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June 27, 2011

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

Dear Governor Ehsa:

We have performed an audit of the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Pohnpei (the State) as of and for the year ended September 30, 2010, 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 27, 2011, which report includes a reference to other auditors.

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

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

Our responsibility under generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, have been described in our engagement letter dated October 14, 2010. As described in that letter, the objective of a financial statement audit conducted in accordance with the aforementioned standards is:

- To express an opinion on the fairness of each opinion unit in the State's basic financial statements and the accompanying supplementary information, and to disclaim an opinion on the required supplementary information for the year ended September 30, 2010 in conformity with accounting principles generally accepted in the United States of America ("generally accepted accounting principles"), in all material respects;

- To express an opinion on whether the supplementary information that accompanies the basic financial statements is presented fairly, in all material respects, in relation to the basic financial statements taken as a whole;

- To report on the State's internal control over financial reporting and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the year ended September 30, 2010 based on an audit of financial statements performed in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*; and

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

Our responsibilities under generally accepted auditing standards include forming and expressing an opinion about whether the financial statements that have been prepared by management with the oversight of the Office of the Governor are presented fairly, in all material respects, in conformity with generally accepted accounting principles. The audit of the financial statements does not relieve management or the Office of the Governor of their responsibilities.

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

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

ACCOUNTING ESTIMATES

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are ordinarily based on knowledge and experience about past and current events and on assumptions about future events. Significant accounting estimates reflected in the State's 2010 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, 2010, 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 State's significant accounting policies are set forth in Note 1 to the State's 2010 financial statements. During the year ended September 30, 2010, there were no significant changes in previously adopted accounting policies or their application, except for the following pronouncements adopted by the State:

- GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which addresses whether and when intangible assets should be considered capital assets for financial reporting purposes.

- GASB 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.

- GASB 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.

- GASB Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*, which provides guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code, and establishes requirements for recognizing and measuring the effects of the bankruptcy process on assets and liabilities, and for classifying changes in those items and related costs.

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

DISAGREEMENTS WITH MANAGEMENT

We have not had any disagreements with management related to matters that are material to the State's 2010 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 2010.

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 Governor.

SIGNIFICANT DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

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

MANAGEMENT'S REPRESENTATIONS

We have made specific inquiries of the State's management about the representations embodied in the financial statements. Additionally, we have requested that management provide to us the written representations the State is required to provide to its independent auditors under generally accepted auditing standards. We have attached to this letter, as 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 27, 2011, containing certain matters involving the State's internal control over financial reporting that we consider to be material weaknesses or significant deficiencies under standards established by the American Institute of Certified Public Accountants, and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. We have also issued a separate report to you, also dated June 27, 2011, concerning the State's compliance with requirements applicable to each major program and on internal control over compliance in accordance with OMB Circular A-133. Although we have included management's written responses to our comments contained in those reports, such responses have not been subjected to the auditing procedures applied in our audit of the basic financial statements and, accordingly, we do not express an opinion or provide any form of assurance on the appropriateness of the responses or the effectiveness of any corrective actions described therein.

We have also issued a separate letter to management of the State, also dated June 27, 2011, concerning other control-related matters.

* * * * * *

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

Very truly yours,

Deloitte & Touche LLP

GENERAL FUND Journal Entries - AJE			
#	Name	Debit	Credit
	1 AJE To record encumbrance on the GL - 7132 (Posted)		
1-00-00-00000-	Fund Balance Surplus	282,792.00	-
1-00-00-00000-	Reserved for encumbrance	-	282,792.00
		282,792.00	282,792.00
	To record encumbrance on the GL		
	2 AJE Investment - 5211A (Posted)		
1-00-00-00000-	Investments - Portfolio	906.97	-
1-10-29-01095-	Other Earned Revenue	-	906.97
		906.97	906.97
	To adjust investment to equal amount confirmed		
	3 AJE Client's adjustment - 2271.1 (Posted)		
1-00-00-00000-	Due To/Due From	-	86,250.00
1-00-00-00000-	Due To/Due From	-	1,576.68
99-00-00-0000(	CIB Payroll	3,076.92	-
99-00-00-0000(	CIB Payroll	-	86,250.00
99-00-00-0000(	CIB Payroll	-	1,576.68
99-00-00-0000(	Due To/Due From	86,250.00	-
99-00-00-0000(	Due To/Due From	1,576.68	-
99-00-00-0000(	Due To/Due From	-	3,076.92
1-10-29-01095-	Bank Charges	86,250.00	-
1-10-29-01095-	Bank Charges	1,576.68	-
		178,730.28	178,730.28
	To record PSG's adjustment to reconcile the payroll checking account		
	4 AJE Client's adjustment - 2271.3 (Posted)		
1-00-00-00000-	Due To/Due From	-	7,000.00
1-00-00-00000-	Due To/Due From	-	1,825.00
99-00-00-0000(	CIB General Fund	-	7,000.00
99-00-00-0000(	CIB Sector Grants	-	670.70
99-00-00-0000(	CIB Sector Grants	-	1,825.00
99-00-00-0000(	Due To/Due From	7,000.00	-
99-00-00-0000(	Due To/Due From	1,825.00	-
99-00-00-0000(	Due To/Due From	185.00	-
99-00-00-0000(	Due To/Due From	245.00	-
99-00-00-0000(	Due To/Due From	87.20	-
99-00-00-0000(	Due To/Due From	153.50	-
1-10-29-01095-	Bank Charges	7,000.00	-
1-10-29-01095-	Bank Charges	1,825.00	-
		18,320.70	18,320.70
	To record PSG's adjustment to reconcile bank account		
	5 AJE Client's adjustment - 6311A (Posted)		
1-00-00-00000-	A/P Other not on Subledger	500,000.00	-
1-10-29-01095-	Other Misc Revenue	-	500,000.00
		500,000.00	500,000.00
	To record clien't adjustment to write off old payable		

The above corrected misstatements do not represent fraud or illegal acts

Director, Department of Treasury & Administration

GRANT ASSISTANCE FUND Journal Entries - AJE

#	Name	Debit	Credit
	1 AJE Record encumbrance - 7132A (Posted)		
7-00-00-00000-	Fund Balance Surplus	1,487.00	-
10-00-00-0000(	Fund Balance Surplus	410,389.00	-
11-00-00-0000(	Fund Balance Surplus	628,646.00	-
12-00-00-0000(	Fund Balance Surplus	32,218.00	-
13-00-00-0000(	Fund Balance Surplus	2,082.00	-
14-00-00-0000(	Fund Balance Surplus	52,180.00	-
15-00-00-0000(	Fund Balance Surplus	419,662.00	-
19-00-00-0000(	Fund Balance Surplus	22,292.00	-
23-00-00-0000(	Fund Balance Surplus	17,874.00	-
25-00-00-0000(	Fund Balance Surplus	5,990.00	-
25-00-00-0000(	Reserved for Encumbrance	-	5,990.00
23-00-00-0000(	Reserved for Encumbrance	-	17,874.00
20-00-00-0000(	Reserved for Encumbrance	-	241,680.00
19-00-00-0000(	Reserved for Encumbrance	-	22,292.00
15-00-00-0000(	Reserved for Encumbrance	-	419,662.00
14-00-00-0000(	Reserved for Encumbrance	-	52,180.00
13-00-00-0000(	Reserved for Encumbrance	-	2,082.00
12-00-00-0000(	Reserved for Encumbrance	-	32,218.00
11-00-00-0000(	Reserved for Encumbrance	-	628,646.00
10-00-00-0000(	Reserved for Encumbrance	-	410,389.00
7-00-00-00000-	Reserved for Encumbrance	-	1,487.00
20-00-00-0000(	Fund surplus	241,680.00	-
		1,834,500.00	1,834,500.00
	To record encumbrance in GL		
	2 AJE To record PSG's adjustment - 2271.1 (Posted)		
20-00-00-0000(	Due To/Due From	3,076.92	-
20-30-44-2420:	Salaries	-	3,076.92
		3,076.92	3,076.92
	To record client adjustment		
	3 AJE To record PSG's adjustment - 2271.2 (Posted)		
20-00-00-0000(	A/R FSM FG	-	3,076.92
12-00-00-0000(	A/R FSM Natl Compact	87.20	-
15-00-00-0000(	A/R FSM Natl Compact	153.50	-
11-00-00-0000(	Deferred revenue	245.00	-
10-00-00-0000(	Deferred Revenue	185.00	-
10-10-29-1000(	YE Rev Accrual	-	185.00
11-10-29-1100(	YE Rev Accrual	-	245.00
12-10-29-1200(	YE Rev Accrual	-	87.20
15-10-29-1500(	YE Rev Accrual	-	153.50
20-30-44-2420:	YE Rev Accrual	3,076.92	-
		3,747.62	3,747.62
	To record PSG's adjustment for year-end accruals		
	4 AJE To record PSG's adjustment - 2271.3 (Posted)		
10-00-00-0000(	Due To/Due From	-	185.00
11-00-00-0000(	Due To/Due From	-	245.00
12-00-00-0000(	Due To/Due From	-	87.20
15-00-00-0000(	Due To/Due From	-	153.50
10-60-68-1030(	Food	185.00	-
11-70-79-1181(	Medical Ref Stipend	245.00	-
12-90-91-1291(	Materials & Supplies	87.20	-
15-60-60-1516(	Office Supplies	153.50	-
		670.70	670.70
	To record PSG's adjustment		
	5 AJE Adjust reserved for related assets - 7130B (Posted)		
51-00-00-0000(	Fund Balance Surplus	60,573.10	-
51-00-00-0000(	FB Rsrvd For Related Assets	-	60,573.10
		60,573.10	60,573.10
	To adjust GL to equal details		

The above corrected misstatements do not represent fraud or illegal acts

Director, Department of Treasury & Administration

COMPACT TRUST FUND Journal Entries - AJE

#	Name	Debit	Credit
	1 AJE To adjust GL to equal confirmation - 5210C (Posted)		
89-10-29-8990(	Investment Income	-	1,790,787.00
89-00-00-0000(	Investments - Portfolio	1,790,787.00	-
		1,790,787.00	1,790,787.00
	To adjust investment to equal confirmation		
	2 AJE To adjust reserved for RA - 7130D (Posted)		
89-00-00-0000(	Fund Balance Surplus	1,790,787.00	-
89-00-00-0000(	FB Rsrvd For Related Assets	-	1,790,787.00
		1,790,787.00	1,790,787.00
	To adjust GL to equa SL		

The above corrected misstatements do not represent fraud or illegal acts

Director, Department of Treasury & Administration

OTHER NONMAJOR FUND Journal Entries - AJE			
#	Name	Debit	Credit
	1 AJE To record encumbrance on GL - 7132A (Posted)		
27-00-00-0000(	Fund Balance Surplus	4,145.00	-
29-00-00-0000(	Fund Balance Surplus	8,502.00	-
33-00-00-0000(	Fund Balance Surplus	36,736.00	-
34-00-00-0000(	Fund Balance Surplus	70,631.00	-
35-00-00-0000(	Fund Balance Surplus	1.00	-
36-00-00-0000(	Fund Balance Surplus	602.00	-
37-00-00-0000(	Fund Balance Surplus	-	-
53-00-00-0000(	Fund Balance Surplus	1,170.00	-
87-00-00-0000(	Fund Balance Surplus	872.00	-
93-00-00-0000(	Fund Balance Surplus	86,000.00	-
27-00-00-0000(	Reserved for Encumbrance	-	4,145.00
29-00-00-0000(	Reserved for Encumbrance	-	8,502.00
33-00-00-0000(	Reserved for Encumbrance	-	36,736.00
34-00-00-0000(	Reserved for Encumbrance	-	70,631.00
35-00-00-0000(	Reserved for Encumbrance	-	1.00
36-00-00-0000(	Reserved for Encumbrance	-	602.00
37-00-00-0000(	Reserved for Encumbrance	-	-
53-00-00-0000(	Reserved for Encumbrance	-	1,170.00
87-00-00-0000(	Reserved for Encumbrance	-	872.00
93-00-00-0000(	Reserved for Encumbrance	-	86,000.00
18-00-00-0000(	Fund Balance Surplus	434,331.00	-
18-00-00-0000(	Reserved for Encumbrance	-	434,331.00
		642,990.00	642,990.00
	To record encumbrance on GL		
	2 AJE To adjust investment - 5211A (Posted)		
93-00-00-0000(	Investments - Portfolio	39,228.10	-
93-10-29-9820(	Cmpct Investment	-	39,228.10
		39,228.10	39,228.10
	To adjust investment to equal confirmation		
The above corrected misstatements do not represent fraud or illegal acts			
Director, Department of Treasury & Administration			

LTDAG Journal Entries - AJE			
#	Name	Debit	Credit
	1 AJE To adjust Annual Leave - 6313 (Posted)		
92-00-00-0000(	Amounts T/B Prvd	-	1,908.00
92-00-00-0000(	Leave Payable	1,908.00	-
		1,908.00	1,908.00
	To adjust GL to equal SL		
	2 AJE ADB loans - 6311 (Posted)		
92-3824	LTD ADB Loan No. 1873	-	-
92-3825	LTD ADB Loan No. 1874	-	-
92-00-00-0000(	Amounts T/B Prvd	617,847.00	-
92-00-00-0000(	LTD ADB Loan	-	617,847.00
		617,847.00	617,847.00
	To adjust GL to equal amount confirmed		
The above corrected misstatements do not represent fraud or illegal acts			
Director, Department of Treasury & Administration			

APPENDIX A
GENERAL FUND

CURRENT YEAR UNCORREC	Pre-Tax Correcting Entry							
	Balance Sheet				Income Statement			
Entry Description	Assets Dr (Cr)	Liabilities Dr (Cr)	Retained Earnings Beg of Year Dr (Cr)	Other Equity A/Cs Dr (Cr)	Income from Cont. Ops before Income Taxes Dr (Cr)	Income Tax Expense Dr (Cr)	Disc. Ops. and Extraordinary Items Dr (Cr)	Total Should Equal 0
								0
PAJE<1>								0
Dr. Bad Debt						18,717		18,717
Cr. Allowance for doubtful accounts	(18,717)							(18,717)
to record bad debt								0
								0
								0
PAJE<2>								0
Dr. Revenue Share						29,372		29,372
Cr. Accrued Revenue Share receivable	(29,372)							(29,372)
								0
PAJE<3>								0
Dr. Revenue share						43,451		43,451
Cr. AR Revenue share	(43,451)							(43,451)
To adjust revenue share to equal confirmation								0
								0
								0
PAJE<4>								0
Dr. Salaries						13,252		13,252
Cr. Payroll accrual	(13,252)							(13,252)
								0
								0
PAJE<5>								0
Dr. Cash in bank	1,810							1,810
Cr. Payroll accrual		(1,810)						(1,810)
								0
PAJE<6>								0
Dr. Bad debt						7,605		7,605
Cr. Allowance for DA	(7,605)							(7,605)
								0
								0
								0
								0
								0
								0
								0
								0
								0
	(110,587)	(1,810)	0	0	0	112,397	0	0

The above uncorrected misstatements do not represent fraud or illegal acts.

Director, Department of Treasury & Administration

APPENDIX A
GRANTS ASSISTANCE FUNDS

CURRENT YEAR UNCORRECTED MI	Pre-Tax Correcting Entry							
	Balance Sheet				Income Statement			
Entry Description	Assets Dr (Cr)	Liabilities Dr (Cr)	Retained Earnings Beg of Year Dr (Cr)	Other Equity A/Cs Dr (Cr)	Income from Cont. Ops before Income Taxes Dr (Cr)	Income Tax Expense Dr (Cr)	Disc. Ops. and Extraordinary Items Dr (Cr)	Total Should Equal 0
								0
PAJE<1>								0
Dr. Receivable from National Govt	58,637							58,637
Cr. Deferred revenue		(58,637)						(58,637)
To adjust sector receivables								0
								0
PAJE<2>								0
Dr. Deferred revenue		83,010						83,010
Cr. Receivable from National Government.	(83,010)							(83,010)
to adjust federal grants receivable								0
								0
PAJE<3>								0
Dr. AR from FSM	1,999							1,999
Cr. Revenue					(1,999)			(1,999)
								0
								0
								0
								0
								0
								0
								0
								0
								0
								0
								0
	(22,374)	24,373	0	0	(1,999)	0	0	0

The above uncorrected misstatements do not represent fraud or illegal acts.

Director, Department of Treasury & Administration

APPENDIX A
OTHER NONMAJOR FUNDS

CURREN	Pre-Tax Correcting Entry							
	Balance Sheet				Income Statement			
	Assets	Liabilities	Retained Earnings Beg of Year	Other Equity A/Cs	Income from Cont. Ops before Income Taxes	Income Tax Expense	Disc. Ops. and Extraordinary Items	Total Should Equal 0
Entry Des	Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)	
								0
								0
PAJE<1> Dr. inventory Cr. Cost of Sales	6,260							6,260
					(6,260)			(6,260)
								0
								0
								0
								0
								0
								0
	6,260	0	0	0	(6,260)	0	0	0

The above uncorrected misstatements do not represent fraud or illegal acts.

Director, Department of Treasury & Administration

APPENDIX A
GOVERNMENT WIDE FUND LEVEL

CURRENT YEAR UNCORRECTED M	Pre-Tax Correcting Entry							
	Balance Sheet				Income Statement			
Entry Description	Assets Dr (Cr)	Liabilities Dr (Cr)	Retained Earnings Beg of Year Dr (Cr)	Other Equity A/Cs Dr (Cr)	Income from Cont. Ops before Income Taxes Dr (Cr)	Income Tax Expense Dr (Cr)	Disc. Ops. and Extraordinary Items Dr (Cr)	Total Should Equal 0
								0
PAJE<1>								0
Dr. Expense					55,670			55,670
Cr. Fixed assets - building	(55,670)							(55,670)
								0
General Fund	(102,981)	(1,810)			104,791			0
Grant Assistance fund, no pajes								0
Compact Trust fund, no pajes								0
Other Nonmajor Funds	6,260				(6,260)			0
								0
	(152,391)	(1,810)	0	0	154,201	0	0	0

The above uncorrected misstatements do not represent fraud or illegal acts.

Director, Department of Treasury & Administration

POHNPEI STATE GOVERNMENT
Department of Treasury and Administration
P.O. Box 1567
Kolonia, Pohnpei FM 96941
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Office of the Director

June 27, 2011

Deloitte & Touche
P. O Box 753
POHNPEI, FSM 96941

We are providing this letter in connection with your audit of the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Pohnpei (the "Government"), as of and for the year ended September 30, 2010, 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 are 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) 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. The basic financial statements report $19,870,850 of restricted net assets, of which $4,858,268 is restricted by enabling legislation.

   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.

l. Costs to federal awards have been charged in accordance with applicable cost principles.

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

   a. Summaries of actions of legislation passed by the Government's legislative body.

   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.

   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, except as disclosed in the Schedule of Findings and Questioned Costs Section of your Independent Auditor's Reports on Internal Control and on Compliance.

   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. 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.

6. 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.

7. 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.

8. There are no unasserted claims or assessments that legal counsel has advised us are probable of assertion and must be disclosed in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 450, *Contingencies*, except as disclosed in Note 8 to the basic financial statements.

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

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 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, except as disclosed in the Schedule of Findings and Questioned Costs Section of your Independent Auditor's Reports on Internal Control and on Compliance.

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.

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 2010.

    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.

    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 entities.

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, violation 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, *Determining Whether Certain Organizations Are Component Units*, an amendment of Statement No. 14, *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 $50,000 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 Appendix A, 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.

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, except as disclosed in the Schedule of Findings and Questioned Costs Section of your Independent Auditor's Reports on Internal Control and on Compliance.

    b. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB ASC 450, *Contingencies*, except as disclosed in Note 8 to the basic financial statements.

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 except as disclosed in Note 6 to the financial statements.

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. The Government has identified all derivative instruments as defined by GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, and appropriately recorded and disclosed such derivatives in accordance with GASB Statement No. 53.

33. No events have occurred after September 30, 2010 but before June 27, 2011, the date the financial statements were available to be issued that require consideration as adjustments to or disclosures in the financial statements.

34. Management has disclosed whether, subsequent to September 30, 2010, 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.

35. The Government is responsible for determining and maintaining the adequacy of the allowance for uncollectible receivables, as well as estimates used to determine such amounts.

36. With regard to the fair value measurements and disclosures of certain assets, liabilities, and specific components of equity, such as investments, we believe that:

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

    b. The completeness and adequacy of the disclosures related to the fair values are in conformity with accounting principles generally accepted in the United States of America.

    c. No events have occurred subsequent to September 30, 2010 and before June 27, 2011, that requires adjustment to the fair value measurements and disclosures included in the financial statements.

37. 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.

38. During fiscal year 2010, the Government implemented the following pronouncements, implementation of which did not have a material effect on the financial statements:

    - GASB 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.

    - GASB 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.

    - GASB 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.

- GASB Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*, which provides guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code, and establishes requirements for recognizing and measuring the effects of the bankruptcy process on assets and liabilities, and for classifying changes in those items and related costs.

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 has not evaluated the effect that the implementation of this statement will have on the financial statements of the Government.

40. In December 2009, GASB issued Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which amends Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and addresses issues related to measurement of OPEB obligations by certain employers participating in agent multiple-employer OPEB plans. The provisions of Statement 57 related to the use and reporting of the alternative measurement method are effective immediately. The provisions related to the frequency and timing of measurements are effective for actuarial valuations first used to report funded status information in OPEB plan financial statements for periods beginning after June 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Government.

41. In June 2010, GASB issued Statement No. 59, *Financial Instruments Omnibus*, which updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools. The provisions of this statement are effective for periods beginning after June 15, 2010. Management has not evaluated the effect that the implementation of this statement will have on the financial statements the Government.

42. 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.

43. We have appropriately identified and properly recorded and disclosed in the financial statements, where applicable, all interfund transactions, including repayment terms.

44. 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.

45. Provision has been made, where applicable, to reduce excess or obsolete inventories to their estimated net realizable value. All inventories are the property of the Government and do not include any items consigned to it or any items billed to customers.

46. 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.

47. During the year ended September 30, 2010, the Government was advised by USDA Rural Development of defaulted loans in the aggregate amount of $550,428 that were turned over to the Pohnpei State Housing Authority. The Authority's management is of the opinion that the primary government will become ultimately liable for such liabilities to USDA Rural Development. The Government is of the opinion that these defaulted loans have not been communicated timely in accordance with the underlying agreement and therefore, does not believe that it is liable for the balance.

Very yours truly,

Thomas Pablo
Director, Department of Treasury and Administration