

*The Auditor's Communication with Those Charged  
with Governance*

**State of Kosrae  
Federated States of Micronesia**

*Year Ended September 30, 2023*



August 6, 2025

Management and Those Charged with Governance  
Governor, State of Kosrae  
Federated States of Micronesia

We have performed an audit of the financial statements of the governmental activities, the aggregate discreetly presented component units, each major fund and the aggregate remaining fund information of the State of Kosrae (the State) as of and for the year ended September 30, 2023, and the related notes to the financial statements, which collectively comprise the State's basic financial statements, in accordance with auditing standards generally accepted in the United States of America (GAAS), and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and have issued our report thereon dated July 31, 2025.

This report summarizes our communications with those charged with governance as required by our professional standards to assist you in fulfilling your obligations to oversee the financial reporting and disclosure process.

## **REQUIRED COMMUNICATIONS**

Professional standards require the auditor to provide those charged with governance with additional information regarding the scope and results of the audit that may assist those charged with governance in overseeing the financial reporting and disclosure processes which the management of State is responsible.

We summarize these required communications as follows:

### **Overview of the planned scope and timing of the audit**

Our audit scope and timing is consistent with the plan communicated in our engagement letter and at our audit planning meetings with management.

### **Auditors' Responsibilities under Auditing Standards Generally Accepted in the United States (US GAAS) and Generally Accepted Government Auditing Standards (GAGAS)**

The financial statements, required supplementary information and supplementary information are the responsibility of the State's management as prepared with the oversight of those charged with governance. Our audit was designed in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, to obtain reasonable, rather than absolute, assurance that the financial statements are free of material misstatement.

An audit of financial statements includes consideration of 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 entity's internal control over financial reporting. Accordingly, we express no such opinion.

An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation.

### **Changes to the audit strategy, timing of the audit and significant risks identified**

Our audit strategy is consistent with the plan communicated during the various audit planning meetings..

### **Matters relevant to our evaluation of the entity's ability to continue as a going concern**

We did not identify any events or conditions that led us to believe there was substantial doubt about the State's ability to continue as a going concern.

### **Our views about qualitative aspects of the entity's significant accounting practices, include:**

- **Accounting policies**
- **Accounting estimates**

Management has not selected or changed any significant policies or changed the application of those policies in the current year. We have provided a discussion of significant accounting policies and our views regarding significant accounting estimates and financial statement disclosures and related matters in Note 1 of the basic financial statements.

We determined that those charged with governance are informed about management's process for formulating particularly sensitive estimates and about the basis to our conclusions regarding the reasonableness of those estimates.

Management's judgment is called upon in:

- Preparing budgets that are used to administer and monitor the State's operations. These budgets include determining how existing financial resources will be used in the State's operations.
- Determining the adequacy of the allowance for accounts receivable.
- Determining the assumptions used in measuring significant accounting estimates for financial reporting purposes.

### **Related party relationships and transactions**

We noted no significant matters regarding the State's relationships and transactions with related parties.

**Changes to the terms of the audit with no reasonable justification for the change**

We are not aware of any matters that require communication.

**Significant unusual transactions**

We are not aware of any significant unusual transactions executed by the State.

**Difficult or contentious matters subject to consultation outside of the audit team**

There were no difficult or contentious matters that required consultation outside of the audit team.

**Material corrected misstatements related to accounts and disclosures**

Refer to “Management Representations Letter” in Appendix A.

**Uncorrected misstatements related to accounts and disclosures, considered by management to be immaterial**

Certain uncorrected misstatements accumulated by us were identified during the audit and pertaining to the latest period presented, which were determined by the State’s management to be immaterial, both individually and in the aggregate, to the financial statements as a whole (see Appendix A – Management Representations Letter).

**Significant deficiencies and material weaknesses in internal control over financial reporting**

We have identified material weaknesses and significant deficiencies in the internal control during the course of our audit which have been included in our separately issued report of the State’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters, dated July 31, 2025.

**Fraud and illegal acts**

We are not aware of any matters that require communication.

**Independence matters**

We are not aware of any matters that in our professional judgment would impair our independence.

**Other material written communications with management**

None.

**New accounting pronouncements**

Management is still assessing the impact of adopting the following GASB Statements:

- GASB Statement No. 100
- GASB Statement No. 101
- GASB Statement No. 102
- GASB Statement No. 103
- GASB Statement No. 104

**Significant issues discussed with management in connection with the auditor's initial appointment or recurring retention**

We are not aware of any matters that require communication.

**Disagreements with management and significant difficulties encountered in dealing with management when performing the audit**

There were no material disagreements with the State's management on financial accounting and reporting matters during the audit.

**Management's consultations with other accountants**

We are not aware of any consultations made by management with other accountants or specialists.

**Other material written communications with management**

None.

**Other matters**

There are no other matters arising from the audit that are significant and relevant to those charged with governance regarding the oversight of the financial reporting process.

**AICPA ethics ruling regarding third-party service providers**

From time to time, and depending on the circumstances, (1) we may subcontract portions of the Audit Services to other EY firms, who may deal with the State or its affiliates directly, although EY alone will remain responsible to you for the Audit Services and (2) personnel (including non-certified public accountants) from an affiliate of EY or another EY firm or any of their respective affiliates, or from independent third-party service providers (including independent contractors), may participate in providing the Audit Services. In addition, third-party service providers may perform services for EY in connection with the Audit Services.

**Representations from management**

We have obtained from management a representation letter related to the audit and a copy of the management representations letter is included in Appendix A.

### **Engagement team's involvement with preparation of the financial statements**

Under GAS 2018 Revisions, Chapter 3 General Standards, Paragraph 3.37 Requirements for Performing Non-audit Services explains that the audit team should make consideration of management's ability to effectively oversee the non-audit (or non-attest) services to be performed. The engagement team should determine that the audited entity has designated an individual who possesses suitable skill, knowledge or experience and that the individual understands the services to be performed sufficiently to oversee them. The engagement team should document consideration of management's ability to oversee non-audit services to be performed.

The engagement team believes that this significant threat is reduced to an acceptable level upon application of the following safeguards:

- An engagement quality control review was performed by a qualified Ernst & Young Partner who was not otherwise involved in the audit.
- The preparation of the financial statements is based on the State's trial balance with our understanding that the State's underlying books and records are maintained by the State's accounting department and that the final trial balance prepared by the State is complete.
- All adjusting journal entries that Ernst & Young posted to the trial balance have been approved by management of the State.
- The State's Director of Finance and the State's Financial Advisor have the skill sets to oversee and review the completeness and accuracy of the financial statements and footnote disclosures.

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This communication is intended solely for the information and use of the State, and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

*Ernst + Young LLP*

## Appendix

### A – Management Representations Letter

A – Management Representations Letter



**KOSRAE STATE GOVERNMENT**  
**DEPARTMENT OF ADMINISTRATION AND FINANCE**  
**OFFICE OF THE DIRECTOR**  
**P.O. BOX 878**  
**TOFOL, KOSRAE STATE, FM 96944**

August 6, 2025

Director Office: (691) 370-3400/3163/3170 \* Facsimile: (691) 37  
Division of Planning & Statistics: (691) 370-316  
Division of Finance & Budget: (691) 370-300  
Division of Personnel & Employment Services: (691) 37

Ernst & Young LLP  
Suite 201 Ernst & Young Building  
Ypao Beach Road  
Tamuning, Guam 96932

In connection with your audit of the basic financial statements of the State of Kosrae (the State) as of September 30, 2023 and for the year then ended, we recognize that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion whether the financial statements present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the State and the respective changes in financial position and cash flows, where applicable, thereof in accordance with accounting principles generally accepted in the United States of America (US GAAP).

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.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief:

***Management's responsibilities***

We have fulfilled our responsibilities, as set forth in the terms of the audit engagement agreement dated May 6, 2024, for the preparation and fair presentation of the financial statements (including disclosures) in conformity with US GAAP applied on a basis consistent with that of the preceding periods except for the effects of adopting new accounting standards.

In preparing the basic financial statements, we evaluated whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the State's ability to continue as a going concern for one year after the basic financial statement date.

We acknowledge our responsibility for the design, implementation and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. We have provided you with:



A – Management Representations Letter, continued

- Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements such as records, documentation and other matters. This responsibility includes identifying the use of new technologies or techniques in preparing such information (e.g., the use of generative artificial intelligence), and additional details you may require regarding the use of any such technologies and techniques in order to perform your audit procedures.
- Additional information that you have requested from us for the purpose of the audit
- Unrestricted access to persons within the Company from whom you determined it necessary to obtain evidence

We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.

There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements.

From May 3, 2024 through the date of this letter we have disclosed to you, to the extent that we are aware, any (1) unauthorized access to our information technology systems that either occurred or is reasonably likely to have occurred, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants), to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material effect on the financial statements of any opinion unit that comprises the basic financial statements, in each case or in the aggregate, and (2) ransomware attacks when we paid or are contemplating paying a ransom, regardless of the amount.

***Uncorrected misstatements***

We believe that the effects of any uncorrected misstatements, (including those related to supplementary information) summarized in the accompanying schedule, accumulated by you during the current and prior audit period presented are immaterial, both individually and in the aggregate, to the financial statements for each opinion unit. In addition, to the extent that uncorrected misstatements (including those related to supplementary information) have been subsequently identified in the current period that affect prior period financial statements, we have evaluated the effect of correcting prior period financial statements and believe that the effects of the uncorrected misstatements are immaterial, both individually and in the aggregate, to both the current and prior period financial statements for each opinion unit and supplementary information.

Refer to the “Schedule of Uncorrected Misstatements” in Appendix A.

***Corrected misstatements***

We have reviewed and approved the adjustments, summarized in the accompanying schedule, and reflected these adjustments in the financial statements. Refer to the “Schedule of Corrected Misstatements” in Appendix B.

A – Management Representations Letter, continued

***Methods, significant assumptions, and data used in making accounting estimates***

The appropriateness of the methods, the consistency in application, the accuracy and completeness of data, and the reasonableness of significant assumptions used by us in developing accounting estimates and related disclosures, including those measured at fair value, are reasonable and supportable.

***Internal control***

There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements.

We have communicated to you all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting. There have been no significant changes in internal control since September 30, 2023.

***Minutes and contracts and internal audit reports***

We have not prepared any minutes of the meetings of members, officers or summaries of actions of recent meetings held from October 1, 2022 to the date of this letter.

We also have made available to you all significant contracts, including amendments, and agreements and have communicated to you all significant oral agreements. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance, including all covenants, conditions or other requirements of all outstanding debt.

We have also made available to you all internal audit reports (or reports from similar functions) that were issued to management during the year that address internal control over financial reporting.

***Ownership and pledging of assets***

Except for assets accounted for in accordance with GASB Statements No. 87, 94 and 96—as amended, for which we were provided a right-to-use another entity’s nonfinancial asset (the underlying asset), the State has satisfactory title to all assets appearing in the statement of net position. No security agreements have been executed under the provisions of the Uniform Commercial Code, and there are no liens or encumbrances on assets, nor has any asset been pledged, except as disclosed in the basic financial statements. All assets to which the State has satisfactory title appear in the statement of net position.

***Receivables and revenues***

Adequate provision has been made for any receivable as of the statement of net position date that may not be collectible, including any losses, costs and expenses that may be incurred related to the collection of those receivables.

Revenues and other governmental fund financial resources are recognized in the period in which they became both measurable and available to finance expenditures of the fiscal period.

A – Management Representations Letter, continued

***Prepayments***

We believe that all material expenditures for which recognition has been deferred to future periods are recoverable.

***Long-lived assets to be held and used, including amortizable intangible assets***

No events or changes in circumstances have occurred that indicate the carrying amounts of long-lived assets to be held and used, including intangible assets that are subject to amortization, may not be recoverable.

***Purchase commitments***

At September 30, 2023, the State had no purchase commitments for inventories in excess of normal requirements or at prices that were in excess of market at those dates.

There were no agreements or commitments to repurchase assets previously sold. There were no material commitments outstanding at September 30, 2023 as a result of being a party to futures or forwards contracts, short sales or hedge transactions.

***Non-compliance with laws and regulations, including fraud***

We acknowledge that we are responsible to determine that State's business activities are conducted in accordance with laws and regulations and that we are responsible for identifying and addressing any non-compliance with applicable laws or regulations, including fraud.

We acknowledge our responsibility for the design, implementation and maintenance of a system of internal control to prevent and detect fraud.

We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

We have disclosed to you all significant facts relating to any frauds or suspected frauds, or allegations of fraud known to us that may have affected the State (regardless of the source or form and including, without limitation, allegations by "whistle-blowers"), whether involving management or employees who have significant roles in internal control. Similarly, we have disclosed to you our knowledge of frauds or suspected frauds affecting the entity involving others where the fraud could have a material effect on the financial statements. We have also disclosed to you all information in relation to any allegations of fraud or suspected fraud communicated by employees, former employees, analysts, regulators or others, that could affect the financial statements.

We have disclosed to you all known actual or suspected noncompliance with laws and regulations whose effects should be considered when preparing the financial statements.

A – Management Representations Letter, continued

***Inventories***

Physical counts and measurements of inventories were made by competent employees under the supervision of management and book records were appropriately adjusted after giving recognition to cut-off for materials received and products shipped.

Adequate provision has been made for losses under firm purchase commitments for goods or inventory. There have been no reductions of the selling prices of finished goods subsequent to September 30, 2023 and none are contemplated.

***Leases***

We have identified and accounted for all contracts that meet the criteria to be accounted for as a lease under GASB Statement No. 87—as amended. We have appropriately considered any modifications, termination or purchase options in the contract.

We represent to you that the State does not have any:

- Public Private and Public-Public Partnerships (PPP) and Availability Payment Arrangements (APA) under GASB Statement No. 94 as amended.
- Subscription-Based Information Technology Arrangements (SBITDA) under GASB Statement No. 96 as amended.

***Related party relationships and transactions***

We have made available to you the names of all related parties and all relationships and transactions with related parties.

The substance of transactions with related parties as defined in GASB Statement No. 56—as amended, has been considered and appropriate adjustments or disclosures are made in the basic financial statements, and information concerning these transactions and amounts have been made available to you.

***Events of default under debt agreements***

No events of default have occurred with respect to any of the State's debt agreements.

***Side agreements and other arrangements***

There have been no side agreements or other arrangements (either written or oral) that have not been disclosed to you.

***Arrangements with financial institutions***

Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances and line-of-credit or similar arrangements have been properly recorded or disclosed in the financial statements.

A – Management Representations Letter, continued

***Fair value measurements***

We have evaluated the fair value information provided to us by brokers, pricing services or other parties that has been used in the basic financial statements and believe this information to be reliable and consistent with the requirements of GASB Statement No. 72—as amended.

We are responsible for the estimation methods and assumptions used in measuring assets and liabilities reported or disclosed at fair value, including information obtained from brokers, pricing services or other third parties. Our valuation techniques have been consistently applied from period to period. The fair value measurements reported or disclosed represent our best estimate of fair value as of the measurement date in accordance with the requirements of GASB Statement No. 72—as amended. In addition, our disclosures related to fair value measurements are consistent with the objectives outlined in GASB Statement No. 72—as amended.

***Contingent liabilities***

There are no unasserted claims or assessments, including those our lawyers have advised us of that are probable of assertion and must be disclosed in accordance with GASB Statement No. 62—as amended other than those disclosed in the financial statements.

There have been no violations or possible violations of laws or regulations in any jurisdiction whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency other than those disclosed or accrued in the financial statements.

There have been no internal investigations or communications from regulatory agencies or government representatives concerning investigations or allegations of noncompliance with laws or regulations in any jurisdiction, noncompliance with or deficiencies in financial reporting practices, or other matters that could have a material effect on the financial statements.

There are no other liabilities or gain or loss contingencies considered material, individually or in the aggregate, that are required to be accrued or disclosed by GASB Statement No. 62—as amended, nor are there any accruals for loss contingencies included in the statements of net position or gain contingencies reflected in earnings that are not in conformity with the provisions of GASB Statement No. 62—as amended.

There are no oral or written guarantees including guarantees of the debt of others.

We have not consulted legal counsel concerning litigation, claims or assessments.

***Conflicts of interest***

There are no instances where any officer or employee of the State has an interest in a company with which the State does business that would be considered a “conflict of interest.” Such an interest would be contrary to State policy.

***Gong concern***

We represent there are conditions and events that raise substantial doubt about the State’s ability to continue as a going concern for twelve months beyond the date of the financial statements, including any currently known information that may raise substantial doubt shortly thereafter.

A – Management Representations Letter, continued

***Effects of new accounting principles***

As discussed in Note 1 to the financial statements, we have not completed the process of evaluating the effects that will result from adopting the amendments to the codification provided in Governmental Accounting Standards Board (GASB):

- GASB Statement No. 99
- GASB Statement No. 100
- GASB Statement No. 101
- GASB Statement No. 102
- GASB Statement No. 103
- GASB Statement No. 104

The State is therefore unable to disclose the effects that adopting the amendments in the aforementioned GASB Statements will have on its financial position and the changes in its financial position when such statements are adopted.

***Oral and written guarantees***

There are no oral or written guarantees, including guarantees of the debt of others.

***Required supplementary information***

We acknowledge our responsibility for the required supplementary information on management's discussion and analysis and budgetary comparison information for the general fund, which have been measured and presented in conformity with the guidelines established by the Governmental Accounting Standards Board in its applicable GASB Statement. There have been no changes in the methods of measurement or presentation of the required supplementary information from those used in the prior period.

There are no significant assumptions or interpretations underlying the measurement or presentation of the information.

***Supplementary information***

We are responsible for the preparation and fair presentation of the following schedules(the "Supplementary Information") and its form and content in conformity with GASB:

- Combining schedule of expenditures by account-Governmental Funds
- Statement of revenues, expenditures by function and changes in fund balance-General Fund
- Statement of revenues, expenditures by function and changes in fund balance-budget and actual-General Fund
- Combining balance sheet-nonmajor governmental funds-special revenues funds
- Combining statement of revenues, expenditures by function and changes in fund balances- nonmajor governmental funds-special revenues funds
- Combining statement of revenues, expenditures by account and changes in fund balances-nonmajor governmental funds-special revenues funds
- Combining balance sheet-Grants Revenue Fund

A – Management Representations Letter, continued

- Combining statement of revenues, expenditures by function and changes in fund balance-Grants Assistance Fund
- Combining statement of revenues, expenditures by account and changes in fund balance-Grants Assistance Fund

We believe the supplementary information, including its form and content, is fairly stated in all material respects in conformity with GASB.

There have been no changes in the methods of measurement or presentation of the supplementary information from those used in the prior period.

There are no significant assumptions or interpretations underlying the measurement or presentation of the information.

***Subsequent events***

Subsequent to September 30, 2023 no events or transactions have occurred or are pending that would have a material effect on the basic financial statements at that date or for the period then ended, or that are of such significance in relation to the State's affairs to require mention in a note to the basic financial statements in order to make them not misleading regarding the financial position, changes in financial position and, where applicable, cash flows of the State.

***Independence***

We have communicated to you the names of State's affiliates, as described in the AICPA Code of Professional Conduct ET section 1.224.020 *State and Local Government Client Affiliates* officers and directors, or individuals who serve in such capacity for the State.

We are not aware of any business relationship between State and Ernst & Young LLP or any other member firm of the global Ernst & Young organization.

We are not aware of any reason that Ernst & Young LLP would not be independent for purposes of the State's audit.

***Pacific Island Development Bank***

We represent that the State owns 900 shares (with a purchase price of \$1,000 per share) in the Pacific Island Development Bank (PIDB). The purpose of our interest in PIDB is to promote economic development through loans provided by PIDB rather than for the purpose of income or profit. Hence, the \$915,000 interest in PIDB does not meet the definition of an investment under GASB72. Accordingly, we recorded the \$915,000 as other assets in our financial statements.

***Federated States of Micronesia-Early Retirement Program Trust Fund***

The Asian Development Bank (ADB) requires the Federated States of Micronesia to have monies available to satisfy repayment terms. As such, the purpose of the Early Retirement Program Trust Fund is to have monies in an investment account whereby withdrawals can be made to repay the ADP.

A – Management Representations Letter, continued

We confirm to you:

- the ADB loan balance is allocated among the State Governments and the FSM National Government
- We believe the Early Retirement Program Trust Fund d meets the definition of an External Investment Pool as per GASB Statement No. 31 paragraph 22

“An arrangement that commingles (pools) the moneys of more than one legally separate entity and invests, on the participants' behalf, in an investment portfolio; one or more of the participants is not part of the sponsor's reporting entity. An external investment pool can be sponsored by an individual government, jointly by more than one government, or by a nongovernmental entity. An investment pool that is sponsored by an individual state or local government is an external investment pool if it includes participation by a legally separate entity that is not part of the same reporting entity as the sponsoring government. If a government-sponsored pool includes only the primary government and its component units, it is an internal investment pool and not an external investment pool.”

***Trust Fund for the People of the Federated States of Micronesia***

In May 2003, an agreement was entered into between the United States of America and the Federated States of Micronesia (FSM). The agreement created a trust known as the “Trust Fund for the People of the Federated States of Micronesia. The purpose of the Fund is to contribute to the economic advancement and long-term self-reliance of the FSM by providing an annual source of revenue after fiscal year 2023.

We confirm to you:

- The Fund meets the definition of a permanent fund as per GASB Statement No. 34 paragraph 65.

“Permanent Funds should be used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs-that is, for the benefit of the government or its citizenry”

- That annual investment income and annual investment expenses are allocated among the Federated States of Micronesia National Government, the State Governments of Kosrae, Pohnpei, Chuuk and the United States Government (the Participants) based on the percentage of each Participants total principal and earnings at the beginning of the year over the total fund balance at the beginning of the year.
- We believe the Fund meets the definition of an External Investment Pool as per GASB Statement No. 31 paragraph 22.

***Investments in subsidiaries and other entities***

The equity method is used to account for the State's investment in the common stock of Bank of the Federated States of Micronesia because the State has the ability to exercise significant influence over the investee's operating and financial policies.



A – Management Representations Letter, continued

***Other representations***

- We recognize that we are responsible for the State's compliance with laws, regulations, and provisions of contracts and grant agreements that are applicable to it. We have identified and disclosed to your representatives, all laws and regulations that have direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.
- We have identified to your representatives all previous audits, attestation engagements, and other studies related to the audit objectives and whether the related recommendations have been implemented.
- We have informed you of any investigations or legal proceedings that have been initiated or are in process with respect to the period under audit.
- We have a process to track the status of audit findings and recommendations.
- We have provided views on your reported findings, conclusions, and recommendations, as well as management's planned corrective actions, for the report.
- We have taken timely and appropriate steps to remedy fraud, and noncompliance with provisions of laws, regulations, contracts or grant agreements, that you have reported.
- There has been no noncompliance or possible noncompliance with provisions of contracts or grant agreements in any jurisdiction whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
- We have made available to your representatives all financial records and related data.
- The financial statements properly classify all funds and activities.
- We have identified and disclosed to you, all provisions of laws and regulations that could have a direct and material effect on financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds. We have identified and disclosed to you, all instances of identified or suspected noncompliance with laws, regulations, and provisions of contracts and grant agreements where the noncompliance could have a direct and material effect on the financial statements.
- We have followed all applicable laws and regulations in adopting, approving and amending budgets, tax or debt limits and covenants and secondary market disclosures, deposits and investments, including collateral requirements on depository accounts and investments and tax levies and refunds.
- 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.
- The financial statements include all fiduciary activities as required by GASB Statement No.84.
- The financial statements properly classify all funds and activities in accordance with GASB

A – Management Representations Letter, continued

- Statement No. 54—as amended.
- All funds that meet the quantitative criteria in GASB Statement No. 34, as amended and GASB Statement No. 37, 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. Components of net position (net investment in capital assets; restricted; and unrestricted), and classifications of fund balance (nonspendable fund balance, and restricted, committed, assigned, and unassigned) are properly classified and, if applicable, approved.
- Investments are properly valued.
- Provisions for uncollectible receivables have been properly identified and recorded.
- Expenses have been appropriately classified in or allocated to functions and programs in the statements of activities, and allocations have been made on a reasonable basis.
- 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.
- Interfund, internal and intra-entity activity and balances have been appropriately classified and reported.
- Special and extraordinary items are appropriately classified and reported.
- Risk disclosures associated with deposits and investment securities and derivatives transactions are presented in accordance with GASB requirements.
- Capital assets, including infrastructure and intangible assets, are properly capitalized, reported and, if applicable, depreciated.
- Our policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available is appropriately disclosed and net position was properly recognized under the policy.
- We are following either our established accounting policy regarding which resources (that is, restricted, committed, assigned, or unassigned) are considered to be spent first for expenditures for which more than one resource classification is available or are following paragraph 18 of GASB Statement No. 54 to determine the fund balance classifications for financial reporting purposes.
- Subsequent events have been evaluated and classified as recognized or nonrecognized through the date of this letter.

A – Management Representations Letter, continued

***Assistance with preparation of financial statements***

We have received a draft copy of our financial statements as of and for the year ended September 30, 2023. The accuracy and completeness of the financial statements, including footnote disclosures, are our responsibility.

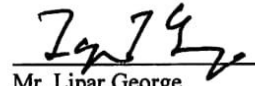
We acknowledge that Ernst & Young LLP assisted in preparation of our financial statements and footnotes based on information in our trial balance and accounting records. We represent that:

- Our underlying books and records are maintained by our accounting department and that the final trial balance prepared in complete and, all adjusting journal entries posted in the trial balance have been approved by us, and
- We have designated a competent representative to oversee your services and that our personnel have sufficient financial competence who are able to challenge and review the completeness and accuracy of the financial statements, including footnote disclosures, and
- We have reviewed the financial statements for accuracy and completeness, and
- We acknowledge that we have taken responsibility for them.

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We understand that your audit was conducted in accordance auditing standards generally accepted in the United States of America as established by the American Institute of Certified Public Accountants and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America and was, therefore, designed primarily for the purpose of expressing an opinion on the basic financial statements of the State and that your tests of the accounting records and other auditing procedures were limited to those that you considered necessary for that purpose.

Very truly yours,



Mr. Lipar George  
Director, Department of Administration and Finance  
Kosrae State Government

A – Management Representations Letter, continued

**Appendices**

**A – Schedule of Uncorrected Misstatements**

**B – Schedule of Corrected Misstatements**

**C – Subsequent Events**

## A – Management Representations Letter, continued

## Appendix A – Schedule of Uncorrected Misstatements

[illegible]

(13 August 2022)

## A – Management Representations Letter, continued

## Appendix A – Schedule of Uncorrected Misstatements, continued

[illegible]

3 August 2022)

## Appendix A – Schedule of Uncorrected Misstatements, continued

3 August 2022)

A – Management Representations Letter, continued

Appendix A – Schedule of Uncorrected Misstatements, continued

Schedule for uncorrected misstatements									
State of Kosrae - General Fund									
Period ended: 30 Sep 2022									
Currency: USD									
Account (Note 1)	Assets		Liabilities		Equity		Effect on the		Income statement effect
	Current	Non-current	Current	Non-current	Current	Non-current	current period	at the current period	
Misstatements are recorded as journal entries with a description	Debit(Credit)	Debit(Credit)	Debit(Credit)	Debit(Credit)	Debit(Credit)	Debit(Credit)	Debit(Credit)	Debit(Credit)	Non-issuable
	(Note 2)	(Note 2)	(Note 2)	(Note 2)	(Note 2)	(Note 2)	(Note 2)	(Note 2)	(Note 2)
Cumulative effect of prior period uncorrected misstatements							-2.0%	-41.450	
Turnaround effect of prior period uncorrected misstatements									
All actual and projected misstatements:									
Uncorrected misstatements (Note 3)									
Cumulative effect of uncorrected misstatements, after turnaround effect									
Current year income before tax									
Current year income after tax									
								After tax	Before tax
								34.190	35.190
								-3.6%	75.643
									(283.293)
									(27,117,408)

3 August 2022)



## A – Management Representations Letter, continued

## Appendix A – Schedule of Uncorrected Misstatements, continued

[illegible]

3 August 2022)

A – Management Representations Letter, continued

Appendix A – Schedule of Uncorrected Misstatements, continued

Schedule for uncorrected misstatements									
State Tax Department - Grants Assistance Fund									
Year	Account (Note 1)	Assets Current Deduction(Credit) (Note 2)	Assets Non-current Deduction(Credit) (Note 2)	Liabilities Current Deduction(Credit) (Note 2)	Liabilities Non-current Deduction(Credit) (Note 2)	Equity components Deduction(Credit) (Note 2)	Effect on the current period of the current period Deduction(Credit) (Note 2)	Income statement effect of the current period Deduction(Credit) (Note 2)	Non taxable
Misstatements are recorded as journal entries with a description:									
Period Ended: 31-Sep-2021 Current: 182									
Misstatements before income tax									
Misstatements									
misstatements on IRS amounts									
Misstatements before income tax									
Less: Tax effect of misstatements at current year marginal rate									
Uncorrected misstatements in income tax									
Cumulative effect of uncorrected misstatements after tax but before turnover									
Turnaround effect of prior period uncorrected misstatements									
After tax and projected misstatements									
Judgmental misstatements (Note 2)									
Cumulative effect of uncorrected misstatements, after turnaround effect									
Current year income before tax									
Current year income after tax									

3 August 2022

A – Management Representations Letter, continued

Appendix A – Schedule of Uncorrected Misstatements, continued

Schedule for uncorrected misstatements									
State Government - Other Governmental Funds									
Period Ended: 30-Sep-2023 Currency: USD									
Account (Note 1)	Assets Current	Assets Non-current	Liabilities Current	Liabilities Non-current	Equity	Effect on the current period		Income statement effect of the current period	
Misstatements are recorded as journal entries with a description	Debit(Credit)	Debit(Credit)	Debit(Credit)	Debit(Credit)	Debit(Credit)	Debit(Credit)	Debit(Credit)	Debit(Credit)	Non Inclusive
Misstatements before income tax									
Misstatements	0	0	0	0	0	0	0	0	0
misstatements on FFS amounts	1,529,545	0.0%	722,511	0.0%	11,545,501	0.0%	0.0%	(61,216)	0.0%
Memo: Total of non-taxable items (marked "X" above)									
Uncorrected misstatements before income tax									
Less: Tax effect of misstatements at current year marginal rate									
Uncorrected misstatements in income tax									
Cumulative effect of uncorrected misstatements after tax but before turnaround									
Turnaround effect of prior period uncorrected misstatements									
Cumulative effect of uncorrected misstatements, after turnaround effect									
Current year income before tax									
Current year income after tax									
Memo: Before tax									
After tax									
158,230									
(11,216)									

3 August 2023

## Appendix A – Schedule of Uncorrected Misstatements, continued

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## Appendix A – Schedule of Uncorrected Misstatements, continued

3 August 2022)

## Appendix B – Schedule of Corrected Misstatements

3 August 2022)

A – Management Representations Letter, continued

Appendix B – Schedule of Corrected Misstatements, continued

**in schedule for corrected misstatements**

Kosrae State Government – Government-wide

Period ended: 30-Sep-2022 Currency: USD

Misstatement ref.	Account	Analysis of misstatements				Effect on the current period OCI	Income statement of the current period
		Assets	Liabilities	Equity			
		Current	Current	Current			
		Debit/(Credit)	Debit/(Credit)	Debit/(Credit)		Debit/(Credit)	Debit/(Credit)
	(misstatements are recorded as journal entries with a description)						
		5,863,559	(1,650,132)	(4,610,543)	(38,603,534)		(34)
		0.0%	0.3%	0.0%	47.7%	4.9%	
	all amounts						
	of misstatements on FS amounts						

[For US PCAOB audits we are required to communicate all misstatements that are accumulated on our SAO.]

3 August 2022

## Appendix B – Schedule of Corrected Misstatements, continued

[For US PCAOB audits we are required to communicate all misstatements that are accumulated on our SAD.]

13 August 2022



A – Management Representations Letter, continued

Appendix B – Schedule of Corrected Misstatements, continued

on schedule for corrected misstatements

Kosrae State Government - Grants Assistance Fund				Period ended: 30-Sep-2023	Currency: USD			
Items		Analysis of misstatements Debit/(Credit)						
f.	Account	Assets Current	Assets Non-current	Liabilities Current	Liabilities Non-current	Equity components	Effect on the current period OCI	Income of the
	(misstatements are recorded as journal entries with a description)	Debit/(Credit)	Debit/(Credit)	Debit/(Credit)	Debit/(Credit)	Debit/(Credit)	Debit/(Credit)	Debit/(Credit)
red Re Unearned Revenue Wash-off Adjustment								
	10-3710-00-00-00000-00				520,258			
	11-3710-00-00-00000-00				500,743			
	12-3710-00-00-00000-00				16,918			
	13-3710-00-00-00000-00				24,280			
	14-3710-00-00-00000-00				253,365			
	15-3710-00-00-00000-00				281,275			
	16-3710-00-00-00000-00				32,527			
	17-3710-00-00-00000-00				433,095			
	18-3710-00-00-00000-00					(450,431)		
	19-3710-00-00-00000-00					(177,652)		
	20-3710-00-00-00000-00					(11,918)		
	21-3710-00-00-00000-00					(21,730)		
	22-3710-00-00-00000-00					(91,079)		
	23-3710-00-00-00000-00					(944,877)		
	24-3710-00-00-00000-00					(23,555)		
	25-3710-00-00-00000-00					(43,835)		
	26-3710-00-00-00000-00					(43,835)		
	27-3710-00-00-00000-00					(479,712)		
	28-3710-00-00-00000-00							
	29-3710-00-00-00000-00							
	30-3710-00-00-00000-00							
	31-3710-00-00-00000-00							
	32-3710-00-00-00000-00							
	33-3710-00-00-00000-00							
	34-3710-00-00-00000-00							
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	41-3710-00-00-00000-00							
	42-3710-00-00-00000-00							
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	190-3710-00-00-00000-00							
	191-3710-00-00-00000-00							
	192-							

A – Management Representations Letter, continued

Appendix B – Schedule of Corrected Misstatements, continued

on schedule for corrected misstatements											
Zero State Government – Compact Trust Fund											
		Period ended: 30-Sep-2020		Currency: USD							
Items	Account	Analysis of misstatements Debit/(Credit)						Effect on the current period OCI		Income statement of the current period	
		Assets Current	Assets Non-current	Liabilities Current	Liabilities Non-current	Equity components	Debit/(Credit)	Debit/(Credit)	Debit/(Credit)	Debit/(Credit)	
Misstatements are recorded as journal entries with a description)		Debit/(Credit)	Debit/(Credit)	Debit/(Credit)	Debit/(Credit)	Debit/(Credit)	Debit/(Credit)	Debit/(Credit)	Debit/(Credit)	Debit/(Credit)	Debit/(Credit)
Total misstatements before income tax		0	0	0	0	0	0	0	0	0	0
Total misstatements on FFB amounts		7,066,505	0	3,379	0	(7,063,126)	0	0	0	(615,076)	0.0%
Total misstatements on FFB amounts		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

x US PCAOB audits we are required to communicate all misstatements that are accumulated on our SAO.]

3 August 2022)

A – Management Representations Letter, continued

Appendix B – Schedule of Corrected Misstatements, continued

on schedule for corrected misstatements									
Free State Government - Other Government Funds									
Period ended: 30-Sep-2023									
Currency: USD									
Items	Account	Assets Current	Assets Non-current	Liabilities Current	Liabilities Non-current	Equity components	Effect on the current period OCI	Income statement of the current period	
		Debit/(Credit)	Debit/(Credit)	Debit/(Credit)	Debit/(Credit)	Debit/(Credit)	Debit/(Credit)	Debit/(Credit)	
Misstatements are recorded as journal entries with a description									
of misstatements before income tax									
ent amounts		1,928,545	0	(282,643)	0	(1,645,903)	0	(61,210)	0
ed misstatements on F/S amounts		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

\* US PCAOB audits we are required to communicate all misstatements that are accumulated on our SAD.

3 August 2022)

A – Management Representations Letter, continued

Appendix B – Schedule of Corrected Misstatements, continued

on schedule for corrected misstatements									
Kosrae State Government – Discretely Presented Component Units									
		Period ended: 30-Sep-2023		Currency: USD					
Items		Analysis of misstatements Debit/(Credit)							
Account	Assets Current	Assets Non-current	Liabilities Current	Liabilities Non-current	Equity components	Effect on the current period OCI	Income statement of the current period		
	Debit/(Credit)	Debit/(Credit)	Debit/(Credit)	Debit/(Credit)	Debit/(Credit)	Debit/(Credit)	Debit/(Credit)		
Misstatements are recorded as journal entries with a description)									
ed misstatements before income tax	0	0	0	0	0	0	0		
ent amounts	3,669,856	14,554,231	(645,463)	(172,200)	(17,546,334)			(893,753)	
ed misstatements on F/S amounts	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	

if US PCAOB audits we are required to communicate all misstatements that are accumulated on our SAG.

3 August 2022)

A – Management Representations Letter, continued

Appendix C – Subsequent Events

Kosrae State Government  
Subsequent Events Questionnaire  
Coverage: For the period from October 1, 2023 to report date

Question	Response: Yes or No	If yes, please provide additional information
1 Have there been any business combinations, acquisitions of significant assets, segment disposals, disposals of significant assets or extraordinary, unusual or infrequently occurring transactions, except as disclosed in the audited financial statements?	No	
2 Have there been any new significant contingent liabilities or commitments that arisen, except as disclosed in the audited financial statements?	No	
3 Have any significant changes occurred in trends in sales/revenues or costs that could affect accounting estimates (e.g., valuation of receivables or inventories, realization of deferred charges, provisions for warranties or employee benefits or unearned income)?	No	
4 Have any significant changes occurred, or are pending, in the capital accounts, long-term debt, including debt covenants and compliance with them, or working capital, except as disclosed in the audited financial statements?	No	
5 Have there been any significant changes that occurred in the status of items, including contingent liabilities and commitments that were accounted for on the basis of tentative, preliminary or inconclusive data?	No	
6 Were there any significant, unusual or nonrecurring adjustments that have been recorded (or are necessary)?	No	
7 Were there any communications, written or oral, that occurred with the regulatory agencies with which the entity files financial statements?	No	
8 Have there been any changes in the entity's related parties? Have any significant new related party transactions occurred?	No	
9 Have any other events occurred other than those disclosed in response to the previous questions or those reflected or disclosed in the financial statements that could have a material effect on the audited financial statements? This includes appropriate inquiries regarding subsequent events of material investors accounted for by the equity method.	No	
10 Are you aware of any fraud or suspected fraud affecting (Kosrae State Government) involving (1) management, (2) employees who have significant roles in internal control or (3) others, when the fraud could have a material effect on the audited financial statements?	No	
11 Are you aware of any allegations of financial improprieties, including fraud or suspected fraud (regardless of the source or form and including, without limitation, allegations by "whistle-blowers"), when such allegations could result in a misstatement of the audited financial statements or otherwise affect the financial reporting of (Kosrae State Government)?	No	
12 Are you aware of any close relationships, or business, employment or other relationships that could bear on EY's independence (e.g. business/financial relationships, litigation with EY, family relationship, employment, loans, cooperative arrangements, etc.)?	No	
13 Are you aware of any cash receipt records for significant or unusually large amounts that may pertain to proceeds of loans, significant sales of productive assets or other unusual items?	No	
14 Are you aware of any cash disbursement records for that may pertain to unusual payments, payments of liabilities not recorded as of the balance sheet date or other unusual items?	No	
15 Are you aware of any significant time lag that may pertain to collections on accounts receivable, credit memoranda issues for sales returns and allowances?	No	
16 Are you aware of any journal entries that would have a material effect on the financial statements as of the balance sheet date?	No	

7/30/2025  
Upur George, Director, Department of  
Administration and Finance

7/30/2025  
Date