECTED MISSTATEMENTS
 SEPTEMBER 30, 2017

APPENDIX B

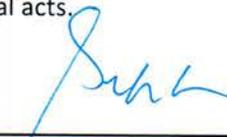
	Balance Sheet			Income Statement
	Assets	Liabilities	Equity	Operations
	<u>Dr (Cr)</u>	<u>Dr (Cr)</u>	<u>Dr (Cr)</u>	<u>Dr (Cr)</u>
GENERAL FUND				
PAJE <1>.GF				
Dr. Expense				119,335
Cr. Allowance for doubtful accounts	(119,335)			
<i>To record bad debt for long outstanding general receivables</i>				
PAJE <2>.GF				
Dr. Bad debts expense				203,085
Cr. Allowance for doubtful accounts	(203,085)			
<i>To provide allowance for long outstanding Advance to Supplier</i>				
PAJE <3>.GF				
Dr. Payroll Accrual		121,385		
Cr. Due to/from	(121,385)			
<i>To transfer payroll accrual liability for Grants Assistance Funds and Other Nonmajor Fund recorded in General Fund</i>				
PAJE <4>.GF				
DR. Bad Debt				124,677
CR. Allowance for doubtful accounts	(124,677)			
<i>To record long outstanding Travel Advance in GAF</i>				
GRANT ASSISTANCE FUND				
PAJE <1>.GAF				
Dr. Due to/from General Fund	106,820			
Cr. Payroll Accrual		(106,820)		
<i>To adjust GL to equal details for PP#20</i>				

FSMNG
 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>
OTHER NONMAJOR FUND				
PAJE<1>				
Dr. Due to/from General Fund	63,386			
Cr. Payroll Accrual		(63,386)		
<i>To record payroll accrual liability recorded in the General Fund</i>				
PAJE<2>				
Dr. Bad debt expense				10,904
Cr. Allowance for doubtful accounts	(10,904)			
<i>To record bad debt for long outstanding Travel Advance</i>				
	(409,180)	(48,821)	-	458,001

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.



 Sihna N. Lawrence
 Secretary
 Department of Finance & Administration



 Renedgardo Merencillo
 Accounting Advisor
 Department of Finance & Administration