



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

Tel: +1 (671) 646-3884
Fax: +1 (671) 649-4265

www.deloitte.com

March 21, 2019

The Board of Directors
Federated States of Micronesia Development Bank

Dear Members of the Board of Directors:

We have performed audits of the financial statements of the Federated States of Micronesia Development Bank (the Bank) and the fiduciary financial statements of the Investment Development Fund and the Yap Development Loan Fund (the Funds) as of and for the year ended December 31, 2018, in accordance with auditing standards generally accepted in the United States of America ("generally accepted auditing standards") and have issued our reports thereon dated March 21, 2019.

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.

This report is intended solely for the information and use of the Board of Directors, management, 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

cc: The Management of Federated States of Micronesia Development Bank

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 November 30, 2018. 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, 2018 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, 2018;
- To express an opinion on whether the respective statements of fiduciary net position of the Funds, administered by the Bank, as of December 31, 2018 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; and
- To report on the Bank'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, 2018 based on an audit of financial statements performed in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*.

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 and the Funds' 2018 financial statements include management's estimate of the allowance for loan losses, which is determined by management based upon periodic review of the collectability 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, 2018, we are not aware of any significant changes in accounting estimates or in management's judgments relating to such estimates.

CORRECTED AND UNCORRECTED MISSTATEMENTS

Our audit of the financial statements was designed to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. Included in Attachment I as Appendix A, is a summary of corrected misstatements which were brought to the attention of management as a result of our audit procedures and were corrected by management during the current period. In addition, included in Attachment I as Appendix B, is an uncorrected misstatement aggregated by us during the current engagement and pertaining to the latest period presented that was determined by management to be immaterial to the financial statements taken as a whole.

SIGNIFICANT ACCOUNTING POLICIES

During the year ended December 31, 2018, the Bank and the Funds implemented the following pronouncements:

- GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended*, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments.
- GASB Statement No. 85, *Omnibus 2017*, which address practice issues that have been identified during implementation and application of certain GASB Statements including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits).
- GASB Statement No. 86, *Certain Debt Extinguishment Issues*, which improves consistency in accounting and financial reporting for in-substance defeasance of debt.

The implementation of these statements did not have a material effect on the Bank's and the Funds' financial statements.

SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs) associated with the retirement of a tangible capital asset. The provisions in Statement No. 83 are effective for fiscal years beginning after June 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of all state and local governments. The provisions in Statement No. 84 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2017, GASB issued Statement No. 87, *Leases*, which establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The provisions in Statement No. 87 are effective for fiscal years beginning after December 15, 2019. Management has yet to determine whether the implementation of this statement will have a material effect on the financial statements.

In April 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, which improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. The provisions in Statement No. 88 are effective for fiscal years beginning after June 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The provisions in Statement No. 89 are effective for fiscal years beginning after December 15, 2019. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In August 2018, GASB issued Statement No. 90, *Majority Equity Interests – an Amendment of GASB Statements No. 14 and No. 61*, which improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and the relevance of financial statement information for certain component units. The provisions in Statement No. 90 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

OTHER INFORMATION IN THE ANNUAL REPORTS

When audited financial statements are included in documents containing other information such as the Bank's 2018 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 2018 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 2018 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 2018.

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.

EMPHASIS OF MATTER

As discussed in Note 1 to the financial statements, Bank elected to present an unclassified statement of net position because current assets are not matched with current liabilities. Our opinion is not modified with respect to this matter.



The Board of Directors
Federated States of Micronesia Development Bank
March 21, 2019

Page 6

CONTROL-RELATED MATTERS

We have issued a separate report to you, dated March 21, 2019, 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 a separate letter also dated March 21, 2019, other matters that we identified during our audit.



**FEDERATED STATES OF MICRONESIA
DEVELOPMENT BANK**

Corporate Office

P.O. Box M

POHNPEI, FSM 96941

Telephone: (691) 320-2840/5300/2419/2624/5223

Fax: (691) 320-2842/5798

March 21, 2019

Deloitte & Touche LLP
361 South Marine Corps Drive
Tamuning GU, 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"), a component unit of the FSM National Government, as of December 31, 2018 and 2017, and the related statements of revenues, expenses, and changes in net position and of cash flows for the years then ended, and the statements of fiduciary net position and of changes in fiduciary net position of the Investment Development Fund and the Yap Development Loan Fund (together, the "Funds") as of and for the years ended December 31, 2018 and 2017, 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 position, results of operations, and cash flows of the Bank and of the Funds in conformity with accounting principles generally accepted in the United States of America (GAAP).

We confirm that we are responsible for the following:

- a. The preparation and fair presentation in the financial statements of financial position of the Bank and the Funds in conformity with GAAP.
- b. The design, implementation, and maintenance of internal control:
 - Relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error
 - To prevent and detect fraud.

The review and approval of the financial statements and related notes and acknowledge your role in the preparation of this information. Specifically, we acknowledge that your role in the preparation of the financial statements was a matter of convenience rather than one of necessity. We have reviewed the financial statement preparation assistance provided by you and acknowledge that the financial statements are prepared in accordance with GAAP. Our review was based on the use of the financial statement disclosure checklist for stand-alone business-type activities obtained from the Government Finance Officers Association. Additionally, we agreed with the adjusting and reclassification entries included in Appendix A.

Deloitte & Touche LLP
March 21, 2019

Page 2

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

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

1. The 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 investments 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. Required supplementary information is measured and presented within prescribed guidelines.
 - e. 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.
 - f. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
2. The Bank has provided to you all relevant information and access as agreed in the terms of the audit engagement letter.
3. The Bank has made available to you:
 - a. All minutes of the meetings of the Board of Directors or summaries of actions of recent meetings for which minutes have not yet been prepared. Specifically, the following meetings from January 1, 2018 to the date of this letter, have been provided to you:
 - January 29, 2018
 - April 25, 2018
 - April 26, 2018
 - May 16, 2018
 - August 1, 2018
 - October 30, 2018
 - January 28, 2019 (in draft format)
 - b. All financial records and related data for all financial transactions of the Bank and for all funds administered by the Bank. The records, books, and accounts, as provided to you, record the financial and fiscal operations of all funds administered by the Bank and provide

the audit trail to be used in a review of accountability. Information presented in financial reports is supported by the books and records from which the financial statements have been prepared.

- c. Contracts and grant agreements (including amendments, if any) and any other correspondence that has taken place with federal agencies.
4. There has been no:
 - a. Action taken by the Bank's management that contravenes the provisions of federal laws and FSM laws and regulations, or of contracts and grants applicable to the Bank and to all funds administered by the Bank. Specifically, the Bank is authorized to undertake loan administrative actions including collections and charge-offs of IDF loans.
 - b. Communications with 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.
 5. We believe the effects of any uncorrected financial statement misstatements aggregated by you during the current audit engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. A summary of such uncorrected misstatements has been attached as Appendix B.
 6. The 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 Bank and do not believe that the financial statements are materially misstated as a result of fraud.
 7. We have no knowledge of any fraud or suspected fraud affecting the Bank involving:
 - a. Management.
 - b. Employees who have significant roles in internal control over financial reporting.
 - c. Others, where the fraud could have a material effect on the financial statements.
 8. We have no knowledge of any allegations of fraud or suspected fraud affecting the Bank's financial statements communicated by employees, former employees, analysts, regulators, or others.
 9. There are no unasserted claims or assessments that we are aware of or that legal counsel has 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*.
 10. Significant assumptions used by us in making accounting estimates are reasonable.
 11. We are responsible for the compliance with local, state, and federal 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 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.

12. 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.

Except where otherwise stated below, immaterial matters less than \$116,000 (the Bank) and \$4,300 (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 basic financial statements.

13. Except as listed in Appendix B, there are no transactions that have not been properly recorded and reflected in the financial statements.
14. The Bank has no plans or intentions that may affect the carrying value or classification of assets and liabilities.
15. Regarding related parties:
 - a. We have disclosed to you the identity of the Bank's related parties and all the related-party relationships and transactions of which we are aware.
 - b. To the extent applicable, related parties and all the related-party relationships and transactions, including sales, purchases, loans, transfers, leasing arrangements, and guarantees (written or oral) have been appropriately identified, properly accounted for, and disclosed in the financial statements.
16. To the extent applicable, guarantees have been appropriately identified, properly recorded and disclosed in the financial statements, whether written or oral, under which the Bank is contingently liable. The Bank, from time to time, is contingently liable on loan guarantees ranging from 50% to 90% of the outstanding loan balances for commercial projects within the FSM. There were no outstanding guaranteed loan balances as of December 31, 2018 and 2017.
17. In preparing the financial statements in conformity with GAAP, management uses estimates. All estimates have been disclosed in the financial statements for which known information available prior to the issuance of the financial statements indicates that both of the following criteria are met:
 - a. It is reasonably possible that the estimate of the effect on the financial statements of a condition, situation, or set of circumstances that existed at the date of the financial statements will change in the near term due to one or more future confirming events
 - b. The effect of the change would be material to the financial statements.
18. There are no:
 - a. Instances of identified or suspected noncompliance with laws and regulations whose effects

should be considered when preparing the financial statements

- b. Known actual or possible litigation and claims whose effects should be considered when preparing the financial statements that have not been disclosed to you and accounted for and disclosed in accordance with GAAP
 - c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB Codification Section C50, *Claims and Judgments*.
19. 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.
 20. The Bank has complied with all aspects of contractual agreements that may affect the financial statements in the event of noncompliance, including all requirements associated with the terms in the August 2010 Finance Contract with the European Investment Bank (the EIB Finance Contract).
 21. No department or agency of the Bank has reported a material instance of noncompliance to us.
 22. There were no control deficiencies in the design or operation of internal control over financial reporting that could adversely affect the Bank's ability to initiate, record, process and report financial information.
 23. The Bank has disclosed whether, subsequent to December 31, 2018 and 2017, any changes in internal control or other factors that might significantly affect internal control, including any corrective action taken by management with regard to significant deficiencies and material weaknesses, have occurred.
 24. No evidence of fraud, possible irregularities, or dishonesty in fiscal operations of programs administered by the Bank has been discovered.
 25. 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.
 26. Regarding supplementary information:
 - a. We are responsible for the fair presentation of the supplementary information in accordance with GAAP and the EIB Finance Contract.
 - b. We believe the supplementary information, including its form and content, is fairly presented in accordance with GAAP and the EIB Finance Contract.

- c. The method of measurement and presentation of the supplementary information has not changed from those used in the prior period.
27. 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 in accordance with GAAP.
 - b. The completeness and adequacy of the disclosures related to fair values are in conformity with GAAP.
 - c. No events have occurred after December 31, 2018 and 2017, but before March 21, 2019, the date the financial statements were available to be issued that require adjustment to the fair value measurements and disclosures included in the financial statements.
28. During the year ended December 31, 2018, the Bank implemented the following pronouncements:
- GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, which replaces the requirements of Statements No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended, and No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, and provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments.
 - GASB Statement No. 85, Omnibus 2017, which address practice issues that have been identified during implementation and application of certain GASB Statements including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits).
 - GASB Statement No. 86, Certain Debt Extinguishment Issues, which improves consistency in accounting and financial reporting for in-substance defeasance of debt.

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

In November 2016, GASB issued Statement No. 83, Certain Asset Retirement Obligations, which addresses accounting and financial reporting for certain asset retirement obligations (AROs) associated with the retirement of a tangible capital asset. The provisions in Statement No. 83 are effective for fiscal years beginning after June 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In January 2017, GASB issued Statement No. 84, Fiduciary Activities, which establishes criteria for identifying fiduciary activities of all state and local governments. The provisions in Statement No. 84 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2017, GASB issued Statement No. 87, Leases, which establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The provisions in Statement No. 87 are effective for fiscal years beginning after December 15, 2019. Management has yet to determine whether the implementation of this statement will have a material effect on the financial statements.

In April 2018, GASB issued Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements, which improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. The provisions in Statement No. 88 are effective for fiscal years beginning after June 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2018, GASB issued Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period, which requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The provisions in Statement No. 89 are effective for fiscal years beginning after December 15, 2019. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In August 2018, GASB issued Statement No. 90, Majority Equity Interests – an Amendment of GASB Statements No. 14 and No. 61, which improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and the relevance of financial statement information for certain component units. The provisions in Statement No. 90 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

29. Financial instruments with significant individual or group concentration of credit risk have been appropriately identified, properly recorded, and disclosed in the financial statements.
30. 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.
31. 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 for the Bank's and the Funds' financial statements. Management believes the allowances are adequate to absorb estimated bad debts in account balances.
32. We believe that all expenditures that have been deferred to future periods are recoverable.
33. The Bank's retirement plan (the Plan) is a self-administered program established to pay retirement, disability and survivor income to employees and their survivors to supplement similar benefits that employees receive from the FSM Social Security System. The Plan is a contributory plan in which the Bank matches 100% of the participants' contributions up to a maximum of 10 percent of the participant's annual salary, if the participant contributes 3 or more percent from his or her annual salary. Employee participation is optional. The Bank's Chief Financial Officer is the designated Plan Administrator. Matching contributions to the Plan

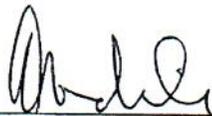
Deloitte & Touche LLP
March 21, 2019

Page 8

during the years ended December 31, 2018 and 2017 were \$65,239 and \$57,506, respectively. Total Plan assets as of December 31, 2018 and 2017 were \$1,140,152 and \$1,066,825, respectively. Management is of the opinion that the Plan does not represent an asset or a liability of the Bank.

34. During the year ended December 31, 2015, the Bank was awarded a \$250,000 Home Energy Loan Program grant from the International Union for Conservation of Nature Resources (IUCN). \$232,000 of the grant is to be awarded to the qualified borrowers for new loans to construct homes that demonstrate features and measures designed to conserve energy, reduce consumption of fossil fuels and enhance energy efficiency as principle reduction of loans, while the remaining \$18,000 will be used by the Bank for renovations to improve energy efficiency. As of December 31, 2018 and 2017, \$224,940 has been received and \$73,889 and \$43,889, respectively, expended by the Bank. A grant extension was received during the year ended December 31, 2018.
35. 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 FSM law. Such obligation, expenditure, receipt or use of public funds was in accordance with any limitations, conditions, or mandatory directions imposed by FSM law.
36. No events have occurred after December 31, 2018, but before March 21 2019, the date the financial statements were available to be issued that require consideration as adjustments to or disclosures in the financial statements.

Very truly yours,



Anna Mendiola
President/CEO



Brandon Tara
Chief Financial Officer

Deloitte & Touche LLP
March 21, 2019

Page 9

APPENDIX A

Corrected Misstatements:

Audit Adjustments

#	Name	Debit	Credit
1 AJE To correct value of investment in BFSM stocks.			
10120-001	Investment - BOFSM	350,880	
60100-001	Income/Loss from BFSM Stock - HQ		350,880

To increase value of investment in BFSM stocks accounted using equity method.

Financial Statement Reclassifications

#	Name	Debit	Credit
1 RJE Investment reclassified into CDs			
DT2	TCD - Investment reclass	2,412,006	
10116-001	Investments - FSMDB (Abroad)		2,412,006
To record reclassification of TCDs in investment account.			
2 RJE Investment reclassified into cash			
DT1	Cash & cash equipment - investment reclass	1,410,586	
DT6	Investments - FSMDB (Abroad)		1,410,586

To record reclassification of cash in investment account.

Deloitte & Touche LLP
March 21, 2019

Page 10

APPENDIX B**Uncorrected Misstatements:****Audit Adjustments**

#	Name	Debit	Credit
1 PAJE Allowance for loan losses			
8210A	Provision for loan losses - FSMDB	261,350	
10250-001	Allowance for D/L - HQ	85,314	
10250-004	Allowance for D/L - Chuuk	184,560	
10250-002	Allowance for D/L - Kosrae		250,549
10250-005	Allowance for D/L - Yap		280,675

To correct allowance for loan losses as of yearend based on test of credit rating.