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October 17, 2022

The Board of Directors
Pohnpei State Housing Authority

Dear Members of the Board of Directors:

We have performed an audit of the financial statements of the Pohnpei State Housing Authority (the Authority) as of and for the year ended September 30, 2021, in accordance with auditing standards generally accepted in the United States of America ("generally accepted auditing standards") and have issued our report thereon dated October 17, 2022.

We have prepared the following comments to assist you in fulfilling your obligation to oversee the financial reporting and disclosure process for which management of the Authority is responsible.

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

Very truly yours,

Deloitte & Touche LLP

cc: To Management of Pohnpei State Housing Authority

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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 ("generally accepted government auditing standards"), have been described in our engagement letter dated June 21, 2022, a copy of which has been provided to you. As described in that letter, the objectives of an audit conducted in accordance with the aforementioned standards are to:

- Express an opinion on whether the statement of net position of the Authority as of September 30, 2021 and the related statements of revenues, expenses and changes in net position and of cash flows for the year then ended (the "financial statements"), are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America ("generally accepted accounting principles") and perform specified procedures on the required supplementary information for the year ended September 30, 2021.

- Report on the Authority's internal control over financial reporting and on its compliance with certain provisions of laws, regulations, contracts, and grants and other matters for the year ended September 30, 2021 based on an audit of financial statements performed in accordance with the standards applicable to financial audits contained in generally accepted government auditing standards.

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

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

MANAGEMENT JUDGMENTS AND ACCOUNTING ESTIMATES

Accounting estimates are an integral part of the financial statements prepared with the oversight of 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 the Authority's 2021 financial statements include management's estimate of allowance for loan losses, which is determined based on past collection experience and aging of the accounts. During the year ended September 30, 2021, we are not aware of any significant changes in accounting estimates or in management's judgments relating to such estimates.

AUDIT ADJUSTMENTS

Our audit of the financial statements was designed to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. As the result of our audit work, we identified matters that resulted in audit adjustments that we believe, either individually or in the aggregate, would have a significant effect on Authority's financial reporting process. Such proposed adjustments listed in Appendix A to Attachment III, have been recorded in the accounting records and are reflected in the 2021 financial statements.

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 Appendix B to Attachment II, summaries of uncorrected misstatements that we presented to management during the current audit engagement pertaining to the latest period that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

SIGNIFICANT ACCOUNTING POLICIES

The Authority's significant accounting policies are set forth in note 1 to the Authority's 2021 financial statements. During the year ended September 30, 2021, there were no significant changes in previously adopted accounting policies or their application.

We have evaluated the significant qualitative aspects of the Authority's accounting practices, including accounting policies, accounting estimates and financial statement disclosures and concluded that the policies are appropriate, adequately disclosed, and consistently applied by management.

In 2020, GASB issued Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance, which postponed the effective dates of GASB Statement No. 84, 89, 90, 91, 92 and 93 by one year and GASB Statement No. 87 by 18 months; however, earlier application of the provisions addressed in GASB Statement No. 95 is encouraged and is permitted to the extent specified in each pronouncement as originally issued. In accordance with GASB Statement No. 95, management has elected to postpone implementation of these statements.

During the year ended September 30, 2021, the Authority implemented the following pronouncements:

- GASB Statement No. 84, Fiduciary Activities, which improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

- GASB Statement No. 90, Majority Equity Interests - An Amendment of GASB Statements No. 14 and 61, which improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units.

- GASB Statement No. 93, Replacement of Interbank Offered Rates, which establishes accounting and reporting requirements related to the replacement of Interbank Offered Rates such as the London Interbank Offered Rate (LIBOR) for hedging derivative instruments. The provision removing LIBOR as an appropriate benchmark interest rate for the evaluation of the effectiveness of derivative instruments is effective for the year ended September 30, 2022.

The implementation of these statements did not have a material effect on the 2021 financial statements.

SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

In June 2017, GASB issued Statement No. 87, Leases. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and as inflows of resources or outflows of resources recognized based on the payment provisions of the contract. Management believes that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 87 will be effective for fiscal year ending September 30, 2022.

In June 2018, GASB issued Statement No. 89, Accounting for Interest Cost Incurred Before the End of a Construction Period. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 89 will be effective for fiscal year ending September 30, 2022.

In May 2019, GASB issued Statement No. 91, Conduit Debt Obligations. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 91 will be effective for fiscal year ending September 30, 2023.

In January 2020, GASB issued statement No. 92, Omnibus 2020. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the effective date of Statement No. 87, Leases, and Implementation Guide No. 2019-3, Leases, for interim financial reports, the terminology used to refer to derivative instruments and the applicability of certain requirements of Statement No. 84, Fiduciary Activities, to postemployment benefits. The requirements related to the effective date of GASB Statement No. 87 and Implementation Guide 2019-3, reissuance recoveries and terminology used to refer to derivative instruments are effective upon issuance. In accordance with GASB Statement No. 95, the remaining requirements of GASB Statement No. 92 is effective for the fiscal year ending September 30, 2022.

In March 2020, GASB issued Statement No. 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements. The primary objective of this statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements. This statement also provides guidance for accounting and financial reporting for availability payment arrangements. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 94 will be effective for fiscal year ending September 30, 2023.

SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

In May 2020, GASB issued Statement No. 96, Subscription-Based Information Technology Arrangements. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset - an intangible asset - and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 96 will be effective for fiscal year ending September 30, 2023.

In June 2020, GASB issued Statement No. 97, Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans - an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. GASB Statement No. 97 will be effective for fiscal year ending September 30, 2022.

In October 2021, GASB issued Statement No. 98, The Annual Comprehensive Financial Report. This Statement establishes the term annual comprehensive financial report and its acronym ACFR. That new term and acronym replace instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 98 will be effective for fiscal year ending September 30, 2022.

DISAGREEMENTS WITH MANAGEMENT

We have not had any disagreements with management related to matters that are material to the Authority's 2021 financial statements.

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

We are not aware of any consultations that management may have had with other accountants about auditing and accounting matters during 2021.

OTHER INFORMATION IN THE ANNUAL REPORTS

When audited financial statements are included in documents containing other information such as the Authority's 2021 Annual Report, we will read such other information and consider whether it, or the manner of its presentation, is materially inconsistent with the information, or the manner of its presentation, in the financial statements audited by us. We will read the other information in the Authority's 2021 Annual Report and will inquire as to the methods of measurement and presentation of such information. If we note a material inconsistency or if we obtain any knowledge of a material misstatement of fact in the other information, we will discuss this matter with management and, if appropriate, with the Board of Directors.

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

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

SIGNIFICANT DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

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

MANAGEMENT'S REPRESENTATIONS

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

CONTROL-RELATED MATTERS

We have issued a separate report to you, dated October 17, 2022, on the Authority's internal control over financial reporting and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters, which was based upon the audit performed in accordance with Government Auditing Standards.

We have identified, and included in Attachment I, certain deficiencies related to the Authority's internal control over financial reporting as of September 30, 2021 that we wish to bring to your attention.

The definition of a control deficiency is also set forth in Attachment I.

A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Attachment II and should be read in conjunction with this report.

SECTION I – DEFICIENCIES

We identified the following deficiencies involving the Authority's internal control over financial reporting as of September 30, 2021:

(1) Due to Pohnpei State Government (PSG)

Comment: Based on the agreement between USDA Rural Development (USDA-RD) and PSG, the Authority will collect certain USDA-RD loans and remit to PSG on a monthly or quarterly basis. Remaining collections of $105,907 as of September 30, 2021 had not been remitted to PSG.

Recommendation: The Authority should comply with the agreement and timely remit all collections to PSG.

(2) Negative loans receivables

Comment: The Authority has several loans receivable with negative balances aggregating $20,111 as of September 30, 2021, of which $8,498 was over collected or was collected in advance during the current year.

Recommendation: The Authority should consider recognizing a liability for loans overcollections or for borrower advances.

(3) Loans

Comment: Tests of loan receivables noted the following:

a. Two (2) of 19 new loan or refinanced accounts tested (loan nos. 1911, and 1937) did not specify the loan contractor.

b. Maturity date per the Portfolio did not agree to the maturity date per the agreement.

Loan no.	Maturity Date Per Portfolio	Maturity Date Per Agreement
1902	12/09/2027	12/30/2027
1907	01/04/2028	02/28/2028
1911	01/07/2028	01/28/2028
1915	02/02/2028	02/28/2028
1923	03/15/2028	03/30/2028
1928	02/04/2029	02/28/2029
1932	04/01/2036	03/30/2036
1939	05/31/2036	04/30/2036
1940	05/31/2031	04/30/2031
1944	06/30/2031	05/30/2031
1952	05/27/2031	05/30/2031
1958	05/30/2031	05/12/2031

c. For nine (9) of 95 loans tested (loan nos. 1902, 1923, 1930, 1932, 1940, 1641, 1676, 1772, and 1857), principal and interest application of payments in the receipt did not agree with the subledger.

Recommendation: The Authority should strengthen controls and procedures over disbursements, recording, and reconciliation of loan account activities. The Authority should perform periodic reviews of the Loan Base database to determine the accuracy of information based on loan agreements.

SECTION I – DEFICIENCIES, CONTINUED

(4) Interest income and accrual policy

Comment: Interest income recognition and an accrual policy approved by the Board was not provided.

Recommendation: Management should formalize a policy related to interest income recognition and accrual and obtain approval from the Board of Directors.

(5) Allowance for loan losses

Comment: The Authority does not separately monitor restructured and refinanced loans for the purposes of estimating the allowance for loan losses.

Recommendation: The Authority should establish a specific assessment criterion within the allowance for loan losses for restructured and refinanced loans as such loans include a higher level of collection risk.

(6) Delinquent related party loans

Comment: The Authority has four delinquent loans to related parties (loan nos. 1090, 1092, 1571, and 1516) with a total outstanding balance of $96,666. These loans have been delinquent for 7 to 98 months.

Recommendation: The Authority should perform a review of existing collection measures and strategies for related party loans.

(7) Collections

Comment: Of 63 loan collections tested, a subsequent daily cash collection report dated 10/08/2021 for loan no. 1898 has no evidence of review.

Recommendation: The Authority should adhere to existing procedures for the review of daily cash collection reports.

(8) Financial reporting

Comment: Financial statements are not timely prepared. For instance, as of September 2022, the Authority had not provided reconciled financial statements for periods after September30, 2021.

Recommendation: The Authority should implement regular financial reporting closing processes.

SECTION II – DEFINITION

The definition of a deficiency is as follows:

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective is not always met. A deficiency in operation exists when (a) a properly designed control does not operate as designed, or (b) the person performing the control does not possess the necessary authority or qualifications to perform the control effectively.

MANAGEMENT'S RESPONSIBILITY FOR, AND THE OBJECTIVES AND LIMITATIONS OF, INTERNAL CONTROL OVER FINANCIAL REPORTING

The following comments concerning management's responsibility for internal control over financial reporting and the objectives and inherent limitations of internal control over financial reporting are adapted from auditing standards generally accepted in the United States of America.

Management's Responsibility

The Authority's management is responsible for the overall accuracy of the financial statements and their conformity with generally accepted accounting principles. In this regard, management is also responsible for establishing and maintaining effective internal control over financial reporting.

Objectives of Internal Control over Financial Reporting

Internal control over financial reporting is a process affected by those charged with governance, management, and other personnel and designed to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. Internal control over the safeguarding of assets against unauthorized acquisition, use, or disposition may include controls related to financial reporting and operations objectives. Generally, controls that are relevant to an audit of financial statements are those that pertain to the entity's objective of reliable financial reporting (i.e., the preparation of reliable financial statements that are fairly presented in conformity with generally accepted accounting principles).

Inherent Limitations of Internal Control over Financial Reporting

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

POHNPEI STATE HOUSING AUTHORITY
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Phone: (691)320-2582/4225 Fax: (691)320-2304

October 17, 2022

Deloitte & Touche
P.O. Box 753
Kolonia, Pohnpei 96941

Gentlemen:

We are providing this letter in connection with your audits of the statements of net position of Pohnpei State Housing Authority (the Authority) as of September 30, 2021 and 2020 and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended, and the related notes, for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows of the Authority in conformity with accounting principles generally accepted in the United States of America (GAAP).

We confirm that we are responsible for the following:

a. The preparation and fair presentation in the basic financial statements of financial position of the Authority in conformity with GAAP.

b. The design, implementation and maintenance of internal control:

    - Relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error

    - To prevent and detect fraud

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

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

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

1. The basic financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America. In addition:

   a. Net position components (net investment in capital assets; restricted; and unrestricted) are properly classified and, if applicable, approved.

   a. Deposits and investment securities are properly classified in category of custodial credit risk.

   b. Capital assets, including infrastructure assets, are properly capitalized, reported, and, if applicable, depreciated.

   c. Required supplementary information is measured and presented within prescribed guidelines.

   d. Applicable laws and regulations are followed in adopting, approving and amending budgets.

   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.

2. The Authority has provided to you all relevant information and access as agreed in the terms of the audit engagement letter.

3. The Authority has made available to you:

   a. All minutes of the meetings of the Board of Directors or summaries of actions of recent meetings for which minutes have not yet been prepared. Meetings were held for the following dates:

October 22, 2020	April 30, 2021	January 14, 2022	September 16, 2022
January 29, 2021	July 23, 2021	February 11, 2022	
February 26, 2021	October 22, 2021	May 6, 2022	

   For recent meetings for which minutes have not yet been prepared, nothing of significance was discussed that would require adjustments to, or disclosure in, the basic financial statements.

   b. All financial records and related data for all financial transactions of the Authority and for all funds administered by the Authority. The records, books, and accounts, as provided to you, record the financial and fiscal operations of all funds administered by the Authority 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 regulatory agencies.

4. There have been no:

   a. Action taken by the Authority's management that contravenes the provisions of federal laws and FSM National and state laws and regulations, or of contracts and grants applicable to the Authority.

   b. Communications with other regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices or other matters that could have a material effect on the financial statements.

5. We believe the effects of any uncorrected financial statement misstatements aggregated by you during the current audit engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. A summary of such uncorrected misstatements has been attached as Appendix B.

6. The Authority has not performed a formal risk assessment, including the assessment of the risk that the financial statements may be materially misstated as a result of fraud. However, management has made available to you their understanding about the risks of fraud in the Authority and do not believe that the financial statements are materially misstated as a result of fraud.

7. We have no knowledge of any fraud or suspected fraud affecting the Authority involving:

   a. Management.

   b. Employees who have significant roles in internal control over financial reporting.

   c. Others, where the fraud could have a material effect on the financial statements.

8. We have no knowledge of any allegations of fraud or suspected fraud affecting the Authority received in communications from employees, former employees, analysts, regulators, or others.

9. There are no unasserted claims or assessments that we are aware of or that legal counsel has advised us are probable of assertion and must be disclosed in accordance with GASB Codification Section C50, *Claims and Judgments.*

10. The methods, significant assumptions, and the data used by us in making the accounting estimates and the related disclosures are appropriate to achieve recognition, measurement, or disclosure that is in accordance with GAAP.

11. We are responsible for compliance with local, state, and federal laws, rules, and regulations, including compliance with the provisions of grants and contracts relating to the Authority's operations. We are responsible for understanding and complying with the requirements of the federal statutes and regulations. 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. We are responsible for maintaining accounting and administrative control over revenues, obligations, expenditures, assets, and liabilities.

12. We have informed you of all investigations or legal proceedings that have been initiated during the year ended September 30, 2021 or are in process as of September 30, 2021.

13. We are responsible for all nonaudit services performed by you during the year ended September 30, 2021.

14. 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.

15. No changes in internal control over compliance or other factors that might significantly affect internal control over financial reporting, including any corrective actions taken by the Authority with regard to significant deficiencies and material weaknesses in internal control over compliance, have occurred subsequent to September 30, 2021.

16. We are responsible for taking corrective action on audit findings and have developed a corrective action plan. 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.

17. 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.

18. No organizations were identified that meet the criteria established in GASB Codification Section 2100, *Defining the Financial Reporting Entity*.

Except where otherwise stated below, immaterial matters less than $21,200 collectively are not considered to be exceptions that require disclosure for the purpose of the following representations. This amount is not necessarily indicative of amounts that would require adjustment to or disclosure in the financial statements.

19. Except as listed in Appendix B, there are no transactions that have not been properly recorded in the accounting records underlying the financial statements.

20. The Authority has no plans or intentions that may affect the carrying value or classification of assets and liabilities.

21. Regarding related parties:

    a. We have disclosed to you the identity of the Authority's related parties and all the related party relationships and transactions of which we are aware.

    b. To the extent applicable, related parties and all the related-party relationships and transactions, including sales, purchases, loans, transfers, leasing arrangements, and guarantees (written or oral) have been appropriately identified, properly accounted for, and disclosed in the financial statements.

22. 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.

23. There are no:

    a. Instances of identified or suspected noncompliance with laws and regulations whose effects should be considered when preparing the financial statements.

    b. Known actual or possible litigation and claims whose effects should be considered when preparing the financial statements that have not been disclosed to you and accounted for and disclosed in accordance with GAAP.

    c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB Codification Section C50, *Claims and Judgments*.

24. The Authority 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.

25. Financial instruments with significant individual or group concentration of credit risk have been appropriately identified, properly recorded, and disclosed in the financial statements.

26. The Authority has complied with all aspects of contractual agreements that may affect the financial statements.

27. No department or agency of the Authority has reported a material instance of noncompliance to us.

28. 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.

29. Management is aware of its responsibility to disclose whether, subsequent to September 30, 2021, any changes in internal control or other factors that might significantly affect internal control, including any corrective action taken by management with regard to significant deficiencies and material weaknesses, have occurred. We represent to you that no such changes or corrective action has so occurred.

30. Receivables recorded in the financial statements represent valid claims or other charges arising on or before the date of the statements of net assets and have been appropriately reduced to their estimated net realizable value.

31. The Authority is responsible for determining and maintaining the adequacy of the allowance for doubtful loans receivable, as well as estimates used to determine such amounts. Management believes the allowances are adequate to absorb currently estimated bad debts in the account balances.

32. Quantitative and qualitative information regarding the allowance for doubtful accounts has been properly disclosed in the financial statements.

33. In 2020, GASB issued Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance, which postponed the effective dates of GASB Statement No. 84, 89, 90, 91, 92 and 93 by one year and GASB Statement No. 87 by 18 months; however, earlier application of the provisions addressed in GASB Statement No. 95 is encouraged and is permitted to the extent specified in each pronouncement as originally issued. In accordance with GASB Statement No. 95, management has elected to postpone implementation of these statements.

    During the year ended September 30, 2021, the Authority implemented the following pronouncements:

    - GASB Statement No. 84, *Fiduciary Activities*, which improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

    - GASB Statement No. 90, *Majority Equity Interests - An Amendment of GASB Statements No. 14 and 61*, which improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units.

    - GASB Statement No. 93, *Replacement of Interbank Offered Rates*, which establishes accounting and reporting requirements related to the replacement of Interbank Offered Rates such as the London Interbank Offered Rate (LIBOR) for hedging derivative instruments. The provision removing LIBOR as an appropriate benchmark interest rate for the evaluation of the effectiveness of derivative instruments is effective for the year ended September 30, 2022.

    The implementation of these statements did not have a material effect on the Authority's 2021 financial statements

34. Regarding the future implementation of GASB Statements effective for the years ending September 30, 2022 and after, as detailed in the note 1 of the financial statements, the Authority does not believe the implementation will have a material effect on its financial statements with the exception of Statement No. 87, *Leases*, which will be effective for fiscal year ending September 30, 2022. The Authority has not completed the process of evaluating the impact that will result from adopting GASB Statement No. 87, *Leases*, as discussed in Note 1. The Authority is therefore unable to disclose the impact that adopting GASB Statement No. 87 will have on its financial position and results of operations.

35. During the years ended September 30, 2009 and 2010, the State of Pohnpei transferred to the Authority defaulted USDA RD loans, which the State had guaranteed. The Authority bears responsibility for collection and returning the collections to Pohnpei State Government (PSG) for approximately $500,000 of the balance. The Authority is not responsible for the ultimate recovery of these balances and as such, no liability beyond what has been collected has been recorded in the Authority's financial statements. As of September 30, 2021, defaulted USDA RD loans amounted to $7,712,112. At September 30, 2021 and 2020, cumulative unremitted collections due to PSG were $105,907 and $70,253, respectively.

36. No events have occurred subsequent to September 30, 2021, but before October 17, 2022, the date the financial statements were available to be issued that require consideration as adjustments to or disclosures in the Authority's financial statements.

Very truly yours,

Onlino Lawrence
Executive Director

APPENDIX A
Corrected Misstatements and Reclassifications
September 30, 2021

#	Name	Debit	Credit
	1 AJE To correct beginning allowance for loan losses		
1404	ALLOWANCE FOR LOAN (PHA)	566,337.40	
1407	ALLOWANCE FOR LOAN (HPG)		35,276.40
1203	ALLOWANCE FOR BAD DEBTS	184,102.00	
1406	ALLOWANCE FOR CHARGE-OFF LOAN (PHA)		707,737.00
1409	ALLOWANCE FOR CHARGE-OFF LOAN (HPG)		7,426.00
	PSHA to correct beginning balances of allowance for loan losses	750,439.40	750,439.40
	2 AJE To correct ALLL per rollforward		
1406	ALLOWANCE FOR CHARGE-OFF LOAN (PHA)	46,584.26	
1404	ALLOWANCE FOR LOAN (PHA)		49,588.36
1409	ALLOWANCE FOR CHARGE-OFF LOAN (HPG)	7,426.00	
4503	RECOVERY ON LOAN LOSS/INCOME		4,421.90
	To correct ALLL per rollforward procedures	54,010.26	54,010.26
	3 AJE To correct Due from PSG		
4501	GENERAL FUND (TRANSFER-IN)	55,083.98	
1301	Receivable from PSG		55,083.98
	To correct due from PSG and operating subsidy from PSG	55,083.98	55,083.98
	4 AJE To correct allowance for loan losses		
4503	RECOVERY ON LOAN LOSS/INCOME	144,349.60	
1404	ALLOWANCE FOR LOAN (PHA)		173,993.05
1407	ALLOWANCE FOR LOAN (HPG)	29,643.45	
	To correct allowance for loan losses	173,993.05	173,993.05
	5 AJE To record write-off of advances to employees		
1202	ALLOWANCE FOR BAD DEBTS	114,235.66	
1201	ADVANCE TO EMPLOYEES		114,235.66
2108	OTHER PAYABLE (REFUND)	21,470.32	
4505DT	RECOVERY ON LOSS/ Other INCOME		21,470.32
	To record adjusting subsequent events on write off of advances and other payables	135,705.98	135,705.98
	1 CAJE To correct accumulated depreciation		
1802	ACCUMULATED DEPRECIATION	1,235.69	
4407	DEPRECIATION EXPENSE		1,235.69
	To correct accumulated depreciation	1,235.69	1,235.69

#	Name	Debit	Credit
	2 CAJE To correct ALLL per GL		
1404	ALLOWANCE FOR LOAN (PHA)	183,871.88	
4503	RECOVERY ON LOAN LOSS/INCOME		143,642.98
1407	ALLOWANCE FOR LOAN (HPG)		40,228.90
	To correct ALLL per GL	183,871.88	183,871.88
	3 CAJE To correct accrued interest		
4101	INTEREST INCOME FROM LOANS	74,314.66	
1601	INTEREST RECEIVABLE		74,314.66
	To correct accrued interest receivable	74,314.66	74,314.66
	1 RJE To reclass unreleased checks		
1109	CASH IN BOFSM (LOAN)	23,897.34	
2103	VOUCHER PAYABLE		11,402.18
2201	DUE TO PSG		12,495.16
	To reclass unreleased checks	23,897.34	23,897.34

APPENDIX B
UNCORRECTED MISSTATEMENTS
YEAR ENDED SEPTEMBER 30, 2021

SUMMARY OF UNCORRECTED MISSTATEMENTS									
Description of Misstatement	**Assets**		**Liabilities**		**Equity**		**Income**		**TOTAL**
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	
To correct negative loan receivables	20,111			(20,111)					-
Total Misstatements	20,111	-	-	(20,111)	-	-	-	-	-