

July 29, 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, 2012, in accordance with auditing standards generally accepted in the United States of America (“generally accepted auditing standards”) and have issued our report thereon dated July 29, 2013, which report was modified to include a reference to other auditors and an explanatory paragraph concerning collectability of receivables federal agencies.

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, AND OMB CIRCULAR A-133

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, 2012. 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, 2012 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, 2012 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 2012 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, 2012, 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 2012 financial statements. During the year ended September 30, 2012, there were no significant changes in previously adopted accounting policies or their application, except for the following pronouncements adopted by RepMar:

- GASB 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 the frequency and timing of measurements for actuarial valuations first used to report funded status information in OPEB plan financial statements.
- GASB 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 implementation of these pronouncements did not have a material effect on the financial statements of RepMar.

DISAGREEMENTS WITH MANAGEMENT

We have not had any disagreements with management related to matters that are material to RepMar's 2012 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 2012.

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.

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

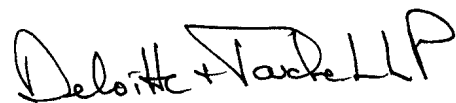
We have issued a separate report to you, also dated July 29, 2013, containing certain matters involving RepMar's internal control over financial reporting that we consider to be material weaknesses or significant deficiencies under standards established by the American Institute of Certified Public Accountants, 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 July 29, 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 July 29, 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,

The image shows a handwritten signature in black ink. The signature is written in a cursive, stylized font. It appears to read "Deloitte + Touche LLP". The signature is written over a white background.

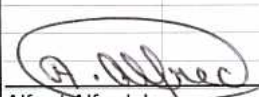
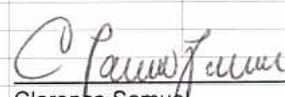
Journal Entries - AJE			
#	Name	Debit	Credit
1 AJE To record additional investment in PIDB			
100100-07610	TRANSFER IN	-	250,000.00
100100-15040	INVESTMENT - PIDB	250,000.00	-
		250,000.00	250,000.00
	To record the second installment made by RepMar towards the RMI's share in the Pacific Islands Development Bank.		
2 AJE To correct bad debts expense			
100100-02710	BAD DEBT EXPENSE	-	159,500.00
100100-02750	OTHER CHARGES & EXPENSES	159,500.00	-
		159,500.00	159,500.00
	To correct bad debts expenditure for misposted payments pertaining to amended High Court judgment (Civil Action No. 2008-085) against RepMar/MRI in favor of MISSA. Since, based on management's reconciliation of AP Not in CAPPs liability, other charges and expenditures were incurred by RepMar pertaining to additional liabilities to RMI-USP Joint Education Program, account 100100-02750 is debited.		
3 AJE To recognize revenue for Japan grant payments			
100100-06350	OTHR SALES&CHARGES SERV	-	206,476.90
100100-50208	RMI-JAPAN NON PRJCT FUND	206,476.90	-
		206,476.90	206,476.90
	MEC payments into RepMar bank acct # 0205-263973 as stipulated by a prior year Japan grant should have been recognized as revenue as it did not represent a liability to another party.		
4 AJE To correct tax receivable accrual			
100100-20010	A/R - TAXES	-	205,695.00
100100-06040	IMMOVABLE PROPERTY TAX	205,695.00	-
		205,695.00	205,695.00
	To reverse accrual of immovable property tax revenue pertaining to Oct-Dec 2012 Kwajalein land payments as such represents FY2013 tax revenue.		
5 AJE To correct accrued liability			
100100-50010	A/P CAPPs	13,250.00	-
100100-03135	VEHICLE	-	13,250.00
		13,250.00	13,250.00
	To reverse accrued liability for purchase of school bus from Elm Motor, as such represents a fiscal year 2013 expenditure. Total cost of bus is \$139,478; balance of \$126,228 was paid from Compact Education sector grant. No addition to vehicles was recorded during FY2012 at the government-wide financial statements level for this purchase.		
6 AJE To recognize cancelled checks liability			
950000-13020	PAYROLL TRSRY FUND - BOM	13,815.82	-
100100-55020	CANCELLED PAYROLL FDS CKS	-	13,815.82
		13,815.82	13,815.82
	To recognize stale-dated payroll account checks as a liability in accordance with the Financial Management Act.		
7 AJE To recognize cancelled checks liability			
950000-13018	EBEYE USAKA ACCOUNT - BOG	13,046.76	-
100100-50060	A/P - CAN'D GEN FUND CKS	-	13,046.76
		13,046.76	13,046.76
	To recognize stale-dated Ebeye USAKA account checks as a liability in accordance with the Financial Management Act.		

Journal Entries - AJE			
#	Name	Debit	Credit
8 AJE To recognize cancelled checks liability			
950000-13015	EBEYE GENERAL ACCT - BOMI	8,374.89	-
100100-50060	A/P - CAN'D GEN FUND CKS	-	8,374.89
		8,374.89	8,374.89
	To recognize stale-dated Ebeye general account checks as a liability in accordance with the Financial Management Act.		
9 AJE To escheat stale-dated checks			
100100-50060	A/P - CAN'D GEN FUND CKS	226,404.65	-
100100-55020	CANCELLED PAYROLL FDS CKS	15,554.70	-
100100-06350	OTHR SALES&CHARGES SERV	-	241,959.35
		241,959.35	241,959.35
	To escheat stale-dated checks in accordance with the Financial Management Act.		
10 AJE To reconcile AP not in CAPPs			
100100-50020	A/P - NOT IN CAPPs- OTHER	7,572.43	-
100100-02750	OTHER CHARGES & EXPENSES	-	7,572.43
		7,572.43	7,572.43
	To reconcile AP not in CAPPs with subsidiary ledger.		
11 AJE To record interfund transfer			
100100-04510	TRANSFER OUT	332,239.84	-
300600-07610	TRANSFER IN	-	332,239.84
		332,239.84	332,239.84
	To record transfer from General Fund to Local Government Fund to cover LGF's FY2012 expenditures. □		
12 AJE To record transfer from MOJ to GF			
100100-07610	TRANSFER IN	-	168,463.98
200332-04510	TRANSFER OUT	168,463.98	-
		168,463.98	168,463.98
	To record transfer of excess funds from Ministry of Justice special revenue fund to General fund in accordance with enabling legislation.		
13 AJE To adjust the reserve for related assets			
100100-91020	RESERVE FOR RELATED ASSET	15,169.59	-
100100-92040	FUND BALANCE-UNDESIGNATED	-	15,169.59
		15,169.59	15,169.59
	To adjust fund balance reservation for certain assets which are not available to fund future appropriations. □		
14 AJE To transfer reconciliation variances to the GF			
600350-02750	OTHER CHARGES & EXPENSE	-	34,354.48
510100-02750	OTHER CHARGES & EXPENSE	-	8,727.34
100100-02750	OTHER CHARGES & EXPENSES	76,441.82	-
410150-02750	OTHER CHARGES & EXPENSE	-	33,360.00
		76,441.82	76,441.82
	To transfer/charge unknown reconciliation variances in Grants Assistance Fund (fund #s 410150, 510100, and 600350) to the General Fund. □		
15 AJE To record transfer out to Fund 700360			
700360-07610	TRANSFER IN	-	827,455.37
100100-04510	TRANSFER OUT	827,455.37	-
		827,455.37	827,455.37
	To record transfer out to Fund 700360 to fund expenditures under Org # 4640		

Journal Entries - AJE			
#	Name	Debit	Credit
16 AJE To accrue utility liabilities			
100100-02215	UTILITIES	1,115,302.05	-
100100-50206	A/P - MEC UTILITIES	-	1,115,302.05
		1,115,302.05	1,115,302.05
	To recognize accrual for unrecorded utility billings, based on confirmations received from MEC (\$561,444.59) and KAJUR (\$553,857.46).N		
17 AJE To record DAEF matching transfer			
700370-04510	TRANSFER OUT	226,800.00	-
510120-07610	TRANSFER IN	-	226,800.00
		226,800.00	226,800.00
	To record transfer out from ROC Fund to the Compact DAEF; such was the local match for FY2012.		
18 AJE To correct accrued liability			
410100-03135	VEHICLE	-	126,228.00
410100-50010	A/P CAPPS	126,228.00	-
		126,228.00	126,228.00
	To reverse accrued liability for purchase of school bus from Elm Motor, as such represents a fiscal year 2013 expenditure. Total cost of bus is \$139,478; balance of \$13,250 was paid from General Fund. No addition to vehicles was recorded during FY2012 at the government-wide financial statements level for this purchase.		
19 AJE To record IMF matching transfer			
510110-07610	TRANSFER IN	-	497,910.00
700370-04510	TRANSFER OUT	497,910.00	-
		497,910.00	497,910.00
	To record transfer out from ROC Fund to the Compact IMF Fund; such was the local match to the U.S. contribution for FY2012.X		
20 AJE To correct Federal AR in IMF			
510110-07055	CMPCT II INFRASTRUCT MTNS	-	497,910.00
510110-07610	TRANSFER IN	673,215.82	-
510110-21012	A/R - COMPACT	-	175,305.82
		673,215.82	673,215.82
	To correct transfer in and Federal receivable in Fund 510110 IMF and accrue FY2012 Federal matching contribution for IMF; such was received by RepMar in January 2013.		
21 AJE To accrue Federal AR in DAEF			
510120-07045	CMPCT II 211E DIST ASSIST	-	226,800.00
510120-21012	A/R - COMPACT	226,800.00	-
		226,800.00	226,800.00
	To accrue FY2012 Federal matching contribution for DAEF; such was received by RepMar on 2/15/2013.		
22 AJE To reverse JV # G12-662P			
510110-03215	PROJECT A&E	-	107,683.30
700370-02325	REPAIRS	107,683.30	-
		107,683.30	107,683.30
	To reverse JV # G12-662P as such is not needed; the original APV # 181677 for this expenditure had previously been reversed.		
23 AJE To correct A/R Compact Infrastructure			
510100-07050	CMPCT II 211D PUB INFRU	-	2,463,355.33
510100-21012	A/R - COMPACT	2,463,355.33	-
		2,463,355.33	2,463,355.33
	To correct A/R from Compact for Public Infrastructure expenditures in excess of revenues.		

Page 3 of 5

Journal Entries - AJE			
#	Name	Debit	Credit
	24 AJE To correct encumbrances		
510100-91010	RESERVE FOR ENCUMBRANCE	128,057.77	-
510100-92030	ENCUMBRANCE CONTROL	-	128,057.77
		128,057.77	128,057.77
	To remove remaining obligation on contract # CO129501 as the project was completed in December 2009 and remove obligation per M0741601 as		
	25 AJE To transfer IMF expenditures		
510110-02325	REPAIRS	571,182.54	-
510110-03219	CONSTRUCTION	18,121.00	-
700370-02325	REPAIRS	-	571,182.54
700370-03219	CONSTRUCTION	-	18,121.00
		589,303.54	589,303.54
	To transfer IMF expenditures from ROC Projects Fund to Compact IMF Fund.		
	26 AJE To correct A/R Compact Education		
410100-07005	CMPCT II 211A EDUC SECT	22,346.55	-
410100-21012	A/R - COMPACT	-	22,346.55
		22,346.55	22,346.55
	To agree recorded grant revenues to related FY 2012 grant award.		
	27 AJE To correct A/R Compact SEG		
410102-07058	SUPPLEMENTAL EDU. GRANT	-	446,264.87
410102-21012	A/R - COMPACT	446,264.87	-
		446,264.87	446,264.87
	To recognize A/R at year end for drawdown made on remaining SEG grant received 4/1/13.		
	28 AJE To correct A/R Compact Health		
410110-07010	CMPCT II 211A HEALTH SC	173,549.03	-
410110-21012	A/R - COMPACT	-	173,549.03
		173,549.03	173,549.03
	To agree recorded grant revenues to related FY 2012 grant award.		
	29 AJE To correct A/R Compact PSCB		
410120-07015	CMPCT II 211A PB SC CPB	-	137,976.48
410120-21012	A/R - COMPACT	137,976.48	-
		137,976.48	137,976.48
	To agree recorded grant revenues to related FY 2012 grant award.		
	30 AJE To correct A/R Compact ESN		
410150-07030	CMPCT II 211A 1 ESN	22,150.91	-
410150-21012	A/R - COMPACT	-	22,150.91
		22,150.91	22,150.91
	To agree recorded grant revenues to related FY 2012 grant award.		
	31 AJE To correct DOI liability		
410120-07015	CMPCT II 211A PB SC CPB	4,149.00	-
410120-72070	DUE TO DOI	-	4,149.00
		4,149.00	4,149.00
	To correct liability owing to DOI paid on 12/10/12 on ck # 102979.		
	32 AJE To correct A/R Federal		
600350-21010	A/R FEDERAL GRANTS	440,397.71	-
600350-07205	DIRECT OPERATING GRANTS	-	440,397.71
		440,397.71	440,397.71

Journal Entries - AJE			
#	Name	Debit	Credit
33 AJE To record contribution to Trust Fund from ROC			
700370-04510	TRANSFER OUT	1,000,000.00	-
300618-07610	TRANSFER IN	-	1,000,000.00
		<u>1,000,000.00</u>	<u>1,000,000.00</u>
	To record contribution of \$1,000,000 from ROC for the RMI D Account. Such was transferred from the general bank account to the D Account on September 27, 2013.		
34 AJE To correct reserve for related assets			
300618-92040	FUND BALANCE-UNDESIGNATED	7,935,769.78	-
300618-91020	RESERVE FOR RELATED ASSET	-	7,935,769.78
		<u>7,935,769.78</u>	<u>7,935,769.78</u>
	To correct reserve for related assets.		
35 AJE To record Trust Fund activities			
300618-15020	TRUST FUND- FHB	6,935,769.78	-
300618-06510	NET CHANGE FAIR VALUE/INV	-	6,936,184.56
300618-06515	DIVIDENDS	-	442,995.73
300618-01510	PROFESSIONAL SERVICES	139,998.34	-
300618-06505	INTEREST INCOME	-	9.15
300618-02750	TRUST FUND - OTHER EXP	303,421.32	-
		<u>7,379,189.44</u>	<u>7,379,189.44</u>
	To record Trust Fund revenues and expenditures during fiscal year 2012.		
36 AJE To record transfer in from Grants Assistance Fund			
300612-24090	A/R - 177 HEALTH PLAN	-	56,815.00
300612-07610	TRANSFER IN	-	990,203.00
300612-01520	CONTRACTUAL SERVICES	1,047,018.00	-
		<u>1,047,018.00</u>	<u>1,047,018.00</u>
	To record transfer in from Fund 600350 for grant support received through RepMar and to record expenses as reported in the audited 12/31/2012 financial statement for Trinity Health International Section 177 Health Plan Agreement with the Republic of the Marshall Islands.X		
37 AJE To correct ADB loans payable			
985000-31170	AMOUNT TO BE PROVIDED	-	1,905,308.81
985000-77010	ADB LOANS PAYABLE	1,905,308.81	-
		<u>1,905,308.81</u>	<u>1,905,308.81</u>
	To correct ADB loans payable to agree with ADB confirmed balances as of 9/30/2012.		
38 AJE To correct annual leave payable			
985000-31170	AMOUNT TO BE PROVIDED	-	69,704.64
985000-60020	ACCRUED VACATION LEAVE	69,704.64	-
		<u>69,704.64</u>	<u>69,704.64</u>
	To reconcile annual leave payable to subsidiary ledger, excluding ineligible Org #s 1010, 1315, and 1415.		
We have reviewed the adjustments above and authorize that they be recorded in the General Ledger as of September 30, 2012. 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, Accounting and Administration	
Page 5 of 5			



Ministry of Finance
Republic of the Marshall Islands
P.O. Box D ~ Majuro, Marshall Islands 96960
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July 29, 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, 2012, 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 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. Minutes as executed by the Cabinet of RepMar.
 - c. Financial records and related data for all financial transactions of the Government and for all funds administered by the Government except as described in 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.
 - d. 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 Islands' 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, 2011 taken as a whole. A summary of such uncorrected misstatements has been attached as Appendix B.

7. We understand accounts payable was tested using statistical or other sampling techniques and that certain errors in recording accounts payable as of September 30, 2012 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 \$18,299 at September 30, 2012. 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.
8. We understand expenditures of the Grants Assistance Fund were tested using statistical or other sampling techniques and that certain errors in recording expenditures as of September 30, 2012 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 Grants Assistance Fund expenditures, a mathematical projection of the likely errors has been computed, which results in a potential understatement of \$110,028 at September 30, 2012. Only additional testing and verification by either the Government or you would produce a more accurate estimate of the errors within Grants Assistance Fund expenditures. 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. We understand compensated absences payable was tested using statistical or other sampling techniques and that certain errors in recording compensated absences payable as of September 30, 2012 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 compensated absences payable, a mathematical projection of the likely errors has been computed, which results in a potential overstatement of \$76,728 at September 30, 2012. Only additional testing and verification by either the Government or you would produce a more accurate estimate of the errors within compensated absences payable. 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.
10. 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.



11. 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.
12. 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.
13. 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.
14. Significant assumptions used by us in making accounting estimates are reasonable.
15. 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.
16. 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.
17. 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.
18. 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.

have

19. 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 August 2012.
 - 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.
20. 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.



21. We have included in the corrective action plan for current-year findings, the name of the person in our organization responsible for implementation of the actions, the best actions to be taken, and the estimate of a completion date. We have taken timely and appropriate steps to remedy fraud, illegal acts, violation of provisions of contracts or grant agreements, or abuse that you report.
22. 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.
23. 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 \$250,000 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.

24. 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.
25. The Government has no plans or intentions that may affect the carrying value or classification of assets and liabilities.
26. 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.
27. In preparing the financial statements in conformity with accounting principles generally accepted in the United States of America, 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.

28. Risks associated with concentrations, based on information known to management, that meet all of the following criteria have been disclosed in the financial statements:
- The concentration exists at the date of the financial statements.
 - The concentration makes the enterprise vulnerable to the risk of a near-term severe impact.
 - It is at least reasonably possible that the events that could cause the severe impact will occur in the near term.
29. There are no:
- 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.
 - 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.
30. 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.
31. The Government has complied with all aspects of contractual agreements that may have an effect on the financial statements in the event of noncompliance.
32. No department or agency of the Government has reported a material instance of noncompliance to us.
33. 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.
34. Except as disclosed in note 14 to the financial statements, no events have occurred after September 30, 2012, 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.
35. Regarding required supplementary information:
- We confirm that we are responsible for the required supplementary information.
 - 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*.
 - The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period.



36. 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.

37. During fiscal year 2012, the Government implemented the following pronouncements, implementation of which did not have a material effect on the financial statements:

- GASB 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 the frequency and timing of measurements for actuarial valuations first used to report funded status information in OPEB plan financial statements.
- GASB 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.

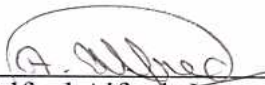
38. In December 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which addresses how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are 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.39. 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.

40. 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.
41. 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.
42. In April 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of the Government.
43. In April 2012, GASB issued Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of the Government.
44. In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans, and Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 67 are effective for financial statements for periods beginning after June 15, 2013. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of these statements on the financial statements of the Government.
45. Management of the Government believes that it is in compliance with all significant limitations and restrictions of all Asian Development Bank loan agreement covenants as of September 30, 2012.
46. Management of the Government believes that Resolution RMI 2011-7, dated August 29, 2011, which was adopted by the Trust Fund Committee of the Trust Fund for the People of the Republic of the Marshall Islands, is appropriate and correctly presents the transactional activity of the Compact Trust Fund as of September 30, 2012 and for the year then ended.

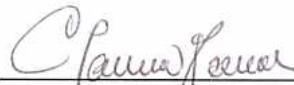
ATTACHMENT II, CONTINUED

47. 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.
48. 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.
49. We have appropriately identified and properly recorded and disclosed in the financial statements, where applicable, all interfund transactions, including repayment terms.
50. 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.
51. No evidence of fraud, possible irregularities, or dishonesty in fiscal operations of federal programs administered by the Government has been discovered.

Very truly yours,



Alfred Alfred, Jr.
Secretary of Finance



Clarence Samuel
Assistant Secretary, Accounting and
Administration

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)
GENERAL FUND:				
To correct fund transfer to escrow account	41,142	(41,142)		
To correct overstatement of deferred revenue		314,697		(314,697)
To correct overstatement of MIDB receivable	(28,486)			28,486
To correct overstatement of Tokyo embassy payable		44,891		(44,891)
To correct understatement of USP receivable	41,427			(41,427)
To correct understatement of accounts payable		(21,713)		21,713
To correct overstatement of interfund balances		55,573		(55,573)
To correct overstatement of investment balance	(300,000)			300,000
GRANTS ASSISTANCE FUND:				
To correct overstatement of accounts payable		78,758		(78,758)
To correct understatement of grants receivable	52,916			(52,916)
To correct understatement of accounts payable		(52,916)		52,916
COMPACT TRUST FUND:				
None noted				
OTHER GOVERNMENTAL FUNDS:				
None noted				
FIDUCIARY TRUST FUND:				
To correct overstatement of interfund balances	(55,573)			55,573
GOVERNMENT-WIDE:				
To correct overstatement of accrued annual leave		129		(129)
Total Misstatements	(248,574)	378,277		(129,703)

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)
GENERAL FUND:				
** To correct understatement of GRT receivable	134,802			(134,802)
** To correct understatement of utility accounts payables		(20,707)		20,707
GRANTS ASSISTANCE FUND:				
** To correct understatement of utility accounts payables		(50,649)		50,649
** To correct understatement of grants receivable	39,695			(39,695)
** To correct understatement of accounts payable		(85,060)		85,060
COMPACT TRUST FUND:				
None noted				
OTHER GOVERNMENTAL FUNDS:				
None noted				
FIDUCIARY TRUST FUNDS:				
None noted				
GOVERNMENT-WIDE				
None noted				
Total Misstatements	174,497	(156,416)		(18,081)