



BURGER · COMER · & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

March 17, 2025

Board of Directors
Pohnpei State Housing Authority

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, 2023, in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and have issued our report thereon dated March 17, 2025.

Provided in the following pages is a summary of required communications between the audit team and those charged with governance, as required by AICPA Clarified US Auditing Standard (AU-C) 260, "*The Auditor's Communication With Those Charged With Governance*", and other applicable auditing standards.

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 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, 2023 and the related statement of revenues, expenses, and changes in net position and of cash flows for the years 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, 2023;
- 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, 2023, 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 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.

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 2023.

Significant Audit Matters, Continued

Qualitative Aspects of Accounting Practices, continued

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.

During the year ended September 30, 2023, the Authority implemented the following pronouncements:

- GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*.
- GASB Statement No. 96, *Subscription – Based Information Technology Arrangements*.
- Certain required provisions of GASB Statement No. 99, *Omnibus 2022*. Particularly:
 - Provisions relating to the clarification of GASB Statement No. 87.
 - Provisions relating to the clarification of GASB Statement No. 94.
 - Provisions relating to the clarification of GASB Statement No. 96.
 - Provisions relating to the modification of accounting and reporting guidance for the termination of hedges as established in GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*

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:

- Certain provisions in GASB Statement No. 99, *Omnibus 2022*. Particularly those relating to:
 - Modifications to the guidance in GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*.
 - Guidance on the classification and reporting of derivative instruments within the scope of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*.
- GASB Statement No. 100, *Accounting Changes and Error Corrections*.
- GASB Statement No. 101, *Compensated Absences*.
- GASB Statement No. 102, *Certain Risk Disclosures*

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

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 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 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, 2023, we are not aware of any significant changes in accounting estimates or in management's judgments 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. 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.

Such adjustments, listed in **Appendix A to Attachment II**, were brought to the attention of management during the course of our audit procedures and were corrected by management during the current period and are reflected in the 2023 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 March 17, 2025.

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 March 17, 2025, 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, 2023 that we wish to bring to your attention.

Control Related Matters, Continued

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, 2023:

(1) Reconciliation – Cash Receipt (CRJ), Direct Deposit (DDJ), Cash Disbursement (CDJ), and Voucher Payable Journals (VPJ)

Comment: The accounting software purchased by the Authority has not been implemented. Currently, the Authority continues to record monthly transactions in excel journals. Data from those journals is compiled annually to create the general ledger and trial balance.

Based on our review of the journals: CRJ, DDJ, CDJ, and VPJ; immaterial differences and reconciling discrepancies were noted between the journals and the general ledger. The Authority currently only has monthly controls over bank reconciliation, it has not implemented any year-end controls over annual reconciliation, there is only closing reconciliation for audit purposes.

Recommendation: The Authority should ensure that (1) staff are properly trained on the new accounting software prior to implementation, (2) parallel systems are run to prepare and compile the general ledger and trial balance and (3) controls are established and implemented for year-end review and reconciliation.

(2) Due to Pohnpei State Government

Comment: Pursuant to the agreement between USDA Rural Development (USDA-RD) and PSG, the Authority collects certain USDA-RD loan payments to be remitted to PSG on a monthly or quarterly basis. As of September 30, 2023, the Authority received loan payments totaling \$134,567 which had not been remitted to PSG.

Recommendation: The Authority should comply with the agreement and submit all collections to PSG in a timely manner.

(3) Negative Loans Receivable

Comment: As of September 30, 2023, the Authority has several loan receivables with negative balances totaling \$5,419. These appear to result from payroll allotments continuing after the loans were fully paid off.

Recommendation: Although the amounts are immaterial, the negative balances should be investigated. The Authority should identify and notify affected borrowers and remit any overpayments. Additionally, the Authority should implement a policy to inform borrowers when their loans are fully paid and instruct them to cancel their payroll allotments.

(4) Loans

Comments: Based on our loan receivables testing, we noted the following:

A. Origination date per the Loan Portfolio did not agree to origination date per the loan agreement.

	Origination Date	Origination Date
<u>Loan no.</u>	<u>Per Portfolio</u>	<u>Per Agreement</u>
2090	5/16/2023	5/11/2023

B. Maturity date per the Loan Portfolio did not agree to the maturity date per the loan agreement as follows:

	Maturity Date	Maturity Date
<u>Loan no.</u>	<u>Per Portfolio</u>	<u>Per Agreement</u>
2078	3/30/2033	3/30/2023 (Erroneous)
2063	1/24/2032	2/15/2023 (Erroneous)

C. Excluding the thirteen (13) loans already cited in Finding 2023-002 sub-conditions G and H of the Schedule of Findings and Responses, seventy-seven (77) loans remain in the loan portfolio where disbursed amounts exceed origin. Of that amount:

1. Eleven (11) restructured loans were over disbursed in the portfolio because Loan base has classified waived accrued interest as disbursements, and this has not been corrected as follows:

	Origin amount	Disbursed amount per	
<u>Loan no.</u>	<u>Per Portfolio</u>	<u>Portfolio</u>	<u>Difference</u>
297	\$18,145	\$18,465	\$320
491	\$3,440	\$3,510	\$70
1308	\$16,347	\$16,447	\$100
1445	\$35,000	\$35,632	\$632
1476	\$25,100	\$25,284	\$184
1478	\$20,000	\$20,545	\$545
1527	\$21,876	\$21,974	\$98
1544	\$19,559	\$19,671	\$112
1831	\$32,622	\$33,217	\$595
1869	\$20,929	\$21,091	\$162
2016	\$8,815	\$15,627	\$6,812

(4) Loans, Continued

2. Five (5) loans were over disbursed in the portfolio, and we have been advised by management that the reason is incorrect loan input in prior years as follows:

<u>Loan no.</u>	Origin amount	Disbursed amount per	
	<u>Per Portfolio</u>	<u>Portfolio</u>	<u>Difference</u>
1580	\$10,000	\$10,132	\$132
1710	\$7,500	\$7,568	\$68
1726	\$10,217	\$11,040	\$823
1838	\$6,678	\$6,843	\$165
2018	\$23,418	\$26,173	\$2,755

3. No reasoning was provided to us for the remaining (61) as the Authority is currently investigating the cause. All such loans were originated in prior years. Per the loan portfolio, loan disbursements in excess of origin amount total: \$42,689.

Recommendation: The Authority should strengthen internal control policies to procedures to over loan disbursements, recording, and reconciliation of loan account activities. Perform periodic reviews of the Loan Base database to verify the accuracy of information based on its loan files. Specifically:

- **For Comment 4.A and 4.B** – Once a loan is approved and originated, procedures should be established to ensure that all loan terms and amounts are accurately inputted and in the Loan Base database. The Authority should also take steps to enhance its review of accuracy for loan agreements, promissory notes, and mortgage agreements prior to finalization.
- **For Comment 4.C** – For the (11) restructured loans cited above, we are aware that the inclusion of waived accrued interest in a loan's 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. For the (5) loans cited above that are over disbursed due to incorrect prior year loan input, the Authority should consider corrective action, as necessary. For the (61) loans cited above with no known underlying cause, the Authority should determine the underlying cause and take corrective action as necessary for each account.
- **In General** – The Authority should consider performing annual internal quality control reviews of its loan files. Such a review should cover only loans originated in the current fiscal year and the review may take place subsequent to the year being evaluated. The review need not cover all loan files created in a fiscal year and can be a sample from each loan program. The quality control review should be performed by a staff member that was not involved with the original preparation of the loan file. The results of the review should be communicated to the Authority's director and Board of Directors.

(6) Allowance for Loan Losses

Comment: The Authority does not specifically track restructured and refinanced loans when estimating the allowance for loan losses.

Recommendation: While we acknowledge the Authority's adoption of a loan loss policy effective for FY 2023, we recommend enhancing the policy by incorporating an additional assessment criterion for restructured and refinanced loans, as these loans present a higher collection risk.

(7) Delinquent Related Party Loans

Comment: The Authority has delinquent loans to related parties, including Loan Nos. 1516 and 1571, with a total outstanding balance of \$47,130. No payments were received for Loan No. 1571 during the current year. Additionally, Loan Nos. 1090 and 1092, with a combined outstanding balance of \$37,467, have been past due for more than 12 months.

Recommendation: The Authority should review and assess its existing collection measures and strategies for related party loans to improve recovery efforts.

(8) CRJ and DDJ Receipts Numbers

Comment: Our understanding of the Authority's processes for cash receipts is that cash receipt tickets are supposed to be issued sequentially. Our review of the CRJ and DDJ noted that there were skipped receipt numbers at various times during the fiscal year. For the DDJ we were advised that the underlying cause was errors with manual input. For the CRJ which is supported by the Authority's loan software, we performed additional procedures to verify the accuracy and completeness of cash within the subject period (06/07/2023 – 06/09/2023) and verified that the (28) skipped receipt numbers were not unrecorded collections. We were advised that such occurred because of software malfunctions.

Recommendation: For the DDJ the Authority should strengthen controls to ensure that receipts numbers are assigned sequentially. For the CRJ matter, the Authority should investigate the underlying cause more thoroughly and make adjustments to its existing internal controls or software as necessary to prevent similar future occurrences.

(9) Cash Disbursements

Comment: Based on our review of cash disbursements, four (4) out of thirty-two (32) samples required signatories that approved or certified the disbursements. Additionally, 1 (one) of 32 samples lacked a travel authorization form and therefore we were not able to verify whether it was properly authorized.

Recommendation: The Authority should strengthen controls over review and approval of cash disbursements and retention of documents.



POHNPEI STATE HOUSING AUTHORITY

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March 17, 2025

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 years then ended September 30, 2023 and 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. We have appropriately disclosed the Authority's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and

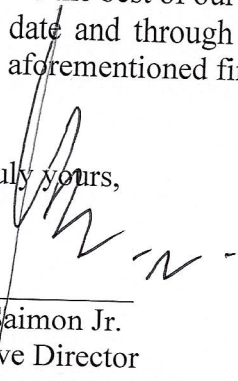
unrestricted net position is available and have determined that net position is properly recognized under the policy.

44. We are following our established accounting policy regarding which resources (that is, restricted, committed, assigned, or unassigned) are considered to be spent first for expenditures for which more than one resource classification is available. That policy determines the fund balance classifications for financial reporting purposes.
45. During the year ended September 30, 2023, the Authority implemented the following pronouncements:
- a. GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. 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. 96, *Subscription – Based Information Technology Arrangements*. 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. Certain required provisions of GASB Statement No. 99, *Omnibus 2022*. Particularly those relating to: (1) clarification on the provisions of GASB Statement No. 87, *Leases*, (2) clarification on the provisions of GASB Statement No. 94, (3) clarification on the provisions of GASB Statement No. 96 and (4) modifications to the accounting and reporting guidance in GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, relating to the termination of hedges. The Authority has sufficient and appropriate documentation supporting the conclusion that the implementation of this standard had no material impact on the financial statements.
46. 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. 99, *Omnibus 2022*.
 - o Modifications to the guidance in GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*.
 - o Guidance on the classification and reporting of derivative instruments within the scope of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*.
 - b. GASB Statement No. 100, *Accounting Changes and Error Corrections*.
 - c. GASB Statement No. 101, *Compensated Absences*.
 - d. GASB Statement No. 102, *Certain Risk Disclosures*.
47. 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 \$1,319,694 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, 2023, cumulative unremitted collections due to PSG was \$134,567.

48. 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,



Henry Saimon Jr.
Executive Director

Appendix A

Adjusting Entries

Account Number	Account Name	Debit Amount	Credit Amount
01 - Journal Entries			
AJE 2023-001.1			
4007	RECOVERY ON LOAN LOSS/INCOME	135,967.65	
1112A	ALLOWANCE FOR LOAN (ESCROW)		135,967.65
Journal Entry Totals		<u>135,967.65</u>	<u>135,967.65</u>
<i>Adjustment to increase provision on escrow loans (09/30/2023)</i>			
AJE 2023-001.2			
4007	RECOVERY ON LOAN LOSS/INCOME	54,160.17	
1113A	ALLOWANCE FOR LOAN (HPG)		26.74
1111A	ALLOWANCE FOR LOAN (PHA)		54,133.43
Journal Entry Totals		<u>54,160.17</u>	<u>54,160.17</u>
<i>To increase allowances on refinanced and restructured loans not covered in the existing PSHA loan loss policy. (09/30/2023)</i>			
AJE 2023-001.3			
4007	RECOVERY ON LOAN LOSS/INCOME	429,877.87	
1113A	ALLOWANCE FOR LOAN (HPG)		17,674.33
1111A	ALLOWANCE FOR LOAN (PHA)		412,203.54
Journal Entry Totals		<u>429,877.87</u>	<u>429,877.87</u>
<i>To increase allowances on PSHA's loans based on audit analysis (09/30/2023)</i>			
AJE 2023-002			
1114	INTEREST RECEIVABLE	5,135.57	
4001	INTEREST INCOME FROM LOANS		5,135.57
Journal Entry Totals		<u>5,135.57</u>	<u>5,135.57</u>
<i>Adjustment to correct accrued interest receivable. (09/30/2023)</i>			
AJE 2023-003			
1004	CASH IN BOFSM (LOAN)	52,617.74	
1005	CASH IN BOFSM (OPERATION)	40.00	
1007	CASH IN BOG (HPG CHECKING)	11,597.97	
2000	VOUCHER PAYABLE		38,668.03
2013	DUE TO PSG		25,587.68
Journal Entry Totals		<u>64,255.71</u>	<u>64,255.71</u>
<i>Adjustment to correct unreleased checks. (09/30/2023)</i>			
Grand Total:		<u>691,414.39</u>	<u>691,414.39</u>

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

Henry Saimon Jr.
Executive Director

Appendix B

Passed Adjusting Journal Entries

Account Name	Financial Statement Effect—Amount of Over (Under) Statement of:				
	Assets	Liabilities	Equity	Net Income	Expense
	Debit (Credit)	Debit (Credit)	Debit (Credit)	Debit (Credit)	Debit (Credit)
PAJE 2023-001					
LOAN RECEIVABLE (PHA)	2,775.74				
LOAN RECEIVABLE (HPG)	2,346.03				
LOAN RECEIVABLE (ESCROW)	298.31				
OTHER PAYABLE (REFUND)		-5,420.08			
Passed adjustment to recognize liability for loan overcollections (09/30/2023)					
PAJE 2023-002					
CASH IN BOFSM (LOAN)	1,825.21				
CASH IN BOFSM (OPERATION)	347.00				
CASH IN BOG (HPG CHECKING)	2,559.77				
MISC INCOME				-4,731.98	
Passed adjustment to write-off stale outstanding checks (09/30/2023)					
PAJE 2023-003					
GENERAL FUND (TRANSFER-IN)				11,981.70	
UTILITIES					-5445.13
WATER					-156.81
COMMUNICATION					-2226.5
OFFICE SUPPLIES					-3141.01
MISC. EXPENSE					-1012.25
To remove additional expenses booked from the PSHA's FY23 132P report. (09/30/2023)					
PAJE 2023-004					
DUE FROM PSG	2,017.42				
RECOVERY ON LOSS/ Other INCOME				-2,017.42	
To record increases to the State's due from the primary government derived from the FY23 budget-actual expense overage. (09/30/2023)					
PAJE 2023-005					
LOAN RECEIVABLE (PHA)	8,024.55				
VOUCHER PAYABLE		-8,024.55			
To balance Voucher payable and loan receivable for refund payment to former loan no. 1617. (09/30/2023)					
	20,194.03	-13,444.63	0.00	5,232.30	-11,981.70