



Deloitte & Touche LLP  
361 South Marine Corps Drive  
Tamuning, GU 96913-3911  
USA

Tel: (671)646-3884  
Fax: (671)649-4932  
www.deloitte.com

April 14, 2014

The Board of Directors  
Federated States of Micronesia Development Bank

Dear Members of the Board of Directors:

We have performed an audit of the financial statements of the Federated States of Micronesia Development Bank (the Bank) as of and for the year ended December 31, 2013, in accordance with auditing standards generally accepted in the United States of America (“generally accepted auditing standards”) and have issued our report thereon dated April 14, 2014.

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 Bank is responsible.

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

Our responsibility under auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, have been described in our engagement letter dated September 13, 2013. 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 whether the statement of net position of the Bank as of December 31, 2013 and the related statements of revenues, expenses and changes in net position and of cash flows for the year then ended (the “financial statements”), are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (“generally accepted accounting principles”) and perform specified procedures on the required supplementary information for the year ended December 31, 2013;
- To express an opinion on whether the respective statements of fiduciary net position of Investment Development Fund, the Pohnpei Development Loan Fund, and the Yap Development Loan Fund (the Funds), administered by the Bank, as of December 31, 2013 and the related statements of changes in fiduciary net position for the year then ended (collectively the “Fund financial statements”), are presented fairly, in all material respects, in accordance with generally accepted accounting principles
- 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; and
- To report on GEDA’s and the Funds’ internal control over financial reporting and on their compliances with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the year ended December 31, 2013 based on an audit of financial statements performed in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*.

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether caused by fraud or error. In making those risk assessments, we considered internal control over financial reporting relevant to the Bank's preparation and fair presentation of the financial statements in order to design audit procedures that were appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Bank's internal control over financial reporting. Our consideration of internal control over financial reporting was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

## **MANAGEMENT JUDGMENTS AND 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 normally based on knowledge and experience about past and current events and on assumptions about future events. Significant accounting estimates reflected in the Bank's 2013 financial statements include management's estimate of the allowance for loan losses, which is determined by management based upon periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect individual borrowers' ability to repay and estimated value of any underlying collateral, management's estimate of recording of assets at the lower of cost or market, which is based on net present value of future cashflows using market rental rates, and management's estimate of depreciation expense, which is based on estimated useful lives of the respective capital assets. During the year ended December 31, 2013, we are not aware of any significant changes in accounting estimates or in management's judgments relating to such estimates.

## **AUDIT ADJUSTMENTS AND RECLASSIFICATIONS**

Our audit of the financial statements was designed to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. As the result of our audit work, we identified matters that resulted in audit adjustments that we believe, either individually or in the aggregate, would have a significant effect on the Bank's financial reporting process. Such proposed adjustments, listed as Appendix A to Attachment I, have been recorded in the accounting records and are reflected in the 2013 financial statements.

In addition, listed in Appendices B and C to Attachment I, is a summary of uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest and prior years presented that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

## SIGNIFICANT ACCOUNTING POLICIES

The Bank's significant accounting policies are set forth in note 1 to the Bank's 2013 financial statements. During the year ended December 31, 2013, there were no significant changes in previously adopted accounting policies or their application, except for the following pronouncements adopted by the Bank:

- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, which improved financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity*, and No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively. The implementation of this statement did not have a material effect on the Bank's financial statements.
- GASB Statement No. 66, *Technical Corrections - 2012*, which enhanced the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. The implementation of this statement did not have a material effect on the Bank's financial statements.

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans, and Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 67 are effective for financial statements for periods beginning after June 15, 2013. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of these statements on the financial statements of the Bank.

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*, which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The provisions in Statement 69 are effective for fiscal years beginning after December 15, 2013. Management has not yet determined the effect of implementation of these statements on the financial statements of the Bank.

In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. The provisions in Statement 69 are effective for fiscal years beginning after June 15, 2013. Management has not yet determined the effect of implementation of these statements on the financial statements of the Bank.

## **OTHER INFORMATION IN THE ANNUAL REPORTS**

When audited financial statements are included in documents containing other information such as the Bank's 2013 Annual Report, we will read such other information and consider whether it, or the manner of its presentation, is materially inconsistent with the information, or the manner of its presentation, in the financial statements audited by us. We will read the other information in the Bank's 2013 Annual Report and will inquire as to the methods of measurement and presentation of such information. If we note a material inconsistency or if we obtain any knowledge of a material misstatement of fact in the other information, we will discuss this matter with management and, if appropriate, with the Board of Directors.

## **DISAGREEMENTS WITH MANAGEMENT**

We have not had any disagreements with management related to matters that are material to the Bank's 2013 financial statements.

## **OUR VIEWS ABOUT SIGNIFICANT MATTERS THAT WERE THE SUBJECT OF CONSULTATION WITH OTHER ACCOUNTANTS**

We are not aware of any consultations that management may have had with other accountants about auditing and accounting matters during 2013.

## **SIGNIFICANT FINDINGS OR ISSUES DISCUSSED, OR SUBJECT OF CORRESPONDENCE, WITH MANAGEMENT PRIOR TO OUR RETENTION**

Throughout the year, routine discussions were held, or were the subject of correspondence, with management regarding the application of accounting principles or auditing standards in connection with transactions that have occurred, transactions that are contemplated, or reassessment of current circumstances. In our judgment, such discussions or correspondence, were not held in connection with our retention as auditors.

## **OTHER SIGNIFICANT FINDINGS OR ISSUES ARISING FROM THE AUDIT DISCUSSED, OR SUBJECT OF CORRESPONDENCE, WITH MANAGEMENT**

Throughout the year, routine discussions were held, or were the subject of correspondence, with management. In our judgment, such discussions or correspondence did not involve significant findings or issues requiring communication to the Board of Directors.

## **SIGNIFICANT DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT**

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

## **MANAGEMENT'S REPRESENTATIONS**

We have made specific inquiries of the Bank's management about the representations embodied in the financial statements. Additionally, we have requested that management provide to us the written representations the Bank is required to provide to its independent auditors under generally accepted auditing standards. We have attached to this letter, as Attachment I, a copy of the representation letter we obtained from management.

**CONTROL-RELATED MATTERS**

We have issued a separate report to you, dated April 14, 2014, on the Bank's internal control over financial reporting and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters, which was based upon the audit performed in accordance with *Government Auditing Standards*. We have communicated to management, in separate letters also dated April 14, 2014, other matters that we identified during our audit.

\* \* \* \* \*

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

Very truly yours,

*Deloitte & Touche LLP*



**FEDERATED STATES OF MICRONESIA  
DEVELOPMENT BANK  
Corporate Office  
P.O. Box M  
KOLONIA, POHNPEI, FM 96941**

April 14, 2014

Deloitte & Touche LLP  
361 South Marine Drive  
Tamuning, Guam 96913

We are providing this letter in connection with your audits of the statements of net position of the Federated States of Micronesia Development Bank (the "Bank" or "FSMDB") (a component unit of the FSM National Government), as of December 31, 2013 and 2012, and the related statements of operations and net position and of cash flows for the years then ended, and the statements of fiduciary net position of Investment Development Fund, the Pohnpei Development Loan Fund, and the Yap Development Loan Fund (the Funds), administered by the Bank, as of December 31, 2013 and 2012, and the related statements of changes in fiduciary net position for the years then ended, and the related notes to the financial statements, for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the financial positions, and results of operations and/or changes in net position or cash flows of the Bank and of the Funds in conformity with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the following:

- a. The fair presentation in the basic financial statements of financial position, results of operations, and cash flows of the Bank and the Funds, in conformity with accounting principles generally accepted in the United States of America (GAAP).
- b. The design, implementation, and maintenance of programs and controls to prevent and detect fraud, including fraud related to federal awards.
- c. Establishing and maintaining effective internal control over financial reporting.
- d. The review and approval of the financial statements, accompanying schedules 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 the accounting policies generally accepted in the United States of America. Our review was based on the use of the AICPA State and Local Government Financial Statement and Note Disclosure Checklist. Additionally, we agreed with the adjusting entries included in Appendix A.

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

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The FSM Development Bank is an equal opportunity employer, provider and lender. For Discrimination Complaints, please write to: the Chairman of the Board of Directors, P.O. box M, Kolonia, Pohnpei 96941; E-mail: [info@fsmdb.fm](mailto:info@fsmdb.fm)

Deloitte & Touche  
April 14, 2014  
Page 2

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

1. The basic financial statements referred to above are fairly presented in conformity with GAAP. In addition:
  - a. Net position components (net investment in capital assets; restricted; and unrestricted) are properly classified and, if applicable, approved.
  - b. Deposits and investment securities are properly classified in the category of custodial credit risk.
  - c. Capital assets, including infrastructure assets, are properly capitalized, reported, and, if applicable, depreciated.
  - d. Revenues and expenses are appropriately classified in the statements of revenues, expenses and changes in net position within operating revenues, non-operating revenues and expenses.
2. Regarding required supplementary information:
  - a. We confirm that we are responsible for the required supplementary information
  - b. The required supplementary information is measured and presented in accordance with GASB Codification Section 2200, *Comprehensive Annual Financial Report*
  - c. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period
3. Regarding supplementary information:
  - a. We are responsible for the fair presentation of the supplementary information in accordance with GAAP
  - b. We believe the supplementary information, including its form and content, is fairly presented in accordance with GAAP
  - c. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period
4. We have made available to you all relevant information and access as agreed in the terms of the audit engagement letter.
5. We have provided you:
  - a. Financial records and related data.
  - b. Contracts and grant agreements (including amendments, if any) and any other correspondence that has taken place with federal agencies.

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- c. Minutes of the meetings of the Board of Directors, as follows: .

<u>Name</u>	<u>Date</u>
Regular Meeting	January 28 and 29, 2013
Regular Meeting	May 1 and 2, 2013
Organization Meeting	May 1 and 2 2013
Special Meeting	June 16, 2013
Regular Meeting	July 23 and 24, 2013
Special Meeting	October 14, 2013
Regular Meeting	November 27 and 28, 2013
Regular Meeting (draft)	January 29 and 30, 2014

6. There has been no:
- Action taken by the Bank's management that contravenes the provisions of federal laws and FSM National laws and regulations, or of contracts and grants applicable to the Bank and for all funds administered by the Bank.
  - 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 of the Bank and of the Funds.
7. We believe the effects of any uncorrected financial statement misstatements aggregated by you during the current audit engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. A summary of such uncorrected misstatements has been attached as Appendix B.
8. We believe the effects of the uncorrected financial statement misstatement detected in the current year that relates to the prior year presented, when combined with those misstatements aggregated by you during the prior year audit engagement and pertaining to the prior year presented, are immaterial, both individually and in the aggregate, to the financial statements for the year ended December 31, 2012 taken as a whole. The uncorrected misstatement has been attached as Appendix C.
9. The Bank has not performed a formal risk assessment, including the assessment of the risk that the financial statements may be materially misstated as a result of fraud. However, management has made available to you their understanding about the risks of fraud in the Authority and do not believe that the financial statements are materially misstated as a result of fraud.
10. We have no knowledge of any fraud or suspected fraud affecting the Bank involving:
- Management.
  - Employees who have significant roles in internal control over financial reporting.
  - Others if the fraud could have a material effect on the financial statements.
11. We have no knowledge of any allegations of fraud or suspected fraud affecting the Bank received in communications from employees, former employees, analysts, regulators, or others.

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Deloitte & Touche  
 April 14, 2014  
 Page 4

12. There are no unasserted claims or assessments that legal counsels have advised us are probable of assertion and must be disclosed in accordance with GASB Codification of Governmental Accounting and Financial Reporting Standards ("GASB Codification") Section C50, *Claims and Judgments*.
13. Significant assumptions used by us in making accounting estimates are reasonable.
14. We are responsible for compliance with FSM laws, rules and regulations, and provisions of grants and contracts relating to the Bank'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 Bank is responsible for maintaining accounting and administrative control over revenues, obligations, expenditures, assets and liabilities.
15. 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.
16. There are no reportable conditions, including significant deficiencies and material weaknesses, in the design or operation of internal control that could adversely affect the Bank's ability to initiate, record, process or report financial information.

Except where otherwise stated below, matters less than \$92,000 (FSMDB) or \$10,600 (the Funds) 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.

17. Except as listed in Appendix B and C, there are no transactions that have not been properly recorded in the accounting records underlying the financial statements.
18. The Bank has no plans or intentions that may affect the carrying value or classification of assets and liabilities.
19. 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 Bank is contingently liable. The Bank, from time to time, may issue conditional guarantees to commercial banks for commercial loan borrowers that may represent 50% to 90% of the total outstanding loan balances. There were no outstanding loan guarantees to which the Bank is contingently liable as of December 31, 2013 and 2012.
20. 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:

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- 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.
21. There are no:
- a. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
  - b. Known actual or possible litigation and claims whose effects should be considered and accounted for and disclosed in the financial statements and that have not been disclosed to you.
  - c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB Codification Section C50, *Claims and Judgments*. T
22. The Bank carries insurance to cover its potential risks from vehicle usage. The Bank is substantially self-insured for all other risks. Management is of the opinion that no material losses have been sustained as a result of this practice during the past three years.
23. The Bank 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 the financial statements.
24. The Bank has complied with all aspects of contractual agreements that would have an effect on the financial statements in the event of noncompliance.
25. With regard to the fair value measurements and disclosures of certain assets, 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 fair values are in conformity with accounting principles generally accepted in the United States of America.
26. Financial instruments with significant individual or group concentration of credit risk have been appropriately identified, properly recorded, and disclosed in the financial statements.
27. 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.
28. The Bank is responsible for determining and maintaining the adequacy of the allowance for doubtful notes, loans, interfund receivables, and accounts receivable, as well as estimates used to determine such amounts. Management believes the allowances are adequate to absorb currently estimated bad debts in the account balances.

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 April 14, 2014  
 Page 6

29. We believe that all expenditures that have been deferred to future periods are recoverable.
30. The Bank has obligated, expended, received, and used public funds in accordance with the purpose for which such funds have been appropriated or otherwise authorized by Guam or federal law. Such obligation, expenditure, receipt, or use of public funds was in accordance with any limitations, conditions, or mandatory directions imposed by Guam or federal law.
31. Money or similar assets handled by the Bank on behalf of the FSM National Government or U.S. Federal Government have been properly and legally administered and the accounting and recordkeeping related thereto is proper, accurate, and in accordance with law.
32. During fiscal year 2013, the Bank implemented the following pronouncements:
- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, which improved financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity*, and No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively. The implementation of this statement did not have a material effect on the Bank's and the Funds' financial statements.
  - GASB Statement No. 66, *Technical Corrections - 2012*, which enhanced the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. The implementation of this statement did not have a material effect on the Bank's and the Funds' financial statements.

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans, and Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 67 are effective for financial statements for periods beginning after June 15, 2013. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of these statements on the financial statements of the Bank and the Funds.

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*, which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The provisions in Statement 69 are effective for fiscal years beginning after December 15, 2013. Management has not yet determined the effect of implementation of these statements on the financial statements of the Bank and the Funds.

In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the

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April 14, 2014  
Page 7

guarantor will be required to make a payment to the obligation holders under the agreement. The provisions in Statement 69 are effective for fiscal years beginning after June 15, 2013. Management has not yet determined the effect of implementation of these statements on the financial statements of the Bank and the Funds.

33. No events have occurred after December 31, 2013, but before April 14, 2014, the date the financial statements were available to be issued that require consideration as adjustments to or disclosures in the financial statements.



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Anna Mendiola  
CEO/President



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Sihna Lawrence  
CFO

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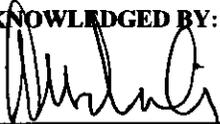
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**APPENDIX A  
POSTED ADJUSTMENTS & RECLASSIFICATIONS**

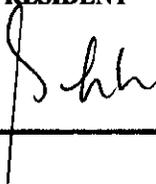
ADJUSTMENTS

#	Name	Debit	Credit
<b>1 AJE To correct beginning net position</b>			
50200-005	LATE CHARGES - YDLF	-	-
32010-003	UNRESERVED-PDLF	7,163.00	-
36000-000	RETAINED EARNINGS	-	3,814.00
36000-005	PREVIOUS RETAINED EARNINGS - YDLF	-	4,547.00
71000-001	UTILITIES - HQ	766.00	-
37000-000	ID Retained Earnings	432.00	-
		<u>8,361.00</u>	<u>8,361.00</u>
	To adjust differences in beginning net position.		
<b>2 AJE To adjust allowance for loan losses-direct</b>			
10250-001	ALLOWANCE FOR D/L-HQ	-	22,934.00
10250-002	ALLOWANCE FOR D/L-KOSRAE	-	657,011.00
10250-004	ALLOWANCE FOR D/L-CHUUK	1,865,701.00	-
10250-005	ALLOWANCE FOR D/L-YAP	-	156,114.00
71800-001	PROV FOR D/L -HQ	22,934.00	-
71800-002	PROV FOR D/L - KOSRAE	657,011.00	-
71800-004	PROV FOR D/L - CHUUK	-	1,865,701.00
71800-005	PROV FOR D/L - YAP	156,114.00	-
		<u>2,701,760.00</u>	<u>2,701,760.00</u>
	To adjust allowance for loan losses - direct loans.		
<b>9 AJE To adjust allowance for loan losses-IDF</b>			
10285-002	ID ALLOWANCE FOR D/L - KIDF	-	1,365,654.00
10285-006	ID ALLOWANCE FOR D/L - PSIDF	-	815,831.00
DT4 (IDF TB)	Bad debt expense - IDF	2,181,485.00	-
		<u>2,181,485.00</u>	<u>2,181,485.00</u>
	To adjust allowance for loan losses - IDF loans.		

ACKNOWLEDGED BY:



ANNA MENDIOLA, CEO/PRESIDENT



SIHNA LAWRENCE, CFO

**APPENDIX B  
UNCORRECTED FINANCIAL STATEMENT MISSTATEMENTS**

Description of Misstatement	Assets	Liabilities	Equity	Income Statement
	Dr. (Cr.)	Dr. (Cr.)	Dr. (Cr.)	Dr. (Cr.)
# 1				
Dr. Accrued interest receivable	21,535			
Cr. Interest income				(21,535)
<i>To adjust interest receivable for two loans that were erroneously presented as nonaccrual at YE</i>				
#2				
Dr. Interest income				47,138
Cr. Loans receivable	(47,138)			
<i>To adjust for unreconciled loan difference (SL vs. GL)</i>				
<b>TOTAL UNCORRECTED MISSTATEMENTS</b>	<b>(25,603)</b>	<b>0</b>	<b>0</b>	<b>25,603</b>

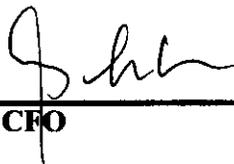
**APPENDIX C  
PRIOR YEAR UNCORRECTED FINANCIAL STATEMENT MISSTATEMENTS DETECTED  
IN THE CURRENT YEAR**

Description of Misstatement	Assets	Liabilities	Equity	Income Statement
	Dr. (Cr.)	Dr. (Cr.)	Dr. (Cr.)	Dr. (Cr.)
#1				
Dr. Investment gain				31,121
Dr. Beginning net position			60,744	
Cr. Accrued interest receivable - investments	(47,138)			
<i>To reverse overaccrued bonus based on actual payout</i>				
<b>TOTAL UNCORRECTED MISSTATEMENTS</b>	<b>(47,138)</b>	<b>0</b>	<b>60,744</b>	<b>31,121</b>

**ACKNOWLEDGED BY:**



**ANNA MENDIOLA, CEO/PRESIDENT**



**SIHNA LAWRENCE, CFO**