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June 27, 2019

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, 2018, in accordance with auditing standards generally accepted in the United States of America ("generally accepted auditing standards") and have issued our report thereon dated June 27, 2019.

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

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 February 5, 2019, 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, 2018 and the related statements of revenues, expenses and changes in net position and of cash flows for the year then ended (the "financial statements"), are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America ("generally accepted accounting principles") and perform specified procedures on the required supplementary information for the year ended September 30, 2018.

- 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, 2018 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 2018 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, 2018, we are not aware of any significant changes in accounting estimates or in management's judgments relating to such estimates.

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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 2018 financial statements.

SIGNIFICANT ACCOUNTING POLICIES

The Authority's significant accounting policies are set forth in note 1 to the Authority's 2018 financial statements. During the year ended September 30, 2018, there were no significant changes in previously adopted accounting policies or their application, except for the following pronouncements adopted by the Authority, which did not have a material effect on the Authority's financial statements:

- GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments.

- GASB Statement No. 81, *Irrevocable Split-Interest Agreements,* which improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

- GASB Statement No. 85, *Omnibus 2017*, which addresses practice issues that have been identified during implementation and application of certain GASB Statements including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits).

- GASB Statement No. 86, *Certain Debt Extinguishment Issues*, which improves consistency in accounting and financial reporting for in-substance defeasance of debt.

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

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

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

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

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SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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

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

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

DISAGREEMENTS WITH MANAGEMENT

We have not had any disagreements with management related to matters that are material to the Authority's 2018 financial statements.

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

We are not aware of any consultations that management may have had with other accountants about auditing and accounting matters during 2018.

OTHER INFORMATION IN THE ANNUAL REPORTS

When audited financial statements are included in documents containing other information such as the Authority's 2018 Annual Report, we will read such other information and consider whether it, or the manner of its presentation, is materially inconsistent with the information, or the manner of its presentation, in the financial statements audited by us. We will read the other information in the Authority's 2018 Annual Report and will inquire as to the methods of measurement and presentation of such information. If we note a material inconsistency or if we obtain any knowledge of a material misstatement of fact in the other information, we will discuss this matter with management and, if appropriate, with the Board of Directors.

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.

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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 June 27, 2019, 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, 2018 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, 2018:

(1) Fixed Assets

Comment: The following fixed asset matters were noted:

a. Asset tags are not used to identify and monitor fixed assets.

b. Of three assets selected from fixed asset register as of September 30, 2018 for physical existence testing, one asset was not verified as such has been used and held by an employee who already resigned.

c. One asset disposed with net book value of $5,578 was sold at a loss in the amount of $2,958 due to incorrect useful life used in disposal depreciation report.

Recommendation: The Authority should consider conducting a complete physical count of fixed assets and adjust the records based on count. Management should determine net book value based on fixed asset register when disposing assets. Additionally, unique asset tags should be used to easily identify and monitor assets. Finally, the Authority should determine if policy allows loaning assets to employees for personal use.

(2) Employee Advances

Comment: Receivables as of September 30, 2018 included long outstanding employee advances of approximately $155,000 with no movements for more than five fiscal years.

Recommendation: Although 100% allowance has been provided for these balances, management should assess collectability of these inactive and long outstanding receivables and implement collection actions or seek Board approval for write-offs for those deemed uncollectible.

(3) 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. Total collections of $104,827 as of September 30, 2018, which include $29,494 collected during 2018, have not been remitted to PSG.

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

(4) Long Outstanding Accounts Payable

Comment: Inactive and long outstanding payables of $22,960 are recorded as of September 30, 2018.

Recommendation: The Authority should assess validity of inactive payables and timely adjust as necessary.

SECTION I – DEFICIENCIES, CONTINUED

(5) Loans

Comment: Tests of loan receivables noted the following:

a. Inspection reports or equivalent documentation that required project inspection was performed subsequent to loan disbursement, is not evident for one loan (loan no. 1649).

b. For a loan (loan no. 1695), the property inspection report used for recommendation for the Board approval was performed on 5/29/2018 after approval of the loan on 5/28/2018.

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

Loan no.	Maturity per Portfolio	Maturity per Agreement
#1651	10/23/2027	03/21/2026
#1680	04/09/2028	04/30/2028
#1716	09/13/2033	07/30/2033
#1701	05/30/2024	05/30/2029
#1684	05/08/2033	05/30/2033

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 agreement. Additionally, necessary inspection should be performed to determine housing project compliance.

(6) Financial Reporting

Comment: Financial statements are not timely prepared.

Recommendation: We recommend that monthly financial reporting occur.

(7) Interest Income

Comment: Management changed interest income accrual to exclude nonperforming and matured loans. Related policy or Board approval was not documented.

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

(8) Procurement

Comment: For a $6,500 capital asset purchased, no price quotation was provided for determination of compliance with procurement regulations. Per Pohnpei State Financial Management Regulations, three price quotations are required for purchases of less than $25,000.

Recommendation: The Authority should comply with Pohnpei State Procurement Regulations.

SECTION I – DEFICIENCIES, CONTINUED

(9) Travel

Comment: For four travel advances disbursed (check no. 2974, 2975, 3099 and 3100) to employees, no travel vouchers (liquidation) were submitted within 10 working days after completion of the travel.

Recommendation: The Authority should implement regulation for travel voucher process.

(10) Collections

Comment: For fifty-seven loan collections tested, sixteen daily cash collection reports have no evidence of review.

Loan No.	Date
1666	05/24/2018
1684	07/10/2018
0471	02/07/2019
0864/1476/1627	12/17/2018
1286/1337/1477/1569/1386	10/02/2018
1488/1366/1568/1348/1383/600	10/19/2018
1236/0371/1532/1516	01/31/2019
1600/1635	11/30/2018
1640	08/08/2018
1640	12/27/2018
1498	02/28/2018
1442	12/12/2018
1538	03/01/2019
1089/1526/1516/1400	01/08/2019
1551	04/02/2018
0800	10/12/2018

Recommendation: The Authority should implement procedures to review daily cash collection reports.

(11) Journal Entries

Comment: Tests of journal entries noted the following:

a. The journal vouchers and attendant support were not provided for four selected journal entries.

b. Entries to the general ledger for fixed asset disposal of $171,585 have no supporting breakdown or documentation or no evidence of review or approval.

Recommendation: The Authority should implement an effective system of internal control over financial reporting including maintenance of general ledger that will determine that entries to the accounting system are reviewed and approved.

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
P. O. Box 1109
Kolonia, Pohnpei. FSM 96941
Phone: (691) 320-2582/4225 Fax: (691) 320-2304

June 27, 2019

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, 2018 and 2017 and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended, and the 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:

December 17, 2017	May 4, 2018	December 14, 2018
January 11, 2018	June 26, 2018	February 15, 2019
March 16, 2018	August 30, 2018	May 17, 2019

   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. 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.

6. 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.

7. 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.

8. There are no unasserted claims or assessments that we are aware of or that legal counsel has advised us are probable of assertion and must be disclosed in accordance with GASB Codification of Governmental Accounting and Financial Reporting Standards ("GASB Codification") Section C50, *Claims and Judgments*.

9. Significant assumptions used by us in making accounting estimates are reasonable.

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

11. We are responsible for compliance with FSM laws, rules and regulations, including compliance with the provisions of grants and contracts relating to the Authority's operations. We are responsible for establishing and maintaining the components of internal control relating to our activities in order to achieve the objectives of providing reliable financial reports, effective and efficient operations, and compliance with laws and regulations. The Authority is responsible for maintaining accounting and administrative control over revenues, obligations, expenditures, assets, and liabilities.

12. Management has identified and disclosed to you all laws and regulations that have a direct and material effect on the determination of financial statement amounts.

Except where otherwise stated below, immaterial matters less than $20,220 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.

13. There are no transactions that have not been properly recorded and reflected in the financial statements.

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

15. Regarding related parties:

    a. We have disclosed to you the identity of the 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.

16. 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.

17. 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*.

18. 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.

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

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

21. 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.

22. Management is aware of its responsibility to disclose whether, subsequent to September 30, 2018, 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.

23. 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.

24. 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.

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

26. During fiscal year ended September 30, 2018, the Authority implemented the following pronouncements, which did not have a material effect on the Authority's financial statements:

    - GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments.

    - GASB Statement No. 81, *Irrevocable Split-Interest Agreements,* which improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

    - GASB Statement No. 85, *Omnibus 2017*, which addresses practice issues that have been identified during implementation and application of certain GASB Statements including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits).

    - GASB Statement No. 86, *Certain Debt Extinguishment Issues*, which improves consistency in accounting and financial reporting for in-substance defeasance of debt.

    In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs) associated with the retirement of a tangible capital asset. The provisions in Statement No. 83 are effective for fiscal years beginning after

June 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

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27. 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. At September 30, 2018 and 2017, cumulative unremitted collections due to PSG were $104,827 and $91,664, respectively.

28. No events have occurred subsequent to September 30, 2018, but before June 27, 2019 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

#	Name	Debit	Credit
	1 AJE To update USRD loans collections not yet remitted		
1404	ALLOWANCE FOR LOAN (PHA)	13,162.94	
2201	DUE TO PSG		13,162.94
		13,162.94	13,162.94
	To record USRD loans collections not yet remitted to PSG.		
	2 AJE To reverse entry unsupported entry by service organization		
1801	PROPERTY & EQUIPMENT	101,776.77	
4418	Other expenses	2,434.00	
4103	MISC. INCOME	3,218.00	
1802	ACCUMULATED DEPRECIATION		107,068.77
4103	MISC. INCOME		360.00
		107,428.77	107,428.77
	To reverse entry recorded by service provider and to adjust for unrecorded disposal of asset.		
	3 AJE To reverse recovery based on PSHA entry		
4503	RECOVERY ON LOAN LOSS/INCOME	994,190.00	
1404	ALLOWANCE FOR LOAN (PHA)		994,190.00
		994,190.00	994,190.00
	To reverse recovery based on PHSA journal entry.		
	4 AJE To adjust loans receivable for overpayment		
1401	LOAN RECEIVABLE (PHA)	18,920.80	
2103	VOUCHER PAYABLE		18,920.80
		18,920.80	18,920.80
	To record overpayment of loans receivable.		
	5 AJE To adjust allowance for loan losses		
4503	RECOVERY ON LOAN LOSS/INCOME		84,652.00
1404	ALLOWANCE FOR LOAN (PHA)	84,652.00	
		84,652.00	84,652.00
	To adjust the allowance for loan losses.		