

February 8, 2013

His Excellency Christopher J. Loeak  
President  
Republic of the Marshall Islands

Dear Mr. President:

We have performed an audit of the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Republic of the Marshall Islands (RepMar) as of and for the year ended September 30, 2011, in accordance with auditing standards generally accepted in the United States of America (“generally accepted auditing standards”) and have issued our report thereon dated February 8, 2013, which report was modified to include an explanatory paragraph concerning the correction of an error, a reference to other auditors, and a reference for the adoption of a new accounting standard.

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 RepMar is responsible.

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

Our responsibility under generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, has been described in our engagement letter dated September 12, 2011. As described in that letter, the objective of a financial statement audit conducted in accordance with the aforementioned standards is:

- To express an opinion on the fairness of each opinion unit in RepMar’s basic financial statements and the accompanying supplementary information, and to disclaim an opinion on the required supplementary information for the year ended September 30, 2011 in conformity with accounting principles generally accepted in the United States of America (“generally accepted accounting principles”), in all material respects;
- To express an opinion on whether the supplementary information that accompanies the basic financial statements is presented fairly, in all material respects, in relation to the basic financial statements taken as a whole;
- To report on RepMar’s internal control over financial reporting and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the year ended September 30, 2011 based on an audit of financial statements performed in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*; and

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

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

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

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

## **ACCOUNTING ESTIMATES**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are ordinarily based on knowledge and experience about past and current events and on assumptions about future events. Significant accounting estimates reflected in RepMar's 2011 financial statements include management's estimate of the allowance for uncollectible accounts, which is determined based upon past collection experience and aging of the accounts, and management's estimate of depreciation expense, which is based on estimated useful lives of the respective capital assets. During the year ended September 30, 2011, we are not aware of any significant changes in accounting estimates or in management's judgments relating to such estimates.

## **UNCORRECTED MISSTATEMENTS**

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

## **MATERIAL CORRECTED MISSTATEMENTS**

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

## **SIGNIFICANT ACCOUNTING POLICIES**

RepMar's significant accounting policies are set forth in Note 1 to RepMar's 2011 financial statements. During the year ended September 30, 2011, there were no significant changes in previously adopted accounting policies or their application, except for the following pronouncements adopted by RepMar:

- GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions.
- GASB Statement No. 59, *Financial Instruments Omnibus*, which updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools.

## **DISAGREEMENTS WITH MANAGEMENT**

We have not had any disagreements with management related to matters that are material to RepMar's 2011 financial statements.

## **CONSULTATION WITH OTHER ACCOUNTANTS**

We are not aware of any consultations that management may have had with other accountants about auditing and accounting matters during 2011.

## **MANAGEMENT'S REPRESENTATIONS**

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

## **MAJOR ISSUES DISCUSSED WITH MANAGEMENT PRIOR TO OUR ENGAGEMENT OR RETENTION**

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

## **OTHER SIGNIFICANT ISSUES DISCUSSED, OR SUBJECT OF CORRESPONDENCE, WITH MANAGEMENT**

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

His Excellency Christopher J. Loeak  
President  
Republic of the Marshall Islands  
February 8, 2013

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

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

## **CONTROL-RELATED MATTERS**

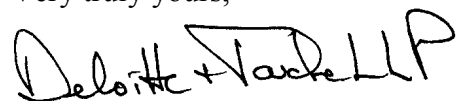
We have issued a separate report to you, also dated February 8, 2013, containing certain matters involving RepMar's internal control over financial reporting that we consider to be material weaknesses or significant deficiencies under standards established by the American Institute of Certified Public Accountants, and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. We have also issued a separate report to you, also dated February 8, 2013, concerning certain matters involving RepMar's compliance with requirements applicable to each major program and on internal control over compliance in accordance with OMB Circular A-133. Although we have included management's written responses to our comments contained in those reports, such responses have not been subjected to the auditing procedures applied in our audit of the basic financial statements and, accordingly, we do not express an opinion or provide any form of assurance on the appropriateness of the responses or the effectiveness of any corrective actions described therein.

We also noted certain matters that we reported to management of RepMar in a separate letter dated February 8, 2013.

\* \* \* \* \*

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

Very truly yours,

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

Journal Entries			
#	Name	Debit	Credit
	<b>1 AJE To correct double recording of 3% property tax</b>		
100100-06040	IMMOVABLE PROPERTY TAX	965,874.65	-
510610-04510	TRANSFER OUT	-	965,874.65
		965,874.65	965,874.65
	To reverse double recording of 3% immovable property tax levied on the Kwajalein landowners escrow payment recorded by G12-91G.		
	<b>2 AJE To record investment in PIDB</b>		
100100-04510	TRANSFER OUT	-	248,250.00
100100-15040	INVESTMENT IN PIDB	248,250.00	-
		248,250.00	248,250.00
	To record first installment made by RepMar as the RMI's share in the PIDB.		
	<b>3 AJE To reduce MWSC tax receivable balance</b>		
100100-23020	LOAN RECEIVABLE - MWSC	-	36,264.00
100100-23021	ALLOW FOR DOUBTFUL - MWSC	36,264.00	-
		36,264.00	36,264.00
	To reduce receivable and related allowance as amount was paid in full in FY 2011.		
	<b>4 AJE To correct RMIPA receipt</b>		
100100-06350	OTHR SALES&CHARGES SERV	-	70,361.03
100100-07610	TRANSFER IN	70,361.03	-
		70,361.03	70,361.03
	To correctly record cash receipt from RMI Ports Authority for October-December 2010 land lease payment.		
	<b>5 AJE To escheat cancelled checks</b>		
100100-50060	A/P - CAN'D GEN FUND CKS	99,479.64	-
100100-55020	CANCELLED PAYROLL FDS CKS	2,698.41	-
100100-06350	OTHR SALES&CHARGES SERV	-	108,586.55
100100-02750	OTHER CHARGES & EXPENSES	6,408.50	-
		108,586.55	108,586.55
	To escheat stale-dated checks and correct balance of cancelled checks liabilities.		
	<b>6 AJE To correct RMIPA receipts</b>		
100100-55040	A/P LANDOWNERS	267,109.14	-
100100-06350	OTHR SALES&CHARGES SERV	-	267,109.14
		267,109.14	267,109.14
	To correctly record RMI Ports Authority cash receipts (CR #s 393840, 399666, 400132, & 406545)		
	<b>7 AJE To correct ADB loans principal repayment</b>		
100100-04010	INTEREST EXPENSE	401,185.17	-
100100-04020	PRINCIPAL REPAYMENT	-	401,185.17
		401,185.17	401,185.17
	To correct ADB loans principal repayment and record related interest expense.		

Journal Entries			
#	Name	Debit	Credit
	<b>8 AJE To record ADB loan proceeds</b>		
100100-50207	MEC LOAN PAYABLE TO ADB	9,979,846.47	-
100100-07810	LOAN PROCEEDS	-	9,979,846.47
		9,979,846.47	9,979,846.47
	To record ADB loan proceeds received in October 2010 for Loan Number 2659-RMI (SF).		
	<b>9 AJE To recognize cancelled checks liability</b>		
950000-13010	GENERAL FUND TRSRY - BOG	126,483.14	-
100100-50060	A/P - CAN'D GEN FUND CKS	-	126,483.14
		126,483.14	126,483.14
	To recognize stale-dated general fund checks as a liability in accordance with the Financial Management Act.		
	<b>10 AJE To recognize cancelled checks liability</b>		
950000-13015	EBEYE GENERAL ACCT - BOMI	24,245.82	-
100100-50060	A/P - CAN'D GEN FUND CKS	-	24,245.82
		24,245.82	24,245.82
	To recognize stale-dated Ebeye general fund checks as a liability in accordance with the Financial Management Act.		
	<b>11 AJE To recognize cancelled checks liability</b>		
950000-13018	EBEYE USAKA ACCOUNT - BOG	31,612.38	-
100100-50060	A/P - CAN'D GEN FUND CKS	-	31,612.38
		31,612.38	31,612.38
	To recognize stale-dated Ebeye USAKA account checks as a liability in accordance with the Financial Management Act.		
	<b>12 AJE To recognize cancelled checks liability</b>		
950000-13020	PAYROLL TRSRY FUND - BOM	26,361.55	-
100100-50060	A/P - CAN'D GEN FUND CKS	-	26,361.55
		26,361.55	26,361.55
	To recognize stale-dated payroll account checks as a liability in accordance with the Financial Management Act.		
	<b>13 AJE To recognize revenue for Japan grant payments</b>		
100100-06350	OTHR SALES&CHARGES SERV	-	619,430.70
100100-50208	RMI-JAPAN NON PRJCT FUND	619,430.70	-
		619,430.70	619,430.70
	MEC payments into RepMar bank acct # 0205-263973 as stipulated by a prior year Japan grant should be recognized as revenue as it does not represent a liability to another party.		
	<b>14 AJE To correct transfer in and record interest income</b>		
100100-06505	INTEREST INCOME	-	497.96
100100-07610	TRANSFER IN	497.96	-
		497.96	497.96
	To record interest income earned on BOMI UMDA shares account.		

Journal Entries #	Name	Debit	Credit
	<b>15 AJE To record loan payments from MEC</b>		
100100-06505	INTEREST INCOME	-	89,043.80
100100-07610	TRANSFER IN	417,096.00	-
100100-22032	ADV TO MEC - ADB LOAN	-	328,052.20
		417,096.00	417,096.00
	To record payments from MEC on ADB sub-loan and correct transfer in.		
	<b>16 AJE To correct Single Audit expenditure</b>		
510130-01515	AUDIT EXPENSE	-	26,250.32
100100-01515	AUDIT EXPENSE	26,250.32	-
		26,250.32	26,250.32
	To correct General Fund matching share of Single Audit expenditure.		
	<b>17 AJE To record receivable from RMIPA</b>		
100100-22005	A/R - GENERAL	285,714.29	-
100100-24802	ALLOW FOR DOUBTFUL - GENL	-	285,714.29
		285,714.29	285,714.29
	To record receivable from RMIPA for unpaid balance of \$500,000 contribution to RepMar's general fund.		
	<b>18 AJE To correct allowance accounts</b>		
100100-24802	ALLOW FOR DOUBTFUL - GENL	-	96,616.90
100100-24801	ALLOW FOR DOUBTFUL	96,616.90	-
		96,616.90	96,616.90
	To correct for receivables written off against the wrong allowance account; JV # G12-198G.		
	<b>19 AJE To correct allowance for other receivables</b>		
100100-24801	ALLOW FOR DOUBTFUL	58,004.30	-
100100-06350	OTHR SALES&CHARGES SERV	-	58,004.30
		58,004.30	58,004.30
	To correct allowance for receivables which had previously been fully provided for; collections for such were posted in FY2011.		
	<b>20 AJE To record transfer of debt from MRI</b>		
100100-50020	A/P - NOT IN CAPPS- OTHER	-	290,000.57
100100-02710	BAD DEBT EXPENSE	-	174,000.00
100100-02750	OTHER CHARGES & EXPENSES	464,000.57	-
		464,000.57	464,000.57
	An amended High Court judgment (Civil Action No. 2008-085) against RepMar/MRI in favor of MISSA was entered on June 4, 2010. A post-judgment agreement was executed on 11/25/2010 requiring RepMar to pay MISSA \$14,500/mo. Pursuant to this agreement, MRI's debt to MISSA was transferred to RepMar.		
	<b>21 AJE To correct receivable from ROC</b>		
100100-07505	FOREIGN OPERATING GRANTS	-	1,000,000.00
100100-21020	A/R ROC GRANTS	1,000,000.00	-
		1,000,000.00	1,000,000.00
	To correct receivable from ROC and correct grant revenue. Grant funding for 2 quarters in FY2011 were received in FY2012.		



Journal Entries			
#	Name	Debit	Credit
	<b>22 AJE To record transfer out to the Judiciary Fund</b>		
100100-04510	TRANSFER OUT	16,077.00	-
200330-07610	TRANSFER IN	-	16,077.00
		16,077.00	16,077.00
	To record transfer out to the Judiciary Fund to fund additional expenditures recorded in Fund 200330.		
	<b>23 AJE To record transfer out to LGF</b>		
100100-04510	TRANSFER OUT	330,906.15	-
300600-07610	TRANSFER IN	-	330,906.15
		330,906.15	330,906.15
	To record transfer out to Local Government Fund to cover the LGF's FY2011 expenditures.		
	<b>24 AJE To correct cancelled checks liability</b>		
100100-50060	A/P - CAN'D GEN FUND CKS	17,245.00	-
100100-55020	CANCELLED PAYROLL FDS CKS	-	17,245.00
		17,245.00	17,245.00
	To correct cancelled checks liability for payroll checks included with general account checks.		
	<b>25 AJE To record transfer from MOJ to GF</b>		
200332-04510	TRANSFER OUT	253,240.00	-
100100-07610	TRANSFER IN	-	253,240.00
		253,240.00	253,240.00
	To record transfer of excess funds from Ministry of Justice special revenue fund to General fund in accordance with enabling legislation.		
	<b>26 AJE To adjust the reserve for related assets</b>		
100100-91020	RESERVE FOR RELATED ASSET	-	9,881,736.61
100100-92040	FUND BALANCE-UNDESIGNATED	9,881,736.61	-
		9,881,736.61	9,881,736.61
	To adjust fund balance reservation for certain assets which are not available to fund future appropriations.		
	<b>27 AJE To adjust the OAG reimbursable account</b>		
510130-21012	A/R - COMPACT	39,269.62	-
510130-07060	SINGLE AUDIT	-	39,269.62
510130-01515	AUDIT EXPENSE	39,269.62	-
100100-24070	AUDITOR GEN/REIMBURS ACCT	-	78,539.25
100100-01515	AUDIT EXPENSE	39,269.63	-
		117,808.87	117,808.87
	<b>28 AJE To accrue for disputed land lease payments</b>		
100100-50020	A/P - NOT IN CAPPS- OTHER	-	195,058.00
100100-02210	LAND LEASE	195,058.00	-
		195,058.00	195,058.00
	To accrue for land lease payments not paid as at year end due to legal action but determined as owing per CM 093 (2011).		
	<b>29 AJE To record ADB loan # 2659-RMI</b>		
985000-31170	AMOUNT TO BE PROVIDED	9,979,846.47	-
985000-77010	ADB LOANS PAYABLE	-	9,979,846.47
		9,979,846.47	9,979,846.47


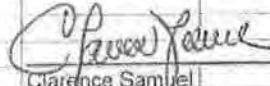


Journal Entries #	Name	Debit	Credit
	<b>30 AJE To record transfer in from Grants Assistance Fund</b>		
300612-24090	A/R - 177 HEALTH PLAN	27,902.00	-
300612-07610	TRANSFER IN	-	986,926.00
300612-01520	CONTRACTUAL SERVICES	959,024.00	-
		986,926.00	986,926.00
	To record transfer in from Fund 600350 for grant support received through RepMar, as reported in the audited 12/31/2011 financial statement for Trinity Health International Section 177 Health Plan Agreement with the Republic of the Marshall Islands.		
	<b>31 AJE To record charter revenue income</b>		
200105-06315	VESSAL RENTAL & SHIP FEE	-	20,692.00
200105-07610	TRANSFER IN	20,692.00	-
		20,692.00	20,692.00
	To record charter revenue income and correct transfer in related to charter of YFU-82 boat to transport school furnitures to Outer Islands schools.		
	<b>32 AJE To record contributions from ROC &amp; GF</b>		
300618-07610	TRANSFER IN	-	1,219,197.00
700370-04510	TRANSFER OUT	400,000.00	-
100100-04510	TRANSFER OUT	819,197.00	-
		1,219,197.00	1,219,197.00
	To record contributions of \$819,197 and \$400,000 from the GF and ROC, respectively.		
	<b>33 AJE To correct reserve for related assets</b>		
300618-92040	FUND BALANCE-UNDESIGNATED	4,553,823.00	-
300618-91020	RESERVE FOR RELATED ASSET	-	4,553,823.00
		4,553,823.00	4,553,823.00
	To correct reserve for related assets		
	<b>34 AJE To record trust fund activities</b>		
300618-15020	TRUST FUND- FHB	-	1,926,645.00
300618-06510	NET CHANGE FAIR VALUE/INV	-	1,095,625.00
300618-06515	DIVIDENDS	-	207,521.00
300618-01510	PROFESSIONAL SERVICES	20,106.00	-
300618-06505	INTEREST INCOME	-	153.00
300618-02750	TRUST FUND - OTHER EXP	3,209,838.00	-
		3,229,944.00	3,229,944.00
	To record trust fund revenues and expenditures during fiscal year 2011.		
	<b>35 AJE To correct accrued contract payable</b>		
510100-03219	CONSTRUCTION	236,900.00	-
510100-50010	A/P CAPPS	-	236,900.00
		236,900.00	236,900.00
	To correct accrued contract payable related to contract # CO2131; total invoice amounted to \$460,000, of which only \$223,100 was accrued as of 9/30/2011.		

Journal Entries			
#	Name	Debit	Credit
	<b>36 AJE To correct accrued contract payable</b>		
510110-03219	CONSTRUCTION	-	61,626.00
510110-50010	A/P CAPPS	61,626.00	-
		61,626.00	61,626.00
	To correct accrual of contract payable (ck#91560) related to contract # CO3781; such pertains to FY2012.		
	<b>37 AJE To transfer IMF expenditures to correct Fund</b>		
510110-02325	REPAIRS	441,759.52	-
510110-03219	CONSTRUCTION	64,908.92	-
700370-02325	REPAIRS	-	441,759.52
700370-03219	CONSTRUCTION	-	64,908.92
		506,668.44	506,668.44
	To transfer Compact Infrastructure Maintenance Fund expenditures recorded in Fund 700370 to Fund 510110.		
	<b>38 AJE To correctly record Education Sector grants</b>		
410100-07005	CMPCT II 211A EDUC SECTOR	-	99,999.91
410110-07010	CMPCT II 211A HEALTH SCTR	99,999.91	-
		99,999.91	99,999.91
	To correctly record August 2011 Compact Education Sector grant receipts.		
	<b>39 AJE To reverse prior year A/R for Compact Health grant</b>		
410110-07010	CMPCT II 211A HEALTH SCTR	-	210,169.00
410110-21012	A/R - COMPACT	210,169.00	-
		210,169.00	210,169.00
	To correct reversal of A/R for Compact Health Sector MDR TB grant (CC # CA3211); \$642,093 was accrued as of 9/30/2010, however, only \$431,924 of that amount was received in FY 2011.		
	<b>40 AJE To correct retention payable balance</b>		
510100-03219	CONSTRUCTION	166,515.27	-
510100-55050	RETENTION PAYABLE	-	166,515.27
		166,515.27	166,515.27
	To correct retention payable balance at 9/30/2011.		
	<b>41 AJE To correct reversal of PY A/R accrual</b>		
510100-07050	CMPCT II 211D PUB INFRUST	2,223,602.00	-
510120-07050	CMPCT II 211D PUB INFRUST	-	2,223,602.00
		2,223,602.00	2,223,602.00
	To correct reversal of PY A/R accrual in Fund 510100; reversal was incorrectly posted to Fund 510120.		
	<b>42 AJE To record IMF matching transfer</b>		
510110-07610	TRANSFER IN	-	514,816.00
700370-04510	TRANSFER OUT	514,816.00	-
		514,816.00	514,816.00
	To record transfer out from ROC Fund to the Compact IMF Fund; such was the local match to the U.S. contribution for FY2011.		

Journal Entries #	Name	Debit	Credit
	<b>43 AJE To correct Federal AR in Fund 510110</b>		
510110-07055	CMPCT II INFRASTRUCT MTNS	133,259.98	-
510110-21012	A/R - COMPACT	-	133,259.98
		133,259.98	133,259.98
	To correct Federal AR in Fund 510110 IMF as expenditures are based on funding provided.		
	<b>44 AJE To correct Compact Single Audit revenues</b>		
510130-21012	A/R - COMPACT	-	26,250.32
510130-07060	SINGLE AUDIT	26,250.32	-
		26,250.32	26,250.32
	To correct Compact Single Audit revenues to agree with eligible expenditures.		
	<b>45 AJE To correct Federal AR and revenues</b>		
410110-07010	CMPCT II 211A HEALTH SCTR	71,618.07	-
100100-02750	OTHER CHARGES & EXPENSES	-	27,042.18
410102-21012	A/R - COMPACT	-	44,575.89
		71,618.07	71,618.07
	To correct mispostings done through JV #s G12-263G and G12-293P.		
	<b>46 AJE To correct A/R Compact Infrastructure</b>		
510100-07050	CMPCT II 211D PUB INFRUST	-	2,383,595.27
510100-21012	A/R - COMPACT	2,383,714.36	-
510100-92040	FUND BALANCE-UNDESIGNATED	-	119.09
		2,383,714.36	2,383,714.36
	To correct A/R from Compact for Public Infrastructure expenditures in excess of revenues.		
	<b>47 AJE To correct Compact Sector Grants expenditures</b>		
410102-02420	BOOKS	-	269,308.06
410102-50010	A/P CAPPs	269,308.06	-
		269,308.06	269,308.06
	To correct accrual of Compact Sector Grants expenditures, which pertain to FY2012.		
	<b>48 AJE To correct receivable from ROC</b>		
700370-07505	FOREIGN OPERATING GRANTS	-	1,377,352.64
700370-21020	A/R ROC GRANTS	1,377,352.64	-
		1,377,352.64	1,377,352.64
	To correct receivable from ROC and correct grant revenue. Grant funding for 2 quarters in FY2011 were received in FY2012.		
	<b>49 AJE To correct subsidy/grant payments</b>		
600350-50010	A/P CAPPs	200,000.00	-
600350-02750	OTHER CHARGES & EXPENSES	-	200,000.00
510100-03219	CONSTRUCTION	-	243,422.00
510100-50010	A/P CAPPs	243,422.00	-
		443,422.00	443,422.00
	To correct subsidy/grant payments to component units in FY2012 which were accrued in fiscal year 2011.		

Journal Entries			
#	Name	Debit	Credit
	<b>50 AJE To record funds advanced to NTA</b>		
510110-07610	TRANSFER IN	-	1,000,000.00
510110-23017dt	LOAN RECEIVABLE - NTA	1,000,000.00	-
		1,000,000.00	1,000,000.00
	To correct recording of interest-free loan provided to NTA as per agreement executed on April 29, 2011 funded by Compact Infrastructure Sector funds.		
	<b>51 AJE To record liability to DOI</b>		
410100-07005	CMPCT II 211A EDUC SECTOR	770,734.00	-
410100-72070	DUE TO DOI	-	770,734.00
410120-07015	CMPCT II 211A PB SC CPBLD	4,219.00	-
410120-72070	DUE TO DOI	-	4,219.00
410150-07030	CMPCT II 211A 1 ESN	72,667.00	-
410150-72070	DUE TO DOI	-	72,667.00
		847,620.00	847,620.00
	To record liability to DOI for unexpended Compact Sector Grant funds based on final SF-272 report.		
	<b>52 AJE To adjust federal grants receivable</b>		
600350-21010	A/R FEDERAL GRANTS	-	267,664.00
600350-91010	RESERVE FOR ENCUMBRANCE	6,080.00	-
600350-07205	DIRECT OPERATING GRANTS	261,584.00	-
		267,664.00	267,664.00
	To adjust federal grant revenues so as to recognize grants revenues based on expenditures incurred.		
	<b>53 AJE To correct SEG grant receivable</b>		
410102-07058	SUPPLEMENTAL EDU. GRANT	780,530.91	-
410102-21012	A/R - COMPACT	-	780,530.91
		780,530.91	780,530.91
	To correct SEG grant receivable for grant revenues received after year end relating to SEG 2010 grant that expires at 9/30/11.		
	<b>54 AJE To reverse vacation leave accrual</b>		
600350-01115	PERS BENEFITS - MARSH	-	61,584.00
410102-01115	PERS BENEFITS - MARSH	-	61,408.00
410100-01115	PERS BENEFITS - MARSH	-	38,463.00
410110-01115	PERS BENEFITS - MARSH	-	4,882.00
100100-01115	PERS BENEFITS - MARSH	-	308,892.51
410150-01115	PERS BENEFITS - MARSH	-	4,329.00
200090-01115	PERS BENEFITS - MARSH	-	4,160.00
950000-75985	DTF LONG TERM DEBT FUND	483,718.51	-
		483,718.51	483,718.51
	To reverse accrued annual leave incorrectly recorded at the governmental fund level per JV #s G12-238P and G12-245P.		

Journal Entries		Debit	Credit
#	Name		
	55 AJE To transfer reconciliation variances to the GF		
410110-02750	OTHER CHARGES & EXPENSES	-	22,178.29
100100-02020	TRAVEL	63,728.32	-
100100-02750	OTHER CHARGES & EXPENSES	22,178.29	-
410150-02020	TRAVEL	-	63,728.32
		85,906.61	85,906.61
	To transfer/charge unknown reconciliation variances in Compact Sector Grants Funds (#s 410110 and 410150) to the General Fund.		
We have reviewed the adjustments above and authorize that they be recorded in the General Ledger as of as of September 30, 2011. The adjustments are the result of errors and are not the result of fraud or illegal acts.			
 Alfred Alfred, Jr. Secretary of Finance		 Clarence Samuel Assistant Secretary of Finance	





**Republic of the Marshall Islands**  
**Ministry of Finance**

P.O. Box D ~ Majuro ~ Marshall Islands ~ 96960  
Phone No. (692) 625-8322 ~ Fax No. (692) 625-3607 ~ Email Address: secfin@ntamar.com

February 8, 2013

Deloitte & Touche LLP  
361 SOUTH MARINE CORPS DRIVE  
TAMUNING, GU 96913

We are providing this letter in connection with your audit of the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Republic of the Marshall Islands (the "Government"), as of and for the year ended September 30, 2011, which collectively comprise the Government's basic financial statements for the purpose of expressing an opinion as to whether the basic financial statements present fairly, in all material respects, the financial position, results of operations or changes in fund balances, and cash flows of the Government in conformity with accounting principles generally accepted in the United States of America (GAAP).

We confirm that we are responsible for the following:

- a. The fair presentation in the basic financial statements of financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information, in conformity with GAAP.
- b. The 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 and related notes and acknowledge your role in the preparation of this information. Specifically, we acknowledge that your role in the preparation of the financial statements was a matter of convenience rather than one of necessity. We have reviewed the financial statement preparation assistance provided by you and acknowledge that the financial statements are prepared in accordance with GAAP. Our review was based on the use of the financial statement disclosure checklist for a general-purpose government obtained from the Government Finance Officers Association.

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

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

1. The basic financial statements referred to above are fairly presented in conformity with GAAP. In addition:
  - a. The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.
  - b. The financial statements properly classify all funds and activities, including special and extraordinary items.
  - c. All funds that meet the quantitative criteria in the GASB Codification of Government Accounting and Financial Reporting Standards section 2200.153 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.
  - d. Net asset components (invested in capital assets, net of related debt; restricted; and unrestricted) and fund balance reserves and designations are properly classified and, if applicable, approved.
  - e. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
  - f. Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
  - g. Interfund, internal, and intra-government activity and balances have been appropriately classified and reported.
  - h. Deposits and investment securities are properly classified in the category of custodial credit risk.
  - i. Capital assets, including infrastructure assets, are properly capitalized, reported, and, if applicable, depreciated.
  - j. Required supplementary information is measured and presented within prescribed guidelines.
  - k. Applicable laws and regulations are followed in adopting, approving, and amending budgets.
  - l. Federal awards expenditures have been charged in accordance with applicable cost principles.



2. The Government has provided to you all relevant information and access as agreed in the terms of the audit engagement letter.
3. The Government has provided you:
  - a. Public Laws as enacted by the Nitijela.
  - b. Financial records and related data for all financial transactions of the Government and for all funds administered by the Government except as disclosed in the Schedule of Findings and Questioned Costs Section of your Independent Auditors' Reports on Internal Control and on Compliance. The records, books, and accounts, as provided to you, record the financial and fiscal operations of all funds administered by the Government and provide the audit trail to be used in a review of accountability. Information presented in financial reports is supported by the books and records from which the financial statements have been prepared.
  - c. Contracts and grant agreements (including amendments, if any) and any other correspondence that has taken place with federal agencies.
4. There has been no:
  - a. Action taken by Government management that contravenes the provisions of federal laws and Marshall Island laws and regulations, or of contracts and grants applicable to the Government.
  - b. Communication from other regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices or other matters that could have a material effect on the financial statements.
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 A.
6. We believe the effects of the uncorrected financial statement misstatements detected in the current year that relate to the prior year presented, when combined with those misstatements aggregated by you during the prior-year audit engagement and pertaining to the prior year presented, are immaterial, both individually and in the aggregate, to the financial statements for the year ended September 30, 2010 taken as a whole. A summary of such uncorrected misstatements has been attached as Appendix B.

7. We understand payroll insurance expenditures was tested using statistical or other sampling techniques and that certain errors in recording payroll insurance expenditures as of September 30, 2011 were found by you in the sample items selected. The effect of the known errors identified has been included in the summary of uncorrected misstatements attached to this letter as Appendix A. We also understand that to estimate the total amount of errors in payroll insurance expenditures, a mathematical projection of the likely errors has been computed, which results in a potential overstatement of \$26,321 at September 30, 2011. Only additional testing and verification by either the Government or you would produce a more accurate estimate of the errors within payroll insurance expenditures. Such potential overstatement is not included as part of Appendix A. Based on our judgment of the materiality of the overstatement, we believe the effects of such potential unrecorded errors, as well as the effects when considered with the items in Appendix A, are immaterial to the financial statements taken as a whole.
8. We understand accounts payable was tested using statistical or other sampling techniques and that certain errors in recording accounts payable as of September 30, 2011 were found by you in the sample items selected. The effect of the known errors identified has been included in the summary of uncorrected misstatements attached to this letter as Appendix A. We also understand that to estimate the total amount of errors in accounts payable, a mathematical projection of the likely errors has been computed, which results in a potential understatement of \$246,463 at September 30, 2011. Only additional testing and verification by either the Government or you would produce a more accurate estimate of the errors within accounts payable. Such potential understatement is not included as part of Appendix A. Based on our judgment of the materiality of the understatement, we believe the effects of such potential unrecorded errors, as well as the effects when considered with the items in Appendix A, are immaterial to the financial statements taken as a whole.
9. The Government has not performed a risk assessment, including the assessment of the risk that the financial statements may be materially misstated as a result of fraud. However, management has made available to you their understanding about the risks of fraud in the Government and do not believe that the financial statements are materially misstated as a result of fraud.
10. We have no knowledge of any fraud or suspected fraud affecting the Government involving:
  - a. Management.
  - b. Employees who have significant roles in internal control over financial reporting.
  - c. Others if the fraud could have a material effect on the financial statements.
11. We have no knowledge of any allegations of fraud or suspected fraud affecting the Government received in communications from employees, former employees, analysts, regulators, or others.
12. There are no unasserted claims or assessments that legal counsel has advised us are probable of assertion and must be disclosed in accordance Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 450, *Contingencies*, except as disclosed in note 13 to the financial statements.

13. Significant assumptions used by us in making accounting estimates are reasonable.
14. The Schedule of Expenditures of Federal Awards was prepared in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. We have identified in that schedule all awards provided by federal agencies in the form of grants, contracts, loans, loan guarantees, property, cooperative agreements, interest subsidies, insurance, or direct appropriations. We have also properly identified subrecipient expenditures. In addition, we have accurately completed the appropriate sections of the data collection form.
15. We are responsible for compliance with local, state, and federal laws, rules, and regulations, including compliance with the requirements of OMB Circular A-133, and provisions of grants and contracts relating to the Government's operations. We are responsible for establishing and maintaining the components of internal control relating to our activities in order to achieve the objectives of providing reliable financial reports, effective and efficient operations, and compliance with laws and regulations. The Government is responsible for maintaining accounting and administrative control over revenues, obligations, expenditures, assets, and liabilities.
16. We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance for federal programs that provides reasonable assurance that we are managing federal awards in compliance with laws, regulations, and provisions of contracts or grant agreements that could have a material effect on its federal programs.
17. We have disclosed to you all deficiencies in the design or operation of internal control over financial reporting identified as part of our evaluation, including separately disclosing to you all such deficiencies that are significant deficiencies or material weaknesses in internal control over financial reporting.
18. We have:
  - a. Identified the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each federal program as identified in Part 3 of the Compliance Supplement dated March 2011.
  - b. Complied, in all material respects, with the requirements identified above in connection with federal awards.
  - c. Identified and disclosed interpretations of any compliance requirements that have varying interpretations.
  - d. Made available all information related to federal financial reports and claims for advances and reimbursements. Federal financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared and are prepared on a basis consistent with that presented in the Schedule of Expenditures of Federal Awards. The copies of federal program financial reports provided are true copies of the reports submitted, or electronically transmitted, to the federal agency or pass-through entity, as applicable.

- e. Monitored subrecipients to determine that they have expended pass-through assistance in accordance with applicable laws and regulations and have met the requirements of Circular A-133.
  - f. Taken appropriate corrective action on a timely basis after receipt of a subrecipient's auditor's report that identifies noncompliance with laws, regulations, or the provisions of contracts or grant agreements.
  - g. Considered the results of the subrecipient's audits and made any necessary adjustments to the auditee's own books and records.
  - h. Identified and disclosed all amounts questioned and any known noncompliance with the requirements of federal awards, including the results of other audits or program reviews related to the objectives of the audit.
  - i. Identified previous financial audits, attestation engagements, performance audits, or other studies related to the objectives of the audit and the corrective actions taken to address significant findings and recommendations, including the status of follow-up on prior audit findings (and information about all management decisions) by federal awarding agencies and pass-through entities.
  - j. Provided to you our views on the reported findings, conclusions, and recommendations for your report.
19. We are responsible for follow-up on all prior-year(s) findings. We have prepared a summary schedule of prior-year findings reporting the status of our efforts in implementation of the prior-year's corrective action plan.
  20. We have included in the corrective action plan for current-year findings, the name of the person in our organization responsible for implementation of the actions, the best actions to be taken, and the estimate of a completion date. We have taken timely and appropriate steps to remedy fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse that you report.
  21. 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.
  22. We have adopted the provisions of GASB Codification of Government Accounting and Financial Reporting Standards Section 2100, *Defining the Financial Reporting Entity*. We believe that we have properly identified and reported as a component unit of the Government each organization that meets the criteria established in GASB Codification of Government Accounting and Financial Reporting Standards Section 2100, *Defining the Financial Reporting Entity*.

Except where otherwise stated below, matters less than \$200,000 collectively are not considered to be exceptions that require disclosure for the purpose of the following representations. This amount is not necessarily indicative of amounts that would require adjustment to, or disclosure in, the basic financial statements.

23. Except as listed in Appendices A and B, there are no transactions that have not been properly recorded in the accounting records underlying the financial statements.



24. The Government has no plans or intentions that may affect the carrying value or classification of assets and liabilities.
25. The following, to the extent applicable, have been appropriately identified, properly recorded, and disclosed in the financial statements:
  - a. Related-party transactions and associated amounts receivable or payable, including sales, purchases, loans, transfers, leasing arrangements, and guarantees (written or oral).
  - b. Guarantees, whether written or oral, under which the Government is contingently liable.
26. In preparing the financial statements in conformity with GAAP, management uses estimates. All estimates have been disclosed in the financial statements for which known information available prior to the issuance of the financial statements indicates that both of the following criteria are met:
  - a. It is at least reasonably possible that the estimate of the effect on the financial statements of a condition, situation, or set of circumstances that existed at the date of the financial statements will change in the near term due to one or more future confirming events.
  - b. The effect of the change would be material to the financial statements.
27. Risks associated with concentrations, based on information known to management, that meet all of the following criteria have been disclosed in the financial statements:
  - a. The concentration exists at the date of the financial statements.
  - b. The concentration makes the enterprise vulnerable to the risk of a near-term severe impact.
  - c. It is at least reasonably possible that the events that could cause the severe impact will occur in the near term.
28. There are no:
  - a. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, except as disclosed in the Schedule of Findings and Questioned Costs Section of your Independent Auditors' Reports on Internal Control and on Compliance.
  - b. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB ASC 450, *Contingencies*, except as disclosed in note 13 to the financial statements.
29. The Government has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral except as disclosed in notes 7 and 9 to the financial statements.

30. The Government has complied with all aspects of contractual agreements that may have an effect on the financial statements in the event of noncompliance, except as disclosed in the Schedule of Findings and Questioned Costs Section of your Independent Auditors' Reports on Internal Control and on Compliance.
31. No department or agency of the Government has reported a material instance of noncompliance to us.
32. The Government has identified all derivative instruments as defined by GASB Codification of Government Accounting and Financial Reporting Standards Section D40, *Derivative Instruments*, and appropriately recorded and disclosed such derivatives in accordance with GASB Codification of Government Accounting and Financial Reporting Standards Section D40.
33. Except as disclosed in note 14 to the financial statements, no events have occurred after September 30, 2011, but before the date of this letter, the date the financial statements were available to be issued that require consideration as adjustments to or disclosures in the financial statements.
34. 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 of Government Accounting and Financial Reporting Standards 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.
35. Regarding supplementary information:
  - a. We are responsible for the fair presentation of the supplementary information in accordance with GASB Codification of Government Accounting and Financial Reporting Standards Section 2200, *Comprehensive Annual Financial Report*.
  - b. We believe the supplementary information, including its form and content, is fairly presented in accordance with GASB Codification of Government Accounting and Financial Reporting Standards 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.
36. The cost method is used to account for the Government's investment in common stock of an investee where the common stock is either nonmarketable or of which the Government has a 20 percent or lesser ownership interest and thus the Government does not have the ability to exercise significant influence over the investee's operating and financial policies.

37. During fiscal year 2011, the Government implemented the following pronouncements:

- GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in the governmental funds. The Statement requires governments to disclose information in the notes about the processes through which constraints are imposed, as well as accounting policies that determine whether restricted, committed, assigned, and unassigned amounts are considered to be spent. This Statement also provides guidance for classifying stabilization amounts on the face of the balance sheet and requires disclosure of certain information about stabilization arrangements in the notes to the financial statements. As a result of implementation, the Statement of Revenues, Expenditures and Changes in Fund Balance for Governmental Funds have been restated due to reclassification of funds. Beginning fund balance for the Other Governmental Funds decreased by \$487,235 while the General Fund increased by \$487,235.
- GASB Statement No. 59, *Financial Instruments Omnibus*, which updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools. The implementation of this pronouncement did not have a material effect on the financial statements of the Government.

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

39. In December 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which addresses how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Government.

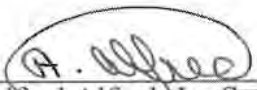
40. In December 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus*, which is designed to improve financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity*, and No. 34, *Basic Financial Statements—and Management's 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 provisions of this statement are effective for periods beginning after June 15, 2012. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Government.



41. In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Government.
42. In July 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which establishes guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Government.
43. In July 2011, GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions* (an amendment of GASB Statement No. 53), which will improve financial reporting by state and local governments by clarifying the circumstances in which hedge accounting continues to be applied when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The provisions of this statement are effective for periods beginning after June 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Government.
44. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances, line of credit, or similar arrangements have been properly disclosed in the financial statements.
45. The Government is exposed to various risks of loss related to torts; theft of damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. It is the policy of the primary government not to purchase commercial insurance for the risks of loss to which it is exposed. Instead, the Government management believes it is more economical to manage its risks internally. In the event of claim settlements and judgments, the Government reports all of its risk management activities in its General Fund. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. No losses have occurred as a result of these risks in any of the past three fiscal years.
46. We have appropriately identified and properly recorded and disclosed in the financial statements, where applicable, all interfund transactions, including repayment terms.
47. 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.

48. No evidence of fraud, possible irregularities, or dishonesty in fiscal operations of federal programs administered by the Government has been discovered, except as disclosed in the Schedule of Findings and Questioned Costs Section of your Independent Auditors' Reports on Internal Control and on Compliance.
49. Subsequent to the issuance of the Marshalls Energy Company, Inc. (MEC) 2010 financial statements, it was determined that fuel inventory was overstated by \$777,823 and that capital assets was overstated by \$1,048,625. Furthermore, subsequent to the issuance of the Tobolar Copra Processing Plant, Inc. (TCPPI) 2010 financial statements, it was determined that copra oil inventory was overstated by \$215,003. The effect of these restatements on net assets is a decrease in net assets as of October 1, 2010 of the component units' column of \$2,041,451 from \$92,350,705 to \$90,309,254.

Very truly yours,

  
\_\_\_\_\_  
Alfred Alfred, Jr., Secretary  
Ministry of Finance

  
\_\_\_\_\_  
Clarence Samuel, Assistant Secretary  
Ministry of Finance

## APPENDIX A

CURRENT YEAR UNCORRECTED MISSTATEMENTS				
Entry Description	Assets	Liabilities	Net Assets Beg of Year	Revenues & Expenses
	Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)
<b>GENERAL FUND:</b>				
To reclass debit balances in A/P landowners	94,861	(94,861)		
To correct overstatement of Tokyo Embassy payable		44,891		(44,891)
To reclass debit balances in accounts payable	48,134	(48,134)		
To correct overstatement of deferred revenue		314,697		(314,697)
To correct overstatement in payroll insurance expenditures	5			(5)
To correct understatement of contributions payable to SOPAC		(143,325)		143,325
To correct understatement of USP payable		(126,027)		126,027
To correct overstatement of USP payable		87,375		(87,375)
<b>GRANTS ASSISTANCE FUND:</b>				
To reverse FY2012 expenditure recorded in FY2011		41,810		(41,810)
To reverse FY2012 revenues recorded in FY2011	(41,810)			41,810
<b>COMPACT TRUST FUND:</b>				
None noted				
<b>OTHER GOVERNMENTAL FUNDS:</b>				
None noted				
<b>FIDUCIARY TRUST FUND:</b>				
None noted				
<b>GOVERNMENT-WIDE:</b>				
To correct overstatement of accrued annual leave		127,676		(127,676)
<b>Total Misstatements</b>	101,190	204,102		305,292

## APPENDIX B

PRIOR YEAR UNCORRECTED MISSTATEMENTS				
Entry Description	Assets	Liabilities	Net Assets Beg of Year	Revenues & Expenses
	Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)
<b>GENERAL FUND:</b>				
** To record Japan grant payments rec'd from MEC	165,347			(165,347)
** To record utility expenditures		(238,363)		238,363
<b>GRANTS ASSISTANCE FUND:</b>				
** To correct FY2010 expenditure recorded in FY2011		32,156		(32,156)
** To correct FY2010 expenditure recorded in FY2011		(460,000)		460,000
** To correct FY2010 revenues recorded in FY2011	460,000			(460,000)
<b>COMPACT TRUST FUND:</b>				
None noted				
<b>OTHER GOVERNMENTAL FUNDS:</b>				
None noted				
<b>FIDUCIARY TRUST FUNDS:</b>				
None noted				
<b>GOVERNMENT-WIDE</b>				
None noted				
<b>Total Misstatements</b>	625,347	(666,207)		40,860