

June 30, 2010

His Excellency Emmanuel Mori
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, 2009, in accordance with auditing standards generally accepted in the United States of America and have issued our report thereon dated June 30, 2010.

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.

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

Our responsibility under auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, has been described in our engagement letter dated August 18, 2009. As described in that letter, the objective of a financial statement audit conducted in accordance with the aforementioned standards is:

- To express an opinion on the fairness of each opinion unit in the FSM National Government's basic financial statements and the accompanying supplementary information, and to disclaim an opinion on the required supplementary information for the year ended September 30, 2009 in conformity with accounting principles generally accepted in the United States of America ("generally accepted accounting principles"), in all material respects;
- To express an opinion on whether the supplementary information that accompanies the basic financial statements is presented fairly, in all material respects, in relation to the basic financial statements taken as a whole;
- To report on the 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, 2009 based on an audit of financial statements performed in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*; and
- To report on the FSM National Government's compliance with requirements applicable to each major program and on internal control over compliance in accordance with the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* (OMB Circular A-133).

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

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

We also considered the 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 OMB Circular A-133. 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 2009 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, 2009, we are not aware of any significant changes in accounting estimates or in management's judgments relating to such estimates.

UNCORRECTED MISSTATEMENTS

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

MATERIAL CORRECTED MISSTATEMENTS

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

SIGNIFICANT ACCOUNTING POLICIES

The FSM National Government's significant accounting policies are set forth in Note 1 to the FSM National Government's 2009 financial statements. During the year ended September 30, 2009, there were no significant changes in previously adopted accounting policies or their application, except for the following pronouncements adopted by the FSM National Government:

- GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which establishes standards for the measurement, recognition, and display of other postemployment benefits expense/expenditures and related liabilities, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers.
- GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, which provides guidance and consistency under which a governmental entity would be required to report a liability related to pollution remediation.
- GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, which improves the quality of financial reporting by requiring endowments to report their land and other real estate investments at fair value, creating consistency in reporting among similar entities that exist to invest resources for the purpose of generating income.
- GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which improves financial reporting by contributing to the GASB's efforts to codify all GAAP for state and local governments so that they derive from a single source.
- GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*, which incorporates accounting and financial reporting guidance previously only contained in the American Institute of Certified Public Accountants (AICPA) auditing literature into the GASB's accounting and financial reporting literature for state and local governments, and addresses three issues from the AICPA's literature - related party transactions, going concern considerations, and subsequent events.

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

DISAGREEMENTS WITH MANAGEMENT

We have not had any disagreements with management related to matters that are material to the FSM National Government's 2009 financial statements.

CONSULTATION WITH OTHER ACCOUNTANTS

We are not aware of any consultations that management may have had with other accountants about auditing and accounting matters during 2009.

SIGNIFICANT ISSUES DISCUSSED, OR SUBJECT OF CORRESPONDENCE, WITH MANAGEMENT PRIOR TO OUR INITIAL ENGAGEMENT OR 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 ISSUES 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 issues requiring communication to the Office of the President.

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 Appendix III, a copy of the representation letter we obtained from management.

CONTROL-RELATED MATTERS

We have issued a separate report to you, also dated June 30, 2010, 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 30, 2010, containing certain matters involving the FSM National Government's compliance with requirements applicable to each major program and on internal control over compliance in accordance with OMB Circular A-133. Although we have included management's written responses to our comments contained in those reports, such responses have not been subjected to the auditing procedures applied in our audit of the basic financial statements and, accordingly, we do not express an opinion or provide any form of assurance on the appropriateness of the responses or the effectiveness of any corrective actions described therein.

We have communicated to management of the FSM National Government, in a separate letter also dated June 30, 2010, other matters that we identified during our audit.

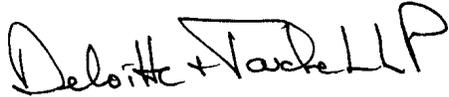
His Excellency Emmanuel Mori
President
Federated States of Micronesia
June 30, 2010

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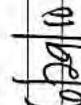
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This report is intended solely for the information and use of management, the Office of the President, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

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

Journal Entries - AJE - Additional for Infrastructure Fund			
	5 AJE To record infra AR - 8117.B (Posted)		
19-1410-AS	A/R Federal Grants	851,411.00	-
19-10-29-7050-RE	Compact II Revenues	-	851,411.00
		0.00	0.00
	To record the FY09 revenue excess of expenditure over revenue.		
<p>The above adjustment is not due to fraud or illegal acts. Rather, we believe that the above constitute misstatement. In connection with the Corrected Audit Adjustments listed above, we have reviewed and approve them on the basis of information we have provided to you.</p>			
			6/20/10
	Juliet Jimmy		Date
	Assistant Secretary for National Treasury		

Journal Entries - AJE			
#	Name	Debit	Credit
	1 CAJE CAJE 7 JVF0637 AP-TRAVEL.		
33-1999-AS	Due to Treasury Fund	-	1,449.00
33-3110-LI	Accounts Payable	1,449.00	-
		1,449.00	1,449.00
	JVF0637 □		
	To correct AP travel related.		
	2 AJE To set up encumbrances.		
29-4110-FB	Unreserved Fund Balance	16,752.00	-
31-4110-FB	Unreserved Fund Balance	18,780.00	-
33-4110-FB	Unreserved Fund Balance	160,174.00	-
35-4110-FB	Unreserved Fund Balance	147.00	-
Encumbrances	Encumbrances Non Major Fund - DTT	-	195,853.00
		195,853.00	195,853.00
	To set-up encumbrances per subsidiary ledger.		
<p>The above adjustments are not due to fraud or illegal acts. Rather, we believe that the above constitute misstatement. In connection with the Corrected Audit Adjustments listed above, we have reviewed and approve them on the basis of information we have provided to you.</p>			
			
	Juliet Jimmy		
	Assistant Secretary for National Treasury		
			
			Date

Journal Entries - AJE			
#	Name	Debit	Credit
	1 CAJE 2 CAJE 2 To correct recording of capacity bldg revenue.		
10-1999-AS	Due to Treasury Fund	100,000.00	-
14-1999-AS	Due to Treasury Fund	-	100,000.00
10-10-29-7050-	Compact II Grant	-	100,000.00
14-10-29-7050-	Compact II Grant	100,000.00	-
		200,000.00	200,000.00
	To correct entry from capacity bldg revenue to education revenue. See wp8317.B (f).		
	2 CAJE CAJE 7 To correct AP travel related.		
10-1999-AS	Due to Treasury Fund	-	5,188.00
11-1999-AS	Due to Treasury Fund	-	5,597.00
13-1999-AS	Due to Treasury Fund	-	1,496.00
14-1999-AS	Due to Treasury Fund	-	7,956.00
15-1999-AS	Due to Treasury Fund	-	2,313.00
10-3110-LI	Accounts Payable	5,188.00	-
11-3110-LI	Accounts Payable	5,597.00	-
13-3110-LI	Accounts Payable	1,496.00	-
14-3110-LI	Accounts Payable	7,956.00	-
15-3110-LI	Accounts Payable	2,313.00	-
		22,550.00	22,550.00
	JVF0637		
	To correct AP travel related due to liquidation.		
	3 AJE To record AR on sector funds.		
12-7050-07-RE	Cmpt II Environ Fund	-	20,854.00
15-7050-08-RE	Cmpt II SEG Fund	-	484,507.00
10-10-29-7050-	Compact II Grant	-	469,741.00
11-10-29-7050-	Compact II Grant	-	342,254.00
14-10-29-7050-	Compact II Grant	-	717,097.00
10-1310-AS -	DAR - Federal	469,741.00	-
11-1310-AS -	DAR - Federal	342,254.00	-

Journal Entries - AJE			
#	Name	Debit	Credit
	1 CAJE CAJE 2 To correct reimbursement.		
20-60-66-7110-	Federal Grants	-	54,923.00
20-60-66-20010	Spcl Ed - Travel & Transportation	54,923.00	-
		54,923.00	54,923.00
	To correct erroneous recording of SPED reimbursement/revenue. JVF0632.		
	2 CAJE CAJE 3 SPED revenue.		
20 - 1310 - 00 - AR		-	316,088.95
20-3710-LI	Deferred Revenues	316,088.95	-
		316,088.95	316,088.95
	To correct wrong application of collection. JVF0630		
	3 AJE To transfer to Fd 26 DAEF US SHARE.		
21-1999-AS	Due to Treasury Fund	-	228,138.00
21-3710-LI	Deferred Revenues	228,138.00	-
		228,138.00	228,138.00
	To transfer to Fd 26 recording of DEAF - US share.		
	4 CAJE CAJE 7 To correct AP-travel related.		
20-1999-AS	Due to Treasury Fund	-	220,433.34
20-3110-LI	Accounts Payable	220,433.34	-
		220,433.34	220,433.34
	JVF0637		
	To adjust AP travel related due to liquidation.		
	5 CAJE CAJE 8 FEMA - YAP		
20-2285-AS	Advance to Yap	-	402,583.00
20-3630-LI	D/D Pybl US Federal	402,583.00	-
		402,583.00	402,583.00
	To close PY FEMA advances to yap to agree to Confirmation.		

Journal Entries - AJE			
#	Name	Debit	Credit
	1 CAJE CAJE 2 To transfer charges from GF to foreign grant.		
23-1999-AS	Due to Treasury Fund	-	100,000.00
23-32-49-0313	Disaster Emerg Fund - Food	100,000.00	-
		100,000.00	100,000.00
	to record miscellaneous revenue from other foreign grant		
	2 CAJE CAJE 2 To close deferred revenue.		
23-3710-LI	Deferred Revenues	100,000.00	-
23-70-71-7310	Foreign Grants	-	100,000.00
		100,000.00	100,000.00
	To close deferred revenue on china grant for tidal surge as a result of transfer of expenditure from GF to Fd 23.		
	3 CAJE CAJE 3 To close deferred revenue.		
23 - 1999 - AS	Due to Treasury Fund	30,054.70	-
23-1999-AS	Due to Treasury Fund	-	48,776.00
23-3710-LI	Deferred Revenues	-	30,054.70
23-3710-LI	Deferred Revenues	48,776.00	-
		78,830.70	78,830.70
	JVF0630		
	To reverse PY deferred revenue determined no longer valid by entity due to age.		
	To record china grant - tidal surge for FSM Red Cross erroneously recorded in the Disaster Fund.		
	4 CAJE CAJE 7 To adjust AP travel.		
23-1999-AS	Due to Treasury Fund	-	68,540.28
23-3110-LI	Accounts Payable	68,540.28	-
		68,540.28	68,540.28

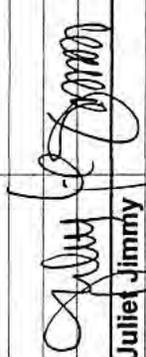
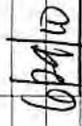
Journal Entries - AJE		
#	Name	
		Debit Credit
	1 CAJE CAJE 9 JVFI0021	
88 - 4110 - FB	Unreserved Fund Balance	34,732.51 -
88 - 4130 - FB	R/B Restricted Capital Assets	- 34,732.51
88 - 1157 - AS	People of FSM T/F/Atalanta	34,732.51 -
88 - 7890 - RE	Realized Gain On Equities	- 34,732.51
		69,465.02 69,465.02
	To correct the amount of earnings and adjust corresponding reserve.	
<p>The above adjustments are not due to fraud or illegal acts. Rather, we believe that the above constitute misstatement. In connection with the Corrected Audit Adjustments listed above, we have reviewed and approve them on the basis of information we have provided to you.</p>		
		6/29/10
	Juliet Jimmy	Date
	Assistant Secretary for National Treasury	

Journal Entries - AJE		Debit	Credit
#	Name		
	1 CAJE CAJE 2 To correct MLFC & PY AP.		
91-1999-AS	Due to Treasury Fund	100,000.00	-
91-10-92-91112-8320-EX	OMINIBUS ADF PROJECT - Professional Services	-	41,526.00
91-3111-LI	A/P not on Subledger	91,526.00	-
91-10-92-7910-RE	Transfer In	-	100,000.00
91-10-92-7910-RE	Transfer In	-	50,000.00
		191,526.00	191,526.00
	To record transfer in - MLFC payment from GF. <input type="checkbox"/>		
	To close FY08 ADB payable.		
	2 CAJE CAJE 3 To correct closing of ADB IMPREST.		
91-10-92-91150-8720-EX	ADB BSS Loan - Natl - Debt Pymt Outside princpl	591.09	-
91-10-92-7920-RE	Loan Proceeds	-	64,743.72
91-10-92-91140-8720-EX	ADB PSD Loan - Natl - Debt Pymnt Outside princpl	64,152.63	-
		64,743.72	64,743.72
	JVF0630 - G <input type="checkbox"/>		
	To close ADB imprest fund.		
	3 CAJE CAJE 5 To correct PY capitalized interest.		
91-2302-AS	BSS Loan Receivab CHK	2,382.91	-
91-2303-AS	BSS Loan Receivable KOS	930.03	-
91-2305-AS	BSS Loan Receivable Yap	2,410.32	-
91-2312-AS	PSD/BSS Loan CHK	5,900.01	-
91-2313-AS	PSD/BSS Loan KOS	8,312.60	-
91-2314-AS	PSD/BSS Loan PNI	2,755.27	-
91-2315-AS	PSD/BSS Loan Yap	6,052.90	-
91-1810-AS	A/R	-	17,961.64
91-1810-AS	A/R	-	55,439.80
91-10-92-91140-8715-EX	ADB PSD Loan - Natl - Capitalized Interest	32,419.02	-
91-10-92-91150-8715-EX	ADB BSS Loan - Natl - Loan Capitalized Interest	12,238.38	-
		73,401.44	73,401.44
	JVF0635. To record FY07 and PY capitalized interest.		

Journal Entries - AJE		Name	Debit	Credit
#				
		4 CAJE CAJE 5 JVF0634 Capitalized Interest.		
91-2302-AS		BSS Loan Receivab CHK	5,983.23	-
91-2302-AS		BSS Loan Receivab CHK	-	8,172.01
91-2303-AS		BSS Loan Receivable KOS	1,448.50	-
91-2303-AS		BSS Loan Receivable KOS	-	1,655.42
91-2305-AS		BSS Loan Receivable Yap	2,198.65	-
91-2305-AS		BSS Loan Receivable Yap	-	2,744.05
91-2312-AS		PSD/BSS Loan CHK	5,225.75	-
91-2313-AS		PSD/BSS Loan KOS	3,589.96	-
91-2314-AS		PSD/BSS Loan PNI	3,289.71	-
91-2315-AS		PSD/BSS Loan Yap	3,864.23	-
91-7920-RE		Loan Proceeds	415.97	-
91-7920-RE		Loan Proceeds	-	47,373.43
91-7921-RE		ADB Service income	12,571.48	-
91-10-92-91150-8714-EX		ADB BSS Loan - Natl - Loan Service Fees	-	12,571.48
91-10-92-91150-8720-EX		ADB BSS Loan - Natl - Debt Pymt Outside princpl	12,571.48	-
91-10-92-91140-8720-EX		ADB PSD Loan - Natl - Debt Pymnt Outside princpl	-	415.97
91-10-92-91140-8715-EX		ADB PSD Loan - Natl - Capitalized Interest	12,471.49	-
91-10-92-91150-8715-EX		ADB BSS Loan - Natl - Loan Capitalized Interest	9,301.91	-
			<u>72,932.36</u>	<u>72,932.36</u>
		JVF0634 - B, D and A <input type="checkbox"/>		
		To record FY09 capitalized interest. <input type="checkbox"/>		
		To correct recording of amortization payment.		
		5 CAJE CAJE 6 JVF0636 FY08 Capt Interest.		
91-2302-AS		BSS Loan Receivab CHK	7,671.35	-
91-2303-AS		BSS Loan Receivable KOS	1,843.11	-
91-2305-AS		BSS Loan Receivable Yap	2,574.19	-
91-2312-AS		PSD/BSS Loan CHK	7,368.32	-
91-2313-AS		PSD/BSS Loan KOS	7,795.37	-
91-2314-AS		PSD/BSS Loan PNI	7,420.83	-
91-2315-AS		PSD/BSS Loan Yap	4,079.06	-

Journal Entries - AJE		Name	Debit	Credit
#				
91-7920-RE		Loan Proceeds	-	49,744.63
91-7920-RE		Loan Proceeds	-	27,563.30
91-10-92-91140-8715-EX		ADB PSD Loan - Natl - Capitalized Interest	27,563.30	-
91-10-92-91150-8715-EX		ADB BSS Loan - Natl - Loan Capitalized Interest	10,992.40	-
			77,307.93	77,307.93
		JVF0636. This is to record FY08 Capitalized interest.		
		6 CAJE CAJE 7 JV0637 AP-Travel related.		
91-1999-AS		Due to Treasury Fund	-	11,143.00
91-3110-LI		Accounts Payable	11,143.00	-
			11,143.00	11,143.00
		JVF0637 □		
		To correct AP travel related.		
		7 AJE To agree 1520, 1459 and 1257 loans to confirmation.		
91-2322-AS		Early Retirement Loan CHK	-	8,220.41
91-2323-AS		Early Retirement Loan KOS	-	3,118.09
91-2324-AS		Early Retirement Loan PNI	-	6,519.64
91-2325-AS		Early Retirement Loan Yap	-	5,385.79
91-2330-AS		Loan Rcvbl CUC	-	6,418.90
91-2331-AS		Loan Rcvbl PUC	-	3,929.37
91-2332-AS		Loan Rcvbl Yap PSC	-	4,210.35
91-10-27-91160-8714-EX		Early Retirement ADB Loan - Loan Service Fees	-	23,243.93
91-10-27-91160-8720-EX		Early Retirement ADB Loan - Debt Pymt Intergovt princpl	23,243.93	-
		FSM Natl Treasury MLFC Loan - Debt Pymt Outside princpl	9,668.73	-
91-10-92-91120-8720-EX		Water & Sanitation ADB Loan - Loan Service Fees	-	14,558.62
91-10-92-91130-8714-EX		Water & Sanitation ADB Loan - Loan Service Fees	-	9,668.73
91-10-92-91130-8714-EX		Water & Sanitation ADB Loan - Debt Pymt Outside princpl	14,558.62	-
91-10-92-91130-8720-EX		Loan Service Income	23,243.93	-
91-10-92-7921-RE		Loan Service Income	14,558.62	-
91-10-92-7921-RE		Loan Service Income	14,558.62	-

Journal Entries - AJE		Debit	Credit
#	Name	85,273.83	85,273.83
	To reclass amortization of loan 1257, loan 1459 and 1520 and reduce corresponding AR - states.		
	8 AJE To set up encumbrances.		
91-4110-FB	Unreserved Fund Balance	70,093.00	-
Encumbrances	FUND 91 ENCUMBRANCES	-	70,093.00
	To set-up the encumbrance amount per subsidiary ledger.	70,093.00	70,093.00
<p>The above adjustments are not due to fraud or illegal acts. Rather, we believe that the above constitute misstatement. In connection with the Corrected Audit Adjustments listed above, we have reviewed and approve them on the basis of information we have provided to you.</p>			
 Juliet Jimmy Assistant Secretary for National Treasury			
			6/29/10
			Date

Journal Entries - AJE			
#	Name	Debit	Credit
	1 CAJE 1 To record fixed assets from Weno Power Projects		
95-2811	Fixed Assets Furn and Equipmen	1,375,068.62	-
95-2851	Accum Deprec Furn & Fixt	182,549.00	-
95-4020	Investment in Fixed Assets	-	1,375,068.62
95-2857	Accum Deprec Infrastructure	174,658.00	-
95-8690	Depreciation Expense	-	357,207.00
		<u>1,732,275.62</u>	<u>1,732,275.62</u>
	To record fixed assets from Weno Emergency Power Projects.		
	2 CAJE 8 JVF0639 - Renewable Energy		
95-4020	Investment in Fixed Assets	-	2,949,280.45
95-2817	Fixed Assets Infrastructure	2,949,280.45	-
95-2857	Accum Deprec Infrastructure	-	36,866.00
95-8690	Depreciation Expense	36,866.00	-
		<u>2,986,146.45</u>	<u>2,986,146.45</u>
	To record renewable energy - infrastructure.		
<p>The above adjustments are not due to fraud or illegal acts. Rather, we believe that the above constitute misstatement. In connection with the Corrected Audit Adjustments listed above, we have reviewed and approve them on the basis of information we have provided to you.</p>			
			
	Juliet Jimmy		
	Assistant Secretary for National Treasury		
			
			Date

Journal Entries - AJE					
#	Name	Debit	Credit		
	1 CAJE To transfer charges from GF to Fd23.				
01-1999-AS	Due to Treasury Fund	100,000.00	-		
99-1999-AS-01	DUE TO	-	100,000.00		
99-1999-AS-23	DUE TO	100,000.00	-		
01-32-49-03139-8220-EX	Disaster Emerg Fund - Food	-	100,000.00		
	To transfer charges from GF to foreign grant.	200,000.00	200,000.00		
	2 CAJE CAJE 2 To close deferred revenue.				
01-3710-LI	Deferred Revenues	36,750.00	-		
01-7990-DTT	REIMBURSEMENT audit fees	-	36,750.00		
	To close deferred revenue from GF on audit fees.	36,750.00	36,750.00		
	3 CAJE CAJE 2 To transfer ERP earnings.				
99-1999-AS-92	DUE TO	-	195,476.38		
01-10-29-7810-RE	Dividend & Interest Income	2,204.70	-		
01-10-29-7890-RE	Realized Gain On Equities	517,204.00	-		
01-10-29-7895-RE	Unrealized Earnings	-	323,932.32		
	To transfer dividend/interest from ERP to GF	519,408.70	519,408.70		
	4 CAJE CAJE 3 To close deferred rev.				
01-7999-RE	Other Miscellaneous	-	48,776.00		
99-1999-AS-23	DUE TO	-	30,054.70		
99-1999-AS-23	DUE TO	48,776.00	-		
99-1999-AS-26	DUE TO	30,054.70	-		
	JVF0630 - B and C	78,830.70	78,830.70		
	To close PY non-moving deferred revenue - purchase of machine for extracting oil. □				
	To reduce the "due / from " account as a result of transfer from Fd 26 to FD23 for the \$30k China grant.				
	5 CAJE CAJE 3 To record DAEF withdrawal.				

Journal Entries - AJE					
#	Name		Debit	Credit	
01-1999-AS	Due to Treasury Fund		50,000.00	-	
01-7910-RE	Operating Transfers In		-	50,000.00	
99-1999-AS-01	DUE TO		-	50,000.00	
99-1999-AS-26	DUE TO		50,000.00	-	
			100,000.00	100,000.00	
	JVF0630 - D				
	To record withdrawal from DAEF - FD 26.				
	6 CAJE CAJE 4 To close invalid APs.				
01-3110-LI	Accounts Payable		-	96,837.15	
01-3110-LI	Accounts Payable		60,000.00	-	
01-3110-LI	Accounts Payable		46,000.00	-	
01-3111-LI	A/P not on Subledger		96,837.15	-	
01-3111-LI	A/P not on Subledger		57,500.00	-	
01-10-29-6330-RE	Fishing Violation Fine		-	57,500.00	
	Pac Isl Forum Secretariat - Dues Subscription and Membersh				
01-05-92-00596-8216-EX	Natl Assc of State Foresters - Dues, Memberships, & Subscrip		-	46,000.00	
01-30-92-03097-8216-EX			260,337.15	60,000.00	
				260,337.15	
	JVF0633 - A				
	To correct entry on CR205525 - fishing violation of NG erroneously recorded as share of PNI.				
	To correct entry on CR202990 - fishing violations \$7500.				
	To correct payment to Yap State fishing violation \$96,837.15.				
	To reverse double recording of AP - \$46k and \$60k.				
	7 AJE To transfer DEAF FD recording.				
99-1999-AS-26	DUE TO		-	228,138.00	
99-1999-AS-21	DUE TO		228,138.00	-	
			228,138.00	228,138.00	
	To transfer DUE TO/FROM for DEAF as a result of transfer from FD 21 to FD 26.				

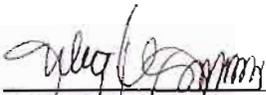
Journal Entries - AJE		Name	Debit	Credit
#				
		8 CAJE To correct MLFC payment recording.		
01-1999-AS		Due to Treasury Fund	-	100,000.00
99-1999-AS-01		DUE TO	100,000.00	-
99-1999-AS-91		DUE TO	-	100,000.00
01-10-92-01091-8270-EX		MLFC Loan Pymt - Contributions, Subsidies & Gra	-	50,000.00
01-10-92-01091-8910-EX		MLFC - Transfer Out	100,000.00	-
01-10-92-01091-8910-EX		MLFC - Transfer Out	50,000.00	-
			250,000.00	250,000.00
		JVF0632		
		To record as transfer out payment to MLFC - expensed at Fund 91 - adb fund.		
		9 CAJE To correct AP for travel liquidation.		
01-3110-LI		Accounts Payable	-	337,214.62
25-1999-AS		Due to Treasury Fund	-	13,099.00
25-3110-LI		Accounts Payable	13,099.00	-
99-1999-AS-10		DUE TO	5,188.00	-
99-1999-AS-11		DUE TO	5,597.00	-
99-1999-AS-13		DUE TO	1,496.00	-
99-1999-AS-14		DUE TO	7,956.00	-
99-1999-AS-15		DUE TO	2,313.00	-
99-1999-AS-20		DUE TO	220,433.34	-
99-1999-AS-23		DUE TO	68,540.28	-
99-1999-AS-25		DUE TO	13,099.00	-
99-1999-AS-33		DUE TO	1,449.00	-
99-1999-AS-91		DUE TO	11,143.00	-
			350,313.62	350,313.62
		JVF0637		
		To adjust AP - travel related to the correct fund amount.		
		10 AJE To transfer interfund of sector - 2280.2(M)		
		(Posted)		
99-1999-AS-10		DUE TO	-	100,000.00
99-1999-AS-14		DUE TO	100,000.00	-
			100,000.00	100,000.00

Journal Entries - AJE				
#	Name	Debit	Credit	
	To record interfund for CAJE 2 OF SECTOR FUNDS' 10 and 14.			
	11 CAJE CAJE 8 JVF0639.			
01 - 8910	Transfer out - DT	109,353.00	-	
01-1999-AS	Due to Treasury Fund	-	109,353.00	
99-1999-AS-01	DUE TO	109,353.00	-	
99-1999-AS-92	DUE TO	-	109,353.00	
		218,706.00	218,706.00	
	To record transfer out - ERP loan paymetns.			
	12 AJE ADB Deposits			
01-1999-AS	Due to Treasury Fund	2,308,920.00	-	
01-4130-FB	R/B Restricted Capital Assets	-	2,308,920.00	
99-1999-AS-01	DUE TO	-	2,308,920.00	
99-1070-AS - DTT	ADB Equity shares	2,308,920.00	-	
		4,617,840.00	4,617,840.00	
	To record as PY restatement ADB EQUITY shares.			
	13 AJE Related asset			
01-4110-FB	Unreserved Fund Balance	-	116,751.00	
01-4130-FB	R/B Restricted Capital Assets	116,751.00	-	
		116,751.00	116,751.00	
	To revert to unreserve FB \$150k current portion of KSG loan and reserve additional \$33,247 for the ADB - weno grant imprest cash.			
	14 AJE To set-up encumbrances			
01-4110-FB	Unreserved Fund Balance	220.00	-	
01-4110-FB	Unreserved Fund Balance	2,181,223.00	-	
25-4110-FB	Unreserved Fund Balance	920,361.00	-	
79-4110-FB	Unreserved Fund Balance	10,866.00	-	
97-4110-FB	Unreserved Fund Balance	27,219.00	-	
GF - ENCUMBRANCES -DT	All GF encumbrnaces	-	3,139,889.00	
		3,139,889.00	3,139,889.00	

APPENDIX B - 1
Compact Sector Trust Fund

PRIOR YEAR UNCORRECTED MISSTATEMENTS				
Entry Description	Type of Entry	Assets	Liability	Income statement
		Dr (Cr)	Dr (Cr)	Dr (Cr)
PAJE <88-1>				
Investment Expenditures	Known			24,224
Investment loss	Known			68,751
Investments	Known	(68,751)		
Accrued Expense	Known		(24,224)	
To agree FY09 beginning balance to audited report of FSM Compact Sector Trust.				
Subtotals		(68,751)	(24,224)	92,975

The above uncorrected misstatements of the prior year detected in current year, are a result of errors and not of fraud or illegal acts.


 Juliet Jimmy, Assistant Secretary
 Department of Finance

6/30/10
 Date

APPENDIX II, CONTINUED

APPENDIX B - 2
Compact Sector Trust Fund

PRIOR YEAR UNCORRECTED MISSTATEMENTS			
Entry Description	Type of Entry	Assets	Income statement
		Dr (Cr)	Dr (Cr)
PAJE <1>.ADB			
Expenditures	Known		44,657
AR - General	Known	(73,401)	
AR - STATES	Known	28,744	
To record impact in PY of capitalized interest.			
Subtotals		(44,657)	44,657

The above uncorrected misstatements of the prior year detected in current year, are a result of errors and not of fraud or illegal acts.


 Juliet Jimmy, Assistant Secretary
 Department of Finance

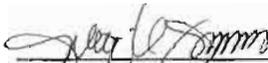
6/30/10
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APPENDIX II, CONTINUED

APPENDIX B - 3
Government Wide

PRIOR YEAR UNCORRECTED MISSTATEMENTS					
Entry Description	Type of Entry	Assets	Liability	Equity	Income Statement
		Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)
PAJE <1>					
Fund Investment - capital asset	Known			375,418	
Loss on disposal of asset	Known	(390,045)			
Accumulated Depreciation	Known	14,627			
Supplies	Likely	375,418			
Fund Investment - supplies	Likely			(375,418)	
To restate PY balance for supplies erroneously capitalized as infrastructure and record as supplies. The estimated value of supplies remaining which is the NBV.					
PAJE <2>					
Fund equity - FA - beginning	Likely			(213,177)	
Capital Asset	Likely	213,177			
Fund equity - FA - beginning	Likely			71,059	
Accumulated Depreciation	Likely	(71,059)			
To record likely error on difference of capitalized asset against expenditures					
PAJE <3>					
Fund equity - FA - beginning	Known			(99,000)	
Capital asset	Known	1,185,000			
Accumulated Depreciation	Known	(1,089,000)			
To record untimely recording of boat transfer					
PAJE <4>ADB					
Loans payable	Known		44,657		
AR - General	Known	(73,401)			
AR - STATES	Known	28,744			
To record impact in PY of capitalized interest.					
PAJE <5> Compact Trust					
Investment Expenditures	Known				24,224
Investment loss	Known				68,751
Investments	Known	(68,751)			
Accrued Expense	Known		(24,224)		
To agree FY09 beginning balance to audited report of FSM Compact Sector Trust.					
Subtotals		127,710	20,433	(241,118)	92,975

The above uncorrected misstatements of the prior year detected in current year, are a result of errors and not of fraud or illegal acts.


Juliet Jimmy, Assistant Secretary
Department of Finance

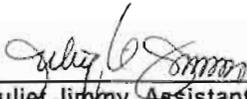
6/30/10
Date

APPENDIX II, CONTINUED

APPENDIX A-1
Early Retirement Program Fund

CURRENT YEAR UNCORRECTED MISSTATEMENTS			
Entry Description	Type of Entry	Assets	Income Statement
		Dr (Cr)	Dr (Cr)
PAJE <92-1> Due to / from other funds Transfer In To record transfer in from GF to cover fund deficit.	Known Known	139,545	(139,545)
PAJE <92-2> Expenditure Transfer in To record as expenditure ERP payments returned to the states.	Known Known		77,846 (77,846)
		139,545	(139,545)

The above uncorrected misstatement of the current year is a result of error and not of fraud or illegal acts.


Juliet Jimmy, Assistant Secretary
Department of Finance

6/30/10
Date

APPENDIX A-2
Grants Fund

CURRENT YEAR UNCORRECTED MISSTATEMENTS					
Entry Description	Type of Entry	Assets Dr (Cr)	Liabilities Dr (Cr)	Other Equity A/Cs Dr (Cr)	Income Statement Dr (Cr)
PAJE <20 - 1> - Grants fund Expenditure DUE TO/FROM - Fund 99 GF To reverse PO advance for equipment received in July 09.	Known Known	(25,710)			25,710
PAJE <2> - Various Grants Fund Encumbrances Unreserved fund To correct likely error on Encumbrances for unexplained variances.	Likely Likely			277,951 (277,951)	
PAJE <19/20 - 3> - Infrastructure and Grants Fund Retainage Payable Expenditures To correct likely error on retainage accrued	Likely Likely		127,271		(127,271)
PAJE <4> - Various Grants Fund Revenue - Capacity Revenue - SEG Revenue - non us grants Revenue - US Grants Fund Accounts Receivable To set up the revenue for deficits in the grants fund.	Known Known Known Known Known	215,797			(127,839) (62,583) (19,461) (5,914)
		190,087	127,271	0	(317,358)

The above uncorrected misstatements of the current year are result of errors and not of fraud or illegal acts.


Jimmy Assistant Secretary
Department of Finance

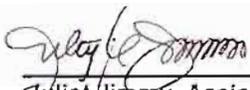
Date: 6/20/10

APPENDIX II, CONTINUED

APPENDIX A-3
ADB Fund

CURRENT YEAR UNCORRECTED MISSTATEMENTS			
Entry Description	Type of Entry	Assets	Income Statement
		Dr (Cr)	Dr (Cr)
PAJE <1>.ADB Cash - ADB Other income To close invalid ADB cash account.	Known Known	8,360	(8,360)
PAJE <2>.ADB Expenditures AR-General To close to expenditure unaccounted PY loan proceeds.	Likely Known	(12,613)	12,613
		(4,253)	4,253

The above uncorrected misstatement of the current year is a result of error and not of fraud or illegal acts.


Juliet Jimmy, Assistant Secretary
Department of Finance

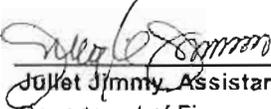
6/30/10
Date

APPENDIX II, CONTINUED

APPENDIX A-4
Non Major Fund

CURRENT YEAR UNCORRECTED MISSTATEMENTS		
Entry Description	Type of Entry	Other Equity Account
		Dr (Cr)
PAJE <1>.NON MAJOR		
Encumbrance	Extrapolated	21,761
Unreserve Fund	Extrapolated	(21,761)
To reverse extrapolated error on encumbrances.		
		0

The above uncorrected misstatement of the current year is a result of error and not of fraud or illegal acts.



 Juliet Jimmy, Assistant Secretary
 Department of Finance

6/30/10

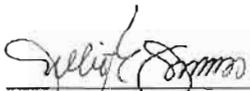
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APPENDIX II, CONTINUED

APPENDIX A - 5
General fund

PRIOR YEAR UNCORRECTED MISSTATEMENTS					
Entry Description	Type of Entry	Assets		Income Statement	
		Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)
PAJE <1>. GF Transfer out - ERP Investment earnings To reflect as transfer out to ERP ERP loan payments returned to the states netted against ERP investment earnings	Known Known				77,848 (77,848)
PAJE <2>. GF Cash - BOH ACM Fishing Fees To record fishing fees revenue deposited in transit from Mizuho to BOH, erroneously not recorded as of 9/30/09.	Known Known	42,000			(42,000)
PAJE <3>. GF Expenditure - Transfer out Accounts Payable - 3620 To record as transfer-out additional payments for MLFC loan.	Known Known		(18,714)		18,714
PAJE <4>. GF Accounts Payable Unrestricted Fund - GF To revert back to GF unexpended UN Embassy funds.	Known Known		64,503		(64,503)
PAJE <5>. GF Unreserve fund - GF Continuing appropriation To propose inclusion of the Special Election appropriation in the continuing appropriation per PL 15-05.	Known Known			60,000 (60,000)	
PAJE <6>. GF FD 20 - Due to/from Expenditure - Foreign Affairs Purchase advance To reverse invalid PO advance.	Known Known Known	25,710 (30,710)			5,000
PAJE <7>. GF Encumbrance Unreserve fund To record extrapolated error on encumbrances	Extrapolated Extrapolated			209,326 (209,326)	
PAJE <8>. GF Transfer out Due to/from To cover fund deficit of ERP fund	Known Known	(139,545)			139,545
PAJE <9>. GF - <5153(M)> Cash Accounts Payable To revert back to cash unreleased checks.	Known Known	174,930	(174,930)		
Subtotals		72,385	(129,141)		56,755

The above uncorrected misstatements of the current year are a result of errors and not of fraud or illegal acts.


Juliet Jimmy, Assistant Secretary
Department of Finance

6/30/10
Date

APPENDIX II, CONTINUED

APPENDIX A - 8
Government Wide

PRIOR YEAR UNCORRECTED MISSTATEMENTS					
Entry Description	Type of Entry	Assets	Liability	Other Equity	Income Statement
		Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)
PAJE <1> - GLT					
Vacation Leave Accrual	Known		90,847		
Amount for retirement	Known			(90,847)	
To correct accrued annual leave.					
PAJE <2>					
Loan Payments	Known				77,848
Investment earnings	Known				(77,848)
To reflect ERP loan payments returned to the states initially netted against ERP investment earnings.					
PAJE <3>					
Cash - BOH ACM	Known	42,000			
Fishing Fees	Known				(42,000)
To record fishing fees revenue deposited in-transit from Mizuho to BOH, erroneously not recorded as of 9/30/09.					
PAJE <4>					
Accounts Payable - 3620	Known		18,714		
Revenue	Known				(18,714)
To record additional payments for MLFC loan netted against AP.					
PAJE <5>					
Accounts Payable	Known		64,503		
Expenditures	Known				(64,503)
To revert back to GF unexpanded UN Embassy funds.					
PAJE <6>					
Unreserve fund	Known			60,000	
Continuing appropriation	Known			(60,000)	
To propose inclusion of the Special Election appropriation in the continuing appropriation per PL 16-05					
PAJE <7>					
Expenditure - health	Known				25,710
Expenditure - Foreign Affairs	Known				5,000
Purchase advance	Known	(30,718)			
To reverse invalid PD advance					
PAJE <8>					
Cash	Known	174,930			
Accounts Payable	Known		(174,930)		
To revert back to cash unreleased checks.					
PAJE <9>					
Cash - ADB	Known	8,360			
Other expense	Known				(8,360)
To close Invalid ADB cash account.					
PAJE <10>					
Expenditures	Likely				12,613
AR-General	Known	(12,613)			
To close to expenditure unaccounted PY loan proceeds.					
PAJE <11>					
Retainage Payable	Likely		127,271		
Expenditures	Likely				(127,271)
To correct likely error on retainage accrual for unexplained variances.					



Secretary of Finance
&
Administration

June 30, 2010

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

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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 States of Micronesia National Government (the "Government"), as of and for the year ended September 30, 2009, 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, and cash flows 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 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 fair presentation of the required supplementary information, including Management's Discussion and Analysis, and additional information accompanying the basic financial statements that is presented for the purpose of additional analysis of the basic financial statements.
- c. The design and implementation of programs and controls to prevent and detect fraud, including fraud related to federal awards.
- d. Establishing and maintaining effective internal control over financial reporting.
- e. The review and approval of the financial statements and related notes and acknowledge your role in the preparation of this information. Specifically, we acknowledge that your role in the preparation of the financial statements was a matter of convenience rather than one of necessity. We have reviewed the financial statement preparation assistance provided by you and acknowledge that the financial statements are prepared in accordance with GAAP. Our review was based on the use of the financial statement disclosure checklist for a general-purpose government obtained from the Government Finance Officers Association.

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

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

1. The basic financial statements referred to above are fairly presented in conformity with GAAP. In addition:
 - a. The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.
 - b. The financial statements properly classify all funds and activities, including special and extraordinary items, where applicable.
 - c. All funds that meet the quantitative criteria in Statement No. 34 and Statement No. 37 of the Governmental Accounting Standards Board (GASB), *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, 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.
 - d. Net asset components (invested in capital assets, net of related debt; restricted; and unrestricted) and fund balance reserves and designations are properly classified and, if applicable, approved.
 - e. 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.
 - f. 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.
 - g. Interfund, internal, and intra-Government activity and balances have been appropriately classified and reported.
 - h. Deposits and investment securities are properly classified in the category of custodial credit risk.
 - i. Capital assets, including infrastructure assets, are properly capitalized, reported, and, if applicable, depreciated.
 - j. Required supplementary information is measured and presented within prescribed guidelines.
 - k. Applicable laws and regulations are followed in adopting, approving and amending budgets.

1. Costs to federal awards have been charged in accordance with applicable cost principles.
2. The Government has made available to you all:
 - a. Public Laws enacted by the Government's Legislature.
 - b. 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, except as disclosed in the Schedule of Findings and Questioned Costs Section of your Independent Auditors' Reports on Internal Control and on Compliance.
 - c. Contracts and grant agreements (including amendments, if any) and any other correspondence that has taken place with federal agencies.
3. There has been no:
 - a. Action taken by Government management that contravenes the provisions of federal laws and local 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, , except as disclosed in the Schedule of Findings and Questioned Costs Section of your Independent Auditors' Reports on Internal Control and on Compliance.
4. We believe the effects of any uncorrected financial statement misstatements aggregated by you during the current audit engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. A summary of such uncorrected misstatements has been attached as Appendix A.
5. We believe the effects of the uncorrected financial statement misstatements detected in the current year that relate to the prior year presented, when combined with those misstatements aggregated by you during the prior-year audit engagement and pertaining to the prior year presented, are immaterial, both individually and in the aggregate, to the financial statements for the year ended September 30, 2008 taken as a whole. A summary of such uncorrected misstatements has been attached as Appendix B.
6. The Government has not performed a risk assessment, including the assessment of the risk that the financial statements may be materially misstated as a result of fraud. However, management has made available to you their understanding about the risks of fraud in the Government and do not believe that the financial statements are materially misstated as a result of fraud.

APPENDIX III, CONTINUED

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 if the fraud could have a material effect on the financial statements.
8. We have no knowledge of any allegations of fraud or suspected fraud affecting the Government received in communications from employees, former employees, analysts, regulators, or others except for an instance of alleged employee fraud. The Government believes that such matter does not have material effect of the financial statement of the Government and transactions were not funded by US federal funds.
9. There are no unasserted claims or assessments that legal counsel has advised us are probable of assertion and must be disclosed in accordance Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 450, *Contingencies* (formerly FASB Statement No. 5, *Accounting for Contingencies*).
10. The Schedule of Expenditures of Federal Awards was prepared in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. We have identified in that schedule all awards provided by federal agencies in the form of grants, contracts, loans, loan guarantees, property, cooperative agreements, interest subsidies, insurance, or direct appropriations. In addition, we have accurately completed the appropriate sections of the data collection form.
11. We are responsible for compliance with local, state, and federal laws, rules and regulations, including compliance with the requirements of OMB Circular A-133, and provisions of grants and contracts relating to the 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.
12. We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance for federal and state programs that provides reasonable assurance that we are managing federal and state awards in compliance with laws, regulations, and provisions of contracts or grant agreements that could have a material effect on its federal or state programs.
13. The Government has obligated, expended, received, and used public funds in accordance with the purpose for which such funds have been appropriated or otherwise authorized by local or federal law. Such obligation, expenditure, receipt, or use of public funds was in accordance with any limitations, conditions, or mandatory directions imposed by local or federal law.

APPENDIX III, CONTINUED

14. The Government has identified in the Schedule of Expenditures of Federal Awards all awards provided by federal agencies in the form of grants, contracts, loans, loan guarantees, property, cooperative agreements, interest subsidies, insurance, or direct appropriations.
15. The Government has certified to federal granting agencies that it has not used federal funds for lobbying for specific federal awards and that it has disclosed, or will disclose, any expenditures of nonfederal funds made for lobbying purposes. The Government has also required, where applicable, all subrecipients of \$100,000 or more of federal funds to make the same certification.
16. 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.
17. We have:
 - a. Identified the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each federal program as identified in Part 3 of the Compliance Supplement dated March 2009.
 - 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 Section of your Independent Auditors' Reports on Internal Control and on Compliance.
 - 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 Government, as applicable.
 - e. Monitored subrecipients to determine that they have expended pass-through assistance in accordance with applicable laws and regulations and have met the requirements of Circular A-133.
 - f. Taken appropriate corrective action on a timely basis after receipt of a subrecipient's auditor's report that identifies noncompliance with laws, regulations, or the provisions of contracts or grant agreements.
 - g. Considered the results of the subrecipient's audits and made any necessary adjustments to the auditee's own books and records.

APPENDIX III, CONTINUED

- h. 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.
 - i. 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 Governments.
 - j. Provided to you our views on the reported findings, conclusions, and recommendations for your report.
18. 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.
19. 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.
20. 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.
21. No organizations were identified that meet the criteria established in GASB Statement No. 39 of the Governmental Accounting Standards Board, *Determining Whether Certain Organizations Are Component Units*, an amendment of Statement No. 14 of the Governmental Accounting Standards Board, *The Financial Reporting Entity*.
22. We are responsible for the fair presentation of the additional information accompanying the basic financial statements that is presented for the purpose of additional analysis of the basic financial statements.

Except where otherwise stated below, matters less than \$213,000 collectively are not considered to be exceptions that require disclosure for the purpose of the following representations. This amount is not necessarily indicative of amounts that would require adjustment to or disclosure in the financial statements.

23. Except as listed in Appendices A and B, there are no transactions that have not been properly recorded in the accounting records underlying the financial statements.
24. The Government has no plans or intentions that may affect the carrying value or classification of assets and liabilities.

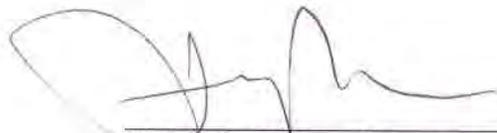
APPENDIX III, CONTINUED

25. The following, to the extent applicable, have been appropriately identified, properly recorded, and disclosed in the financial statements:
 - a. Related-party transactions and associated amounts receivable or payable, including sales, purchases, loans, transfers, leasing arrangements, and guarantees (written or oral).
 - b. Guarantees, whether written or oral, under which the Government is contingently liable.
26. In preparing the financial statements in conformity with GAAP, management uses estimates. All estimates have been disclosed in the financial statements for which known information available prior to the issuance of the financial statements indicates that both of the following criteria are met:
 - a. It is at least reasonably possible that the estimate of the effect on the financial statements of a condition, situation, or set of circumstances that existed at the date of the financial statements will change in the near term due to one or more future confirming events.
 - b. The effect of the change would be material to the financial statements.
27. Risks associated with concentrations, based on information known to management, that meet all of the following criteria have been disclosed in the financial statements:
 - a. The concentration exists at the date of the financial statements.
 - b. The concentration makes the enterprise vulnerable to the risk of a near-term severe impact.
 - c. It is at least reasonably possible that the events that could cause the severe impact will occur in the near term.
28. There are no:
 - a. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
 - b. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB ASC 450, *Contingencies* (formerly FASB Statement No. 5, *Accounting for Contingencies*).
29. 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.
30. The Government has complied with all aspects of contractual agreements that may have an effect on the financial statements in the event of noncompliance except as disclosed in the Schedule of Findings and Questioned Costs Section of your Independent Auditors' Reports on Internal Control and on Compliance.

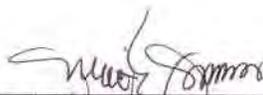
31. No department or agency of the Government has reported a material instance of noncompliance to us.
32. No events have occurred after September 30, 2009 but before June 30, 2010, the date the financial statements were available to be issued that require consideration as adjustments to or disclosures in the financial statements.
33. Management has disclosed whether, subsequent to September 30, 2009, any changes in internal control or other factors that might significantly affect internal control, including any corrective action taken by management with regard to significant deficiencies and material weaknesses have occurred.
34. The cost method is used to account for the Government's investment in common stock of an investee where the common stock is either nonmarketable or of which the Government has a 20 percent of lesser ownership interest and thus the Government does not have the ability to exercise significant influence over the investee's operating and financial policies.
35. During fiscal year 2009, the Government implemented the following pronouncements, implementation of which did not have a material effect on the financial statements:
 - GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which establishes standards for the measurement, recognition, and display of other postemployment benefits expense/expenditures and related liabilities, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers.
 - GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, which provides guidance and consistency under which a governmental entity would be required to report a liability related to pollution remediation.
 - GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, which improves the quality of financial reporting by requiring endowments to report their land and other real estate investments at fair value, creating consistency in reporting among similar entities that exist to invest resources for the purpose of generating income.
 - GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which improves financial reporting by contributing to the GASB's efforts to codify all GAAP for state and local governments so that they derive from a single source.
 - GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*, which incorporates accounting and financial reporting guidance previously only contained in the American Institute of Certified Public Accountants (AICPA) auditing literature into the GASB's accounting and financial reporting literature for state and local governments, and addresses three issues from the AICPA's literature - related party transactions, going concern considerations, and subsequent events.

36. In June 2007, GASB issued statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which addresses whether and when intangible assets should be considered capital assets for financial reporting purposes. The provisions of this statement are effective for periods beginning after June 15, 2009. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Government.
37. In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which is intended to improve how state and local governments report information about derivative instruments - financial arrangements used by governments to manage specific risks or make investments - in their financial statements. The provisions of this statement are effective for periods beginning after June 15, 2009. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Government.
38. In December 2008, GASB issued Technical Bulletin No. 2008-1, *Determining the Annual Required Contribution Adjustment for Postemployment Benefits*, which clarifies the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for calculating the annual required contribution (ARC) adjustment. The provisions of this statement are effective for periods beginning after December 15, 2008. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Government.
39. In March 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The provisions of this statement are effective for periods beginning after June 15, 2010. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Government.
40. We have appropriately identified and properly recorded and disclosed in the financial statements, where applicable, all interfund transactions, including repayment terms.
41. Receivables recorded in the financial statements represent valid claims against debtors for sales or other charges arising on or before the balance-sheet date and have been appropriately reduced to their estimated net realizable value.
42. No evidence of fraud, possible irregularities, or dishonesty in fiscal operations of federal programs administered by the Government has been discovered except as disclosed in the Schedule of Findings and Questioned Costs Section of your Independent Auditors' Reports on Internal Control and on Compliance.
43. Management of the Government believes that it is in compliance with all significant limitations and restrictions of Asian Development Bank loan covenants as of September 30, 2009

44. The Government has determined that the loan to its component unit, FSM Petroleum Corporation (FSMPC), is a long-term obligation.
45. The Government is a full faith and credit guarantor of FSMPC's loan to the Bank of Guam. The National Government is jointly and severally liable for FSMPC's obligations under the loan and waives the sovereign immunity of the National Government with regard to any legal action arising from the guaranty.
46. 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 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 significant losses have occurred as a result of these risks in any of the past three fiscal years.
47. The Government has entered into house lease agreements varying from one to five years. The aggregate amount of future lease payments has not been accumulated as renewal is subject to annual appropriation.
48. The Government is party to various legal proceedings, many of which are normal recurrences in governmental operations. The Attorney General of the FSM National Government is of the opinion that the probable outcome of suits existing at September 30, 2009, is not predictable. No provision for any liability has been made in the accompanying financial statements because management believes that no unfavorable outcome is likely to occur.
49. During the year ended September 30, 2009, the Government determined that the investment in equity shares held by the General Fund of Asian Development Bank amounting to \$2,308,920 (equivalent to \$1,420,000 SDR) was understated. As a result of this determination, the deposits and other assets balance has been restated from the amount previously reported as disclosed in Note 11 to the financial statements.
50. With respect to unresolved prior year questioned costs, we consider questioned costs reported in Finding No. 2006-04, 2006-06, 2006-12, 2006-16 in the amount of \$1,016,837 to be resolved. Specifically, in accordance with OMB Circular A-133, Section .315(b)(4), we no longer consider these matters valid as they were reported to federal agencies on August 9, 2007 which is in excess of the two year threshold.



Finley S. Perman, Secretary
Department of Finance



Juliet Jimmy, Assistant Secretary
Department of Finance