BURGER · COMER · & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

February 16, 2024

Board of Directors
Pohnpei State Housing Authority

Dear Board of Directors,

We have audited the financial statements of the Pohnpei State Housing Authority (the Authority), a component unit of the Pohnpei State Government, for the year ended September 30, 2022 , in accordance with auditing standards generally accepted in the United States of America (generally accepted auditing standards) and have issued our report thereon dated February 16, 2024.

Our comments in this letter will assist you in fulfilling your obligations to provide oversight of financial reporting and disclosure processes for which the management of the Authority is responsible.

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

We extend our gratitude to the staff and management of the Authority for their cooperation and assistance during this engagement.

Respectfully,

Burger Comer & Associates

Tamuning, Guam

cc: Management of the Pohnpei State Housing Authority

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Our Responsibility Under Generally Accepted Auditing Standards and Generally Accepted Government Auditing Standards

Our responsibilities 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"), the objectives of an audit conducted in accordance with the auditing standards are:

- To express an opinion on whether the Statement of Net Position of the Authority as of September 30, 2022 and the related statement 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 performed specified procedures on the required supplementary information for the year ended September 30, 2022;

- To report 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 for the year ended September 30, 2022, based on an audit of financial statements performed in accordance with 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 judgement, 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 consider internal control over the 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 on 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.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Authority are described in Note 1 to the financial statements. Apart from the implementation of new GASB Statements highlighted below, no new accounting policies were adopted and the application of existing policies was not changed during 2022. We noted no transactions entered into by the Authority during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

During the year ended September 30, 2022, the Authority implemented the following pronouncements:

- GASB Statement No. 87, *Leases*, which increases the usefulness of financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financing of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. Limited exceptions to the single approach guidance are provided for short-term leases, financed purchases, leases of assets that are classified as investments, and certain regulated leases.

- 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.

- GASB 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 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.

- GASB 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.

- GASB 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

Significant Audit Matters

Qualitative Aspects of Accounting Practices, continued

fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans.

- GASB Statement No. 98, *The Annual Comprehensive Financial Report*. This Statement establishes the term annual comprehensive financial report and its acronym ACFR. The new term and acronym replace instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments.

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

Management of the Authority is currently evaluating the future impact of adopting the following upcoming GASB statements:

- GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements.*
- GASB Statement No. 96, *Subscription – Based Information Technology Arrangements.*
- GASB Statement No. 99, *Omnibus 2022*.
- GASB Statement No. 100, *Accounting Changes and Error Corrections*.
- GASB Statement No. 101, *Compensated Absences*.

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

Management judgement and accounting estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgements 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 financial statements include management's estimates of the allowance for loan losses, which is determined based upon past collection experience and aging of the accounts, and management's estimate of depreciation expense, which is based on the estimated useful lives of the Authority's respective capital assets. During the year ended September 30, 2022, we are not aware of any significant changes in accounting estimates or in management's judgements relating to such estimates.

The financial statement disclosures are neutral, consistent, and clear.

Audit Adjustments and Reclassifications

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 a 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 Authority's financial reporting process.

Audit Adjustments and Reclassifications, continued

Such adjustments, listed in **Appendix A** to **Attachment II**, 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 2022 financial statements.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. **Appendix B** to **Attachment II** includes a listing of uncorrected misstatements that were presented to management during our audit. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. The uncorrected misstatements or the matters underlying them could potentially cause future period financial statements to be materially misstated, even though, in our judgment, such uncorrected misstatements are immaterial to the financial statements under audit.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated February 16, 2024.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to The Authority's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We discussed a variety of matters, including the application of certain accounting principles and auditing standards, with management; however, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Management representations

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

Control related matters

We have issued as separate report to you, dated February 16, 2024, 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 on 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, 2022 that we wish to bring to your attention.

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 letter.

Attachment I—Management Letter Comments/Deficiencies

SECTION I – DEFICIENCIES

We identified the following deficiencies involving the Authority's internal control over financial reporting as of September 30, 2022:

(1) Accounting Software

Comment: The Authority does not have an accounting software to support a sound financial management system. Instead, the Authority is using excel spreadsheets to record monthly transaction activities.

Recommendation: The Authority should acquire accounting software to maintain the general ledger and account for all the financial activities of the Authority. Accounting staff should be properly trained on the accounting software. The implementation of accounting software will assist the accounting department in streamlining daily manual processes and reduce the risk of systematic errors.

Managements response: The QuickBooks had been purchased and a staff of the Company is scheduled to conduct onsite training for the Accounting Division staff on transfer of accounting records and information on the spreadsheet system into the QuickBooks system.

(2) Information Technology and Data Security

Comment: The Authority does not have a properly trained individual to oversee the Authority's Loan Base software. The loan software and the related loan data files are backed up and maintained to an external server; however, the Authority does not have a formal disaster recovery plan to recover its data in the event of a natural disaster or system failure. Furthermore, loan and financial data are not regularly backed up and kept in a secure location.

Recommendation: The Authority should continue its efforts to hire a qualified IT professional. The Authority may consider outsourcing information technology services. Management should consider developing and implementing a disaster recovery plan along with standard operating procedures to ensure the financial and loan file date is properly safeguarded and recoverable in the event of a natural disaster of system failure.

Management response: The Computer Manager had been hired and has been training himself on our Accounting and Loan Bases software programs. He will participate in the onsite training mentioned earlier.

(3) Due to Pohnpei State Government

Comment: Based on the agreement between USDA Rural Development (USDA-RD) and PSG the Authority will collect certain USDA-RD loans and remit to PSG on a monthly or quarterly basis. Remaining collections of $124,029 had not been remitted to PSG as of September 30, 2022.

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

Management response: Stated amount had been remitted to Pohnpei State Government in FY 2023. We will remit funds to Pohnpei State after we have received amount of collection worth writing checks for. It is unwise to write checks with small amounts just to follow the MOU requirement.

(4) Negative Loans Receivable

Comment: The Authority has several negative loans receivable balances aggregating $20,745 as of September 30, 2022.

Recommendation: The Authority should consider recognizing a liability for loan over-collections or for borrower advances as applicable.

Attachment I—Management Letter Comments/Deficiencies, Continued

(4) Negative Loans Receivable, continued

Management response: The negative loans receivable was a result of not ceasing the allotment when loan has been fully paid. Reimbursement of over collection will be done after the allotment has been ceased.

(5) Loans

Comments: Tests of loan receivables noted the following:

Origin amount per the Portfolio did not agree to origin amount per the agreement.

Loan no.	Origin Amount Per Portfolio	Origin Amount Per Agreement
1972	$17,720	$17,810

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

Loan no.	Maturity Date Per Portfolio	Maturity Date Per Agreement
1972	12/30/2030	11/30/2030
1973	12/30/2030	11/30/2030
1975	12/30/2023	12/07/2023
2000	04/07/2031	04/20/2031

Restructured loans have disbursed amounts exceeding origin amount due to Loan Base recognition of waived accrued interest.

Loan no.	Origin Amount Per Loan Portfolio	Disbursed Amount Per Loan Portfolio
491	$ 3,440	$ 3,510
1308	$ 16,347	$ 16,447
1445	$ 35,000	$ 35,632
1476	$ 25,100	$ 25,284
1478	$ 20,000	$ 20,545
1527	$ 21,876	$ 21,974
1544	$ 19,559	$ 19,671
1831	$ 32,622	$ 33,217
297	$ 18,145	$ 18,465
1869	$ 20,929	$ 21,091
2016	$ 8,815	$ 15,627

Recommendation: The Authority should consider strengthening controls and procedures over disbursements, recording, and reconciliation of loan account balances. The Authority should perform periodic reviews of the Loan Base database to determine the accuracy of information based on loan agreements. For the restructured loans cited above we are aware that the inclusion of waived accrued interest in a loans disbursed amount is a technical issue of Loan Base. To the extent possible the Authority should determine whether this can be rectified through technical support.

Management response: We will proceed as recommended by designating responsibility to a specific staff to monitor the loan base periodically (monthly) and make corrections. Maturity dates should follow contracts and restructured loans should be signed and recorded on same date to avoid accrual.

Attachment I—Management Letter Comments/Deficiencies, Continued

(6) Allowance for Loan Losses

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

Recommendation: We note that the Authority has adopted a loan loss policy effective for FY 2023. We recommend that the policy further establish an additional assessment criterion for restructured and refinanced loans as such loans carry a higher level of collection risk.

Management response: PSHA lacks a loan loss policy. What has is a loan write off policy. Staff need training on the subject: allowance for loan loss.

(7) Delinquent Related Party Loans

Comment: The Authority has two outstanding delinquent loans (Loan nos. 1516 and 1571) due from related parties totaling $58,243 and no repayments were made during the fiscal year ending September 30, 2022.

There were two additional loans due from related parties (Loan nos. 1090 and 1092) which are more than 24 months past due with an outstanding balance totaling $37,991 as of September 30, 2022.

Recommendation: These loans should be investigated and evaluated for collectability, loan modification or restructure. The Authority should perform a review of existing collection measures and evaluating its underwriting loan policies and procedure for related party loans.

Management response: We will continue to work with these borrowers to update their accounts. Payment histories of the above accounts pertain to staff advance which changed to loans with zero interest but interest has been accruing.

(8) Collections

Comment: There was a lack of internal control over the Authority's daily cash collection reports to ensure that they are properly prepared, reviewed and monitored. The daily cash collection reports lacked proper signature for reports prepared on the following dates:

- 02/09/2022
- 08/30/2022
- 08/31/2022
- 09/20/2022
- 09/26/2022
- 09/27/2022
- 09/28/2022
- 09/29/2022
- 09/30/2022

Furthermore, we noted that there were no cash collection reports on file to evidence proper signature authorization for the following dates:

- 09/01/2022
- 09/09/2022
- 09/13/2022
- 09/14/2022
- 09/16/2022

Attachment I—Management Letter Comments/Deficiencies, Continued

(8) Collections, continued

Recommendation: The Authority should strengthen internal controls over its review, approval, and deposit of cash. It was brought to our attention that for the month of September 2022, the Authority experienced internal issues contributing to the lack of cash collection reports in file. The Authority should consider contingent plans to accommodate such occurrences.

Management response: We will proceed as recommended. Loan Division had indicated that they changed the time for prepare to 2 P.M. instead of 3 P.M. to get a reviewer before reaching the banks before closing.

(9) Cash Disbursements

Comment: The Authority was not able to provide check #3540, dated 10/15/2021, amount $400; for review. We were not able to validate the authorization of this transaction.

Recommendation: The Authority should strengthen controls over file retention for all transactions.

Management response: We have to follow the recommendation at all times.

(10) Cash Receipts

Comment: For 6 of 21 or 29% of the cash collection reports examined, the Authority was not able to provide the cash receipt tickets to substantiate the payroll allotment listing for the following dates:

- 11/02/2021
- 11/16/2021
- 01/31/2022
- 06/30/2022
- 08/31/2022
- 09/16/2022

Recommendation: The Authority should continue its practice to include copies of cash receipt tickets for borrowers on the payroll allotment listing. The Authority should exercise due care to ensure that all duplicate receipt tickets are properly maintained on file to substantiate the details on the allotment listing.

Management response: Yes, we will follow the recommendation.

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February 16, 2024

Burger Comer Magliari, LLC
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This representation letter is provided in connection with your audit of the financial statements of the Pohnpei State Housing Authority (the Authority) which comprise the statement of net position, statement of revenues, expenses, and changes in net position and of cash flows for the year then ended September 30, 2022, and the disclosures (collectively, the "financial statements"), 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 (U.S. GAAP).

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. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

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

1. The financial statements referred to above are fairly presented in conformity with U.S. GAAP and include all properly classified funds as follows:

    a. Components of net position (net investment in capital assets; restricted; and unrestricted) and classifications of fund balance (non-spendable, restricted, committed, assigned, and unassigned) are properly classified and, if applicable, approved.
    b. Provisions for uncollectible loan receivables have been properly identified and recorded.

c. 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.
d. Revenues are appropriately classified in the statement of activities.
e. Deposits and investment securities and derivative instrument transactions are properly classified as to risk and are properly disclosed.
f. Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated, or amortized.
g. Required supplementary information is measured and presented within prescribed guidelines.
h. Applicable laws and regulations are followed in adopting, approving, and amending budgets.

2. As part of your audit, you assisted with preparation of the financial statements and disclosures. We acknowledge our responsibility as it relates to those nonaudit services, including that we assume all management responsibilities; oversee the services by designating an individual, preferably within senior management, who possesses suitable skill, knowledge, or experience; evaluate the adequacy and results of the services performed; and accept responsibility for the results of the services. We have reviewed, approved, and accepted responsibility for those financial statements and disclosures. Additionally, we agree with the adjusting journal entries as listed in: **Appendix A** to this letter.

3. All material transactions have been recorded in the accounting records and are reflected in the financial statements.

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

5. The Authority is responsible for determining and maintaining the adequacy of the allowance for loan losses, as well as estimates used to determine it. Management believes the allowances are adequate to absorb currently estimated bad debts in the account balances.

6. Quantitative and qualitative information regarding the allowance for loan losses has been properly disclosed in the financial statements.

7. The Authority has ensured that all significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable. All estimates have been disclosed in the financial statements for which known information available prior to the issuance of the financial statements indicates that:

    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.

8. Related party relationships and transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with U.S. GAAP.

9. Adjustments or disclosures have been made for all events, including instances of noncompliance, subsequent to the date of the financial statements that would require adjustment to or disclosure in the financial statements.

10. The effects of uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole. A list of the uncorrected misstatements is attached to the representation letter under: **Appendix B**

11. The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with U.S. GAAP.

12. Guarantees, whether written or oral, under which the Authority is contingently liable, if any, have been properly recorded or disclosed.

13. We acknowledge our responsibility for 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.

14. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.

15. Management is aware of its responsibility to disclose whether, subsequent to September 30, 2022, 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 actions has occurred.

16. We have provided you with:

    a) Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements.
    b) Unrestricted access to persons within the Authority from whom you determined it necessary to obtain audit evidence.

c) Minutes of the meetings of the Authority's Board of Directors or summaries of actions of recent meetings for which minutes have not yet been prepared.
d) Contracts and grant agreements (including amendments, if any) and any other correspondence that has taken place with federal agencies.
e) Additional information that you have requested from us for the purpose of the audit.

17. 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.

18. We have no knowledge of any fraud or suspected fraud that affects the Authority and involves—
    - Management,
    - Employees who have significant roles in internal control, or
    - Others where the fraud could have a material effect on the financial statements.

19. We have no knowledge of any allegations of fraud or suspected fraud affecting the Authority's financial statements communicated by employees, former employees, regulators, or others.

20. We have no knowledge of instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or waste or abuse, whose effects should be considered when preparing financial statements.

21. We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements.

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

23. 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 that includes sales, purchases, loans, transfers, lease agreements, and guarantees (written or oral) have been appropriately identified, properly accounted for, and disclosed in the financial statements.

24. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.

25. There has been no action taken by the Authority's management that contravenes the provisions of Federal laws and Federated States of Micronesia's (FSM) laws and regulations or of contracts and grants applicable to the Authority.

26. We are responsible for compliance with State, FSM and Federal laws, rules, and regulations, including compliance with the provisions of grants and contracts relating to the Authority's operations. We are responsible for 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.

27. We are responsible for taking corrective action on audit findings and have developed a corrective action plan. We have taken timely and appropriate steps to remedy fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse that you report.

28. We have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for the report.

29. 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.

30. We have identified to you any investigations or legal proceedings that have been initiated with respect to the period under audit.

31. No organizations were identified that meet the criteria established in GASB codification section 2100, *Defining the Financial Reporting Entity*.

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

33. The Authority has no plans or intentions that may materially affect the carrying value or classification of assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fund balance or net position.

34. Regarding related third 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 relationship 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.

35. There are no violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.

36. 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.

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

38. 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 Statement No. 98, *Annual Comprehensive Financial Report*.

  c. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period.

39. The Authority has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.

40. The financial statements include all fiduciary activities required by GASBS No. 84, as amended.

41. The financial statements properly classify all funds and activities in accordance with GASBS No. 34, as amended.

42. All funds that meet the quantitative criteria in GASBS Nos. 34 and 37 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.

43. During the year ended September 30, 2022, the Authority implemented the following pronouncements:

a. GASB Statement No. 87, *Leases*. The Authority implemented the GASB pronouncement with the applicable transition guidance prescribed in the Statement. The Authority has sufficient and appropriate documentation supporting the conclusion that the implementation of this standard had no material impact on the financial statements.
b. GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The Authority implemented the GASB pronouncement with the applicable transition guidance prescribed in the Statement. The Authority has sufficient and appropriate documentation supporting the conclusion that the implementation of this standard had no material impact on the financial statements.
c. GASB Statement No. 91, *Conduit Debt Obligations*. The Authority implemented the GASB pronouncement with the applicable transition guidance prescribed in the Statement. The Authority has sufficient and appropriate documentation supporting the conclusion that the implementation of this standard had no material impact on the financial statements.
d. GASB Statement No. 92, *Omnibus 2020*. The Authority implemented the GASB pronouncement with the applicable transition guidance prescribed in the Statement. The Authority has sufficient and appropriate documentation supporting the conclusion that the implementation of this standard had no material impact on the financial statements.
e. GASB 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 Authority implemented the GASB pronouncement with the applicable transition guidance prescribed in the Statement. The Authority has sufficient and appropriate documentation supporting the conclusion that the implementation of this standard had no material impact on the financial statements.
f. GASB Statement No. 98, *The Annual Comprehensive Financial Report*. The Authority implemented the GASB pronouncement with the applicable transition guidance prescribed in the Statement. The Authority has sufficient and appropriate documentation supporting the conclusion that the implementation of this standard had no material impact on the financial statements.

44. The Authority is still in the process of evaluating the impact which upcoming GASB pronouncements may have on the financial statements of the Authority:

a. GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*.
b. GASB Statement No. 96, *Subscription – Based Information Technology Arrangements*.

c. GASB Statement No. 99, *Omnibus 2022*.
d. GASB Statement No. 100, *Accounting Changes and Error Corrections*.
e. GASB Statement No. 101, *Compensated Absences*.

45. 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 $969,079 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 and has been recorded in the Authority's financial statements. At September 30, 2022, cumulative unremitted collections due to PSG was $124,049.

46. To the best of our knowledge and belief, no events have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements.

Very truly yours,

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Henry Saimon Jr.
Acting Executive Director, PSHA

Appendix A

Adjusting Entries

Account Number	Account Name	Debit Amount	Credit Amount
01 - Journal Entries			
AJE 2022-001 - Adjustment to correct due from PSG. (09/30/2022)			
1118	DUE FROM PSG	11,278.96	
7001	GENERAL FUND (TRANSFER-IN)		11,278.96
	Journal Entry Totals	**11,278.96**	**11,278.96**
AJE 2022-002 - Adjustment to correct accrued interest receivable. (09/30/2022)			
1114	INTEREST RECEIVABLE	15,209.00	
4001	INTEREST INCOME FROM LOANS		15,209.00
	Journal Entry Totals	**15,209.00**	**15,209.00**
AJE 2022-003 - Adjustment to reduce ALLL based on audit analysis (09/30/2022)			
1111A	ALLOWANCE FOR LOAN (PHA)	356,721.18	
1113A	ALLOWANCE FOR LOAN (HPG)		45,347.71
4007	RECOVERY ON LOAN LOSS/INCOME		311,373.47
	Journal Entry Totals	**356,721.18**	**356,721.18**
Journal Entries Listed: 3			
Grand Total:		**383,209.14**	**383,209.14**

The above adjusting entries were the result of bookkeeping errors, not fraud, and we agree to record them:

Henry Saimon Jr.
Acting Executive Director, PSHA

Appendix B

Passed Adjusting Journal Entries

Account Number	Account Name	Debit Amount	Credit Amount
PAJE 2022-001 - Passed adjustment to reverse FY2021 interest income included in 2022 (09/30/2022)			
4001	INTEREST INCOME FROM LOANS	127.48	
4005	PENALTY INCOME	20.00	
4007	RECOVERY ON LOAN LOSS/INCOME	65.00	
3001	RETAINED EARNINGS		212.48
		212.48	**212.48**
PAJE 2022-002 - Passed adjustment to correct 2022 depreciation and accumulated depreciation (09/30/2022)			
6017	DEPRECIATION EXPENSE	1,181.02	
1302	ACCUMULATED DEPRECIATION		591.04
3001	RETAINED EARNINGS		589.98
		1,181.02	**1,181.02**
PAJE 2022-003 - Passed adjustment to recognize liability for loan overcollections (09/30/2022)			
1111	LOAN RECEIVABLE (PHA)	18,236.65	
1113	LOAN RECEIVABLE (HPG)	2,467.85	
1112	LOAN RECEIVABLE (ESCROW)	40.81	
2002	OTHER PAYABLE (REFUND)		20,745.31
		20,745.31	**20,745.31**
Journal Entries Listed:	3		
Grand Total		**22,138.81**	**22,138.81**