

April 28, 2023

Honorable Reed B. Oliver
Governor, State of Pohnpei
Federated States of Micronesia

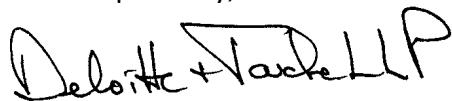
Dear Governor Oliver:

We have performed an audit of the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, and each major fund of the State of Pohnpei (the State) as of and for the year ended September 30, 2021 (the "financial statements"), in accordance with auditing standards generally accepted in the United States of America ("generally accepted auditing standards") and have issued our report thereon dated April 28, 2023, which contained a qualified opinion with respect to GASB 70 noncompliance related to lack of recognition of a liability associated with a guaranteed debt obligation and includes explanatory paragraphs concerning receivables from the FSM National Government and the impact of COVID-19.

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 State is responsible.

This report is intended solely for the information and use of the State's management, the Office of the Governor, the Office of the FSM National Public Auditor, federal awarding agencies, pass-through entities, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties. However, this report is also a matter of public record.

Most respectfully,

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

cc: The Management of the State of Pohnpei

OUR RESPONSIBILITY UNDER GENERALLY ACCEPTED AUDITING STANDARDS, GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS AND THE UNIFORM GUIDANCE

Our responsibility under (1) generally accepted auditing standards, (2) 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") (generally accepted auditing standards and generally accepted government auditing standards are collectively referred to herein as the "Auditing Standards") and (3) the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the Uniform Guidance) has been described in our engagement letter dated March 17, 2022. As described in that letter, the objectives of an audit conducted in accordance with the Auditing Standards and the Uniform Guidance are:

- To express an opinion on the fairness of the State's financial statements and the accompanying supplementary information, in relation to the financial statements as a whole, as of and for the year ended September 30, 2021 (the "financial statements"), in accordance with accounting principles generally accepted in the United States of America ("generally accepted accounting principles"), in all material respects, and to perform specified procedures on the required supplementary information for the year ended September 30, 2021;
- To express an opinion on whether the supplementary information that accompanies the financial statements, including the Schedule of Expenditures of Federal Awards, is fairly stated, in all material respects, in relation to the financial statements as a whole;
- To report on the State'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, 2021, based on an audit of financial statements performed in accordance with generally accepted government auditing standards; and
- To express an opinion on the State's compliance with requirements applicable to each major program and report on the State's internal control over compliance in accordance with the Uniform Guidance.

Our responsibilities under the Auditing Standards and the Uniform Guidance 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 Governor 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 Governor 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 the State'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 State's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the State'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.

We also considered the State'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 the Uniform Guidance. Our audit does not, however, provide a legal determination of the State's compliance with those requirements.

SIGNIFICANT ACCOUNTING POLICIES

The State's significant accounting policies are set forth in Note 1 to the State's 2021 financial statements. During the year ended September 30, 2021, there were no significant changes in previously adopted accounting policies or their application, except for the following pronouncements adopted by the State:

In 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postpones 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 State implemented the following pronouncements:

- GASB Statement No. 84, *Fiduciary Activities*. This Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement enhances consistency and comparability by (1) establishing specific criteria for identifying activities that should be reported as fiduciary activities and (2) clarifying whether and how business-type activities should report their fiduciary activities. The implementation of this statement did not have a material effect on the accompanying financial statements.
- 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. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. The primary objective of this statement is to address those and other accounting and financial reporting implications of the replacement of an IBOR. The implementation of this statement did not have a material effect on the accompanying financial statements.

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 the 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.

SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. 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. The remaining requirements of GASB Statement No. 92 are 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.

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.

SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 97 will be effective for fiscal year ending September 30, 2022.

We have evaluated the significant qualitative aspects of the State'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.

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 the State's 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, 2021, 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 Appendix B to Attachment II, the summary of uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period that we presented to management and were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

CORRECTED MISSTATEMENTS

As the result of our audit work, we identified matters that resulted in audit adjustments that we believe, either individually or in the aggregate, would have a significant effect on the State's financial reporting process. Such adjustments, listed in Attachment I, were brought to the attention of management as a result of our audit procedures and were corrected by management during the current period and are reflected in the 2021 financial statements.



DISAGREEMENTS WITH MANAGEMENT

We have not had any disagreements with management related to matters that are material to the State'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.

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

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

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

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

SIGNIFICANT DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

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

MANAGEMENT'S REPRESENTATIONS

We have made specific inquiries of the State's management about the representations embodied in the financial statements. In addition, we have requested that management provide to us the written representations the State 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.

BASIS FOR QUALIFIED OPINION ON GOVERNMENTAL ACTIVITIES

As more fully described in Note 13 to the financial statements, the State has not recorded a liability for a nonexchange financial guarantee for discretely presented component unit debt. In our opinion, accounting principles generally accepted in the United States of America require that a liability be recognized when the State will be required to make a payment on the guarantee. The effects of this departure on the governmental activities of the State are not reasonably determinable.

EMPHASIS-OF-MATTER PARAGRAPHS

Receivables from the FSM National Government

As discussed in Note 3 to the financial statements, the State is in discussions with the FSM National Government to determine the ultimate collectability of certain receivables due from the FSM National Government in consultation with federal grantor agencies arising from Compact sector grant transactions.



EMPHASIS-OF-MATTER PARAGRAPHS, CONTINUED

COVID-19

As discussed in the Note 14 to the financial statements, the State has determined that the COVID-19 pandemic may negatively impact its results of operations and net position.

Our opinion is not modified with respect to these matters.

CONTROL-RELATED MATTERS

We have issued a separate report to you, also dated April 28, 2023, on the State'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 on the audit performed in accordance with *Government Auditing Standards*. Within those reports, we noted certain matters that were considered to be material weaknesses under standards established by the American Institute of Certified Public Accountants. We have also issued a separate report to you, also dated April 28, 2023 involving the State's compliance with requirements applicable to each major program and on internal control over compliance in accordance with the Uniform Guidance.

We have communicated to management, in a letter dated April 28, 2023, other deficiencies and other matters related to the State's internal control over financial reporting that we identified during the audit.

Although we have included management's written responses to our comments, 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.

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Pohnpei State Government
List of Corrected Misstatements And Reclassifications
September 30, 2021

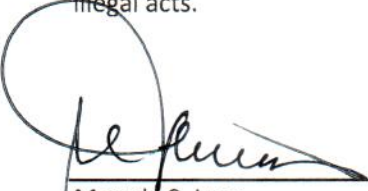
#	Name	Debit	Credit
GENERAL FUND			
1 AJE To correct investments to equal confirmation			
93-1110-00-00-00000-00	Investments - Portfolio	664,876.23	
93-7820-10-29-98200-00	Cmpct Investment		664,876.23
01-1110-00-00-00000-00	Investments - Portfolio	394,011.51	
01-7820-10-29-01095-00	Cmpct Investment		394,011.51
		<u>1,058,887.74</u>	<u>1,058,887.74</u>
2 AJE To record ADB debt repayments			
93-8722-10-29-98200-00	Debt Outside interest	16,291.95	
93-8722-10-29-98200-00	Debt Outside interest	38,286.40	
01-7999-03-08-00361-00	Other Misc. Revenue		54,578.35
		<u>54,578.35</u>	<u>54,578.35</u>

#	Name	Debit	Credit
GRANTS ASSISTANCE FUND			
1 AJE To correct G/L opening fund balance			
18-4110-00-00-00000-00	Fund Balance Surplus	10,592.46	
18-1999-00-00-00000-99	Due To/Due From		10,592.46
25-4110-00-00-00000-00	Fund Balance Surplus	3,360.03	
25-1810-00-00-00000-00	A/R General		3,360.03
		<u>13,952.49</u>	<u>13,952.49</u>

#	Name	Debit	Credit
COMPACT TRUST FUND			
1 AJE To adjust GL to equal confirmation			
89-1110-00-00-00000-00	Investments - Portfolio	4,512,764.37	
89-7899-10-29-89900-00	Investment Income		4,512,764.37
		<u>4,512,764.37</u>	<u>4,512,764.37</u>

#	Name	Debit	Credit
OTHER NONMAJOR FUNDS			
1 AJE To correct fund balance or fund 29 - 1611.D2 (Posted)			
27-6616-31-47-80051-00	Ag Sales		1.00
27-4110-00-00-00000-00	Fund Balance Surplus	1.00	
29-7999-50-58-80170-00	Other Misc Revenue	1,825.00	
29-4110-00-00-00000-00	Fund Balance Surplus		1,825.00
32-6669-90-91-09862-00	Recycling Fees		1.00
32-4110-00-00-00000-00	Fund Balance Surplus	1.00	
34-4110-00-00-00000-00	Fund Balance Surplus	1,967.00	
34-6460-70-70-80501-00	Hospital Services		1,967.00
37-4110-00-00-00000-00	Fund Balance Surplus	730.00	
37-6299-21-37-02041-00	Other Fees		730.00
		<u>4,524.00</u>	<u>4,524.00</u>

We have reviewed the adjustments and reclassifications summarized above and agree that they should be presented as of September 30, 2021. These journal entries are the result of error and not the result of fraud, irregularities, or illegal acts.



Meryda S. Inos
Acting Director of Treasury and Administration
Pohnpei State government



POHNPEI STATE GOVERNMENT

Department of Treasury and Administration

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Office of the Director

April 28, 2023

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

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 State of Pohnpei (the "State"), as of and for the year ended September 30, 2021, which collectively comprise the State'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, as applicable, of the State in accordance with accounting principles generally accepted in the United States of America (GAAP) and your single audit of the State for the year ended September 30, 2021.

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 governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information, in accordance 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 we 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 general purpose financial statements 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 audit.

1. Except as discussed in the "Basis for Qualified Opinions on Governmental Activities" paragraph described in your Independent Auditors' Report, the basic financial statements referred to above are fairly presented in accordance 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 include all fiduciary activities as required by GASB Statement No. 84, Fiduciary Activities, as amended.
 - c. Majority equity interests in legally separate organizations are properly accounted for in accordance with GASB Statement No. 90, Majority Equity Interests.
 - d. Net position components (net investment in capital assets, restricted, and unrestricted) are properly classified and, if applicable, approved.
 - e. Deposits and investment securities are properly classified in the category of custodial credit risk.
 - f. Capital assets, including infrastructure assets, are properly capitalized, reported, and, if applicable, depreciated.
 - g. Required supplementary information is measured and presented within prescribed guidelines.
 - h. Applicable laws and regulations are followed in adopting, approving, and amending budgets.
 - i. The State's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available is appropriately disclosed and the related net position is properly recognized under the policy.
 - j. The financial statements properly classify all funds and activities, including special and extraordinary items.
 - k. All funds that meet the quantitative criteria in the GASB Codification of Government Accounting and Financial Reporting Standards ("GASB Codification) Section 2200.159 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.
 - l. 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.
 - m. 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.

- n. The State has followed GASB Codification Section 1800.178 regarding which resources (restricted, committed, assigned, or unassigned) are considered to be spent for expenditures to determine the fund balance classifications for financial reporting purposes.
 - o. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
 - p. Fund balance restrictions, commitments, and assignments are properly classified and, if applicable, approved.
2. The State has provided to you all relevant information and access as agreed in the terms of the audit engagement letter.
 3. The State has made available to you:
 - a. All financial records and related data for all financial transactions of the State and for all funds administered by the State. The records, books, and accounts, as provided to you, record the financial and fiscal operations of all funds administered by the State 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.
 - b. 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 State management that contravenes the provisions of federal laws and Kosrae laws and regulations, or of contracts and grants applicable to the State.
 - 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 for each opinion unit. A summary of such uncorrected misstatements has been attached as Appendix B.
 6. The State 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 State 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 State involving:
 - a. Management.
 - b. Employees who have significant roles in the State's internal control.
 - 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 State's financial statements communicated by employees, former employees, analysts, regulators, or others.
9. There are no unasserted claims or assessments that we are aware of or that legal counsel has advised us are probable of assertion and must be disclosed in accordance with GASB Codification of Governmental Accounting and Financial Reporting Standards ("GSB Codification") Section C50, *Claims and Judgments*, except as disclosed in Note 9 to the financial statements.
10. Significant assumptions used by us in making accounting estimates are reasonable.
11. We are responsible for the preparation of the Schedule of Expenditures of Federal Awards in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("OMB Uniform Guidance"). We have identified and disclosed all of the State's government programs and related activities subject to the OMB Uniform Guidance compliance audit. The Schedule of Expenditures of Federal Awards is a complete list of all federal awards required to be presented for the year ended September 30, 2021. In addition, we have accurately completed the appropriate sections of the data collection form.
12. We are responsible for compliance with local, state, and federal laws, rules, and regulations, including compliance with the requirements of OMB Uniform Guidance and the provisions of grants and contracts relating to the State's operations. We are responsible for understanding and complying with the requirements of the federal statutes and regulations, and the terms and conditions of federal awards related to each of the State's federal programs. 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.
13. 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.
14. We are responsible for all nonaudit services performed by you during the year ended September 30, 2021 and through April 28, 2023. We assume all management responsibilities for those services, including overseeing those services by designating an individual who possesses suitable skills, knowledge, or experience. We have evaluated the adequacy and results of the services performed and accept responsibility for the results of the services.
15. 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 federal statutes, regulations, and the terms and conditions of the federal awards that could have a material effect on its federal programs.
16. 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.
17. No events have occurred subsequent to September 30, 2021, that require consideration as adjustments to or disclosures in the schedule of federal awards and related notes or that existed at the end of the reporting period that affect noncompliance during the reporting period.

18. We have disclosed all known noncompliance with direct and material compliance requirements occurring subsequent to September 30, 2021.
19. Other than those described in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance, 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 State with regard to significant deficiencies and material weaknesses in internal control over compliance, have occurred subsequent to September 30, 2021.
20. Federal awards expenditures have been charged in accordance with applicable cost principles, as applicable.
21. The Reporting Package submitted to the Federal Audit Clearinghouse (FAC) as defined by the OMB Uniform Guidance section 2CFR200.512(3)(c) does not contain protected personally identifiable information.
22. We have disclosed all contracts or other agreements with service organizations.
23. We have disclosed to you all communications from service organizations relating to noncompliance with the requirements of federal statutes, regulations, and terms and conditions of federal awards at those organizations.
24. We have:
 - a. 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. We have also provided the status of the follow-up on prior audit findings (and information about all management decisions) by federal awarding agencies and pass-through entities.
 - b. Provided to you our views on the reported findings, conclusions, and recommendations, as well as management's planned corrective actions, for your report.
 - c. Identified and disclosed to you the requirements of federal statutes, regulations, and the terms and conditions of federal awards that are considered to have a direct and material effect on each major program under audit.
 - d. Complied, in all material respects, with the direct and material compliance requirements identified above in connection with federal awards except as disclosed in the Schedule of Findings and Questioned Costs.
 - e. Identified and disclosed interpretations of any compliance requirements that have varying interpretations.
 - f. Made available all federal awards (including amendments, if any) and any other correspondence relevant to federal programs and related activities that have taken place with federal agencies or pass-through entities. Management has made available all documentation related to compliance with the direct and material compliance requirements, including information related to federal program 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.

- g. Identified and disclosed all amounts questioned and all known noncompliance with the direct and material compliance requirements of federal awards, including the results of other audits, program reviews, or any communications from federal awarding agencies and pass-through entities concerning possible noncompliance related to the objectives of the audit.
25. We are responsible for follow-up on all prior-year(s) findings. We have prepared a summary schedule of prior-year findings by federal awarding agency and pass-through entity, including all management decisions, to report the status of our efforts in implementation of the prior-year's corrective action plan. The summary schedule of prior audit findings includes all findings required to be included in accordance with Government Auditing Standards and OMB Uniform Guidance.
26. We are responsible for taking corrective action on audit findings and have developed a corrective action plan that meets the requirements of OMB Uniform Guidance. 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, or violations of provisions of contracts or grant agreements that you report.
27. 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.
28. The State has informed you that the annual report comprises the Annual Comprehensive Financial Report (the "annual report"). The State's final version of the annual report will be provided to you and is consistent with the financial statements and does not contain any material misstatements.
29. 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.
30. During the year ended September 30, 2021, the State 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. Certain assets and liabilities previously reported as part of the agency fund classification of the statement of fiduciary net position are now reported in the fiduciary fund financial statements as custodial funds. The implementation of this statement did not have a material effect on the financial statements.
 - 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. The implementation of this statement did not have a material effect on the financial statements.

- 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 this statement did not have a material effect on the financial statements.
31. 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.
 32. 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.
 33. 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.
 34. 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.

35. 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.
36. 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.
37. 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. Management does not believe that this Statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 97 will be effective for fiscal year ending September 30, 2022.
38. 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.

Except where otherwise stated below, matters less than \$257,600 collectively for the governmental activities, \$80,000 collectively for the General Fund, \$156,200 collectively for the Grants Assistance Fund, \$195,800 collectively for Compact Trust Fund, and \$15,000 collectively for the aggregate remaining fund information, and 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.

39. Except as listed in Appendix B, there are no transactions that have not been properly recorded and reflected in the financial statements.


40. The State has no plans or intentions that may affect the carrying value or classification of assets and liabilities.
41. Regarding related parties:
- a. We have disclosed to you the identity of all the State'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.
42. In preparing the financial statements in accordance with GAAP, management uses estimates. All estimates have been disclosed in the financial statements for which known information available prior to the issuance of the financial statements indicates that both of the following criteria are met:
- a. It is reasonably possible that the estimate of the effect on the financial statements of a condition, situation, or set of circumstances that existed at the date of the financial statements will change in the near term due to one or more future confirming events.
 - b. The effect of the change would be material to the financial statements.
43. There are no:
- a. Instances of identified or suspected noncompliance with laws, regulations, or provisions of contracts or grant agreements whose effects should be considered when preparing the financial statements, or other instances that warrant the attention of those charged with governance.
 - b. Known actual or possible litigation and claims whose effects should be considered when preparing the financial statements and that have not been disclosed to you and accounted for and disclosed in accordance with GAAP.
 - c. Known actual or likely instances of abuse that have occurred that could be quantitatively or qualitatively material to the financial statements.
 - d. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB Codification Section C50, Claims and Judgments, except as disclosed in Note 9 to the financial statements.
44. The State 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 discussed in Notes 1K and 5 to the financial statements.
45. The State has complied with all aspects of contractual agreements that may affect the financial statements.
46. No department or agency of the State has reported a material instance of noncompliance to us.

47. The State has identified all derivative instruments as defined by GASB Codification Section D40, Derivative Instruments, and appropriately recorded and disclosed such derivatives in accordance with GASB Codification Section D40.
48. Other than those described in Note 14 to the financial statements, no events have occurred after September 30, 2021, but before April 28, 2023, the date through which subsequent events were evaluated, that require consideration as adjustments to, or disclosures in, the financial statements.
49. Regarding required supplementary information:
 - a. We confirm that we are responsible for the required supplementary information.
 - b. The required supplementary information is measured and presented in accordance with GASB Codification Section 2200, Comprehensive Annual Financial Report.
 - c. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period.
50. Regarding supplementary information:
 - a. We are responsible for the preparation and fair presentation of the supplementary information in accordance with GASB Codification 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 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.
51. 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.
52. Quantitative and qualitative information regarding the allowance for doubtful accounts has been properly disclosed in the financial statements.
53. Management of the State believes that it is in compliance with all significant limitations and restrictions of the Asian Development Bank loan covenants as of September 30, 2021.
54. We have appropriately identified and properly recorded and disclosed in the financial statements all interfund transactions, including repayment terms.
55. 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.
56. Financial instruments with significant individual or group concentration of credit risk have been appropriately identified, properly recorded, and disclosed in the financial statements.
57. The State 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 State management believes it is more economical to manage its risks internally. In the event of claim settlements and judgments, the State 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.

58. No evidence of fraud, possible irregularities, or dishonesty in fiscal operations of federal programs administered by the State has been discovered.
59. No events have occurred after September 30, 2021 but before April 28, 2023, the date of the financial statements were available to be issued that require consideration as adjustment to, or disclosures in, the financial statements.

Very truly yours,



Ms. Meryda S. Inos
Acting Director of Treasury and Administration
Pohnpei State Government

Pohnpei State Government
Appendix B
Summary of Uncorrected Misstatements
September 30, 2021

GENERAL FUND	Balance Sheet			Income Statement
	Assets	Liabilities	Equity	Operations
	<u>Dr (Cr)</u>	<u>Dr (Cr)</u>	<u>Dr (Cr)</u>	<u>Dr (Cr)</u>
PAJE<1>				
Dr. Bad debt expense				35,000
Cr. Allowance for doubtful accounts	(35,000)			
To adjust receivable from Sales and Rental to reflect net realizable value				
PAJE<2>				
Dr. Salaries and wage				46,588
Cr. Accrued Payroll		(46,588)		
To adjust GL for accrual of 4 days payroll				
PAJE<3>				
Dr. Investment	52,743			
Cr. Earning from investment				(52,743)
To adjust investment earnings to equal confirmation				
PAJE<4>				
Dr. AR- Revenue Share-1430	63,128			
Cr. Revenue Share				(63,128)
To adjust revenue share to equal confirmation				
GRANT ASSISTANCE FUND				
PAJE<1>				
Dr. Salaries and wage				51,313
Cr. Accrued Payroll		(51,313)		
To adjust GL for accrual of 4 days payroll				
PAJE<2>				
Dr. Bad debt expense				45,797
Cr. Allowance for doubtful accounts		(49,797)		
To adjust receivable to reflect net realizable value				

GOVERNMENT WIDE ACTIVITIES			
PAJE 1			
Dr. Claims and litigation payable		159,486	
Cr. Recovery from loss			(159,486)
<i>To adjust GL to reflect Attotrney General's representation</i>			
		-	
		109,689	(113,689)

We have reviewed the passed uncorrected misstatements summarized above. These journal entries are the result of error and not the result of fraud, irregularities, or illegal acts.



Meryda S. Inos
 Acting Director of Treasury and Administration
 Pohnpei State government