Deloitte & Touche LLP
361 South Marine Corps Drive
Tamuning, GU 96913-3973
USA

Tel: +1 (671) 646-3884
Fax: +1 (671) 649-4265

www.deloitte.com

October 11, 2021

The Board of Directors
Pohnpei Port Authority

Dear Members of the Board:

We have performed an audit of the financial statements of the Pohnpei Port Authority (the Authority), a component unit of the Pohnpei State Government, as of and for the year ended September 30, 2020, in accordance with auditing standards generally accepted in the United States of America ("generally accepted auditing standards") and have issued our report thereon dated October 11, 2021.

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 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 wish to thank the staff and management of the Authority for their cooperation and assistance during the course of this engagement.

Very truly yours,

Deloitte & Touche LLP

cc: To Management of Pohnpei Port 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 January 19, 2021, 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, 2020 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, 2020; and

- 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, 2020 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.

**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 normally based on knowledge and experience about past and current events and on assumptions about future events. Significant accounting estimates reflected in the Authority's 2020 financial statements include management's estimate of the allowance for uncollectible accounts, which is determined based upon past collection experience and aging of the accounts, and management's estimate of depreciation expense, which is based on estimated useful lives of the respective capital assets. During the year ended September 30, 2020, we are not aware of any significant changes in accounting estimates or in management's judgments relating to such estimates.

**AUDIT ADJUSTMENTS AND UNCORRECTED MISSTATEMENTS**

Our audit of the financial statements was designed to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. As the result of our audit work, we identified matters that resulted in audit adjustments that we believe, either individually or in the aggregate, would have a significant effect on the 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 2020 financial statements.

In addition, included as Appendix B to Attachment III, is a summary of uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

**SIGNIFICANT ACCOUNTING POLICIES**

The Authority's significant accounting policies are set forth in Note 2 to the Authority's 2020 financial statements. During the year ended September 30, 2020, there were no significant changes in previously adopted accounting policies or their application.

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

During the year ended September 30, 2020 , GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postpones the effective dates of GASB Statement Nos. 84, 89, 90, 91, 92 and 93 by one year and GASB Statement No. 87 by 18 months; however, earlier application of the provisions addressed in GASB Statement No. 95 is encouraged and is permitted to the extent specified in each pronouncement as originally issued. In accordance with GASB Statement No. 95, management has elected to postpone implementation of these statements.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement will enhance consistency and comparability by (1) establishing specific criteria for identifying activities that should be reported as fiduciary activities and (2) clarifying whether and how business-type activities should report their fiduciary activities. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 84 will be effective for fiscal year ending September 30, 2021.

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

**SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

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

In March 2018, GASB issued Statement No. 90, *Majority Equity Interests - An Amendment of GASB Statements No. 14 and 61*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 90 will be effective for fiscal year ending September 30, 2021.

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

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

In March 2020, GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. The primary objective of this Statement is to address those and other accounting and financial reporting implications of the replacement of an IBOR. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 93 will be effective for fiscal year ending September 30, 2022.

**SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

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

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

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

**DISAGREEMENTS WITH MANAGEMENT**

We have not had any disagreements with management related to matters that are material to the Authority's 2020 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 2020.

**OTHER INFORMATION IN THE ANNUAL REPORTS**

When audited financial statements are included in documents containing other information such as the Authority's 2020 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 2020 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.

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

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

**SIGNIFICANT DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT**

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

**MANAGEMENT'S REPRESENTATIONS**

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

**CONTROL-RELATED MATTERS**

We have issued a separate report to you, dated October 11, 2021, 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, deficiencies related to the Authority's internal control over financial reporting as of September 30, 2020 that we wish to bring to your attention.

The definition of a 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.

**ATTACHMENT I**

**SECTION I –DEFICIENCIES**

We identified the following deficiencies involving the Authority's internal control over financial reporting as of September 30, 2020:

1. Accrued Utilities and Port Charges

   Comment: As of September 30, 2020, the Authority did not accrue its gross receipts share of $4,596 from a tenant.

   Recommendation: The Authority should establish policies and procedures requiring review and monitoring of accrued revenues.

2. Investment Accounting Policy

   Comment: The Authority does not have a formal investment accounting policy.

   Recommendation: Management should consider formalizing an investment accounting policy.

3. Travel Advances

   Comment: As of September 30, 2020, the Authority have unliquidated advances of $15,651 relating to travels during the year ended September 30, 2020. Additionally, $39,860 of unliquidated advances carried over from the prior years have remain uncollected as of September 30, 2020. Per Authority's policy, travel advances should be liquidated within 10 days.

   Recommendation: The Authority should monitor and follow up on advances for strict compliance with the policy.

4. Fixed Assets (FA)

   Comment: Two fully depreciated assets selected (1434-109 and 1443-031) were not available for verification as such was noted to have been either lost/damaged, was not returned and destroyed by termites.

   A boat which was sold during the year was not located in the FA subsidiary ledger. The asset was not recorded when acquired and there was no documentation to support the original acquisition.

   Another asset (1422-0050) was disposed but the cost and accumulated depreciation were not removed due to oversight.

   Lastly, a difference of $5,689 in FA additions was noted between the subsidiary ledger and the general ledger.

   Recommendation: The Authority should perform timely review and reconciliation of FA register to verify proper recording of asset additions and disposals. The Authority should also write off those assets that are lost or damaged beyond repair from the register.

5. Journal Entry (JEs)

   Comment: JEs tested (document #s 20-006, 20-126, 20-211, 20-215, 20-168, 20-205, 20-207, and 20-190) contained multiple different transactions with effective dates in multiple periods.

   Recommendation: The Authority should consider utilizing different JE document number for unique transactions with the same effective dates.

**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.

**ATTACHMENT II**

## 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.

ATTACHMENT III

# POHNPEI PORT AUTHORITY

200 Airport Road
P.O. Box 1150, Kolonia, Pohnpei
Federated States of Micronesia 96941
Telephone: +691 320 2793 Fax: +691 320 2832
Website: www.ppa.fm



October 11, 2021

Deloitte & Touche LLP
361 S. Marine Drive
Tamuning, Guam 96913-3911

We are providing this letter in connection with your audits of the statements of net position of the Pohnpei Port Authority (the Authority), a component unit of the State of Pohnpei, as of September 30, 2020 and 2019 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 to 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 and 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 financial statements of financial position, changes in net position, and cash flows 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 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 adjustment 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 charged 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 GAAP. In addition:

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

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

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

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

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

   f. 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.

   g. 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 up to July 26, 2021, for which minutes of meetings after that date until the date of this letter have not been prepared but did not contain significant matters of audit concern.

   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 management that contravenes the provisions of federal laws and Federated State of Micronesia's (FSM) laws and regulations, or of contracts and grants applicable to the Authority; and

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

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

6. The Authority has not performed a formal risk assessment, including the assessment of the risk that the financial statements may be materially misstated as a result of fraud. However, management has made available to you their understanding about the risk of fraud in the Authority and do not believe that the financial statements are materially misstated as a result of fraudWe have no knowledge of any allegations of fraud or suspected fraud affecting the Authority involving:

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

   a. Management

   b. Employees who have significant roles in the Authority's internal control.

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

8. We have no knowledge of any allegations of fraud or suspected fraud affecting the Authority's financial statements communicated b employees, former empl0yees, analysts, regulators or others.

9. There are no unasserted claims or assessments that we are aware 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*.

10. 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.

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

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

13. We have informed you of all investigations or legal proceedings that have been initiated during the year ended September 30, 2020 or are in process as of September 30, 2020.

14. We are responsible for all nonaudit services performed by you during the year ended September 30, 2020 and through October 11, 2021.

15. We have disclosed to you all deficiencies in the design or operation of internal control over financial reporting identified as part of our evaluation, including separately disclosing to you all such deficiencies that are significant deficiencies or material weaknesses in internal control over financial reporting.

16. No changes in internal control over compliance or other factors that might significantly affect internal control over financial reporting, including any corrective actions taken by the Authority with regard to significant deficiencies and material weaknesses in internal control over compliance, have occurred subsequent to September 30, 2020.

17. 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.

18. 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.

19. We have adopted the provisions of GASB Codification Section 2100, *Defining the Financial Reporting Entity*. No organizations were identified that meet the criteria established in GASB Codification Section 2100, *Defining the Financial Reporting Entity*, for inclusion as a component unit.

20. The Authority has appropriately identified and disclosed all segments in accordance with GASB Codification Section 2500, Segment Information.

Except where otherwise stated below, immaterial matters less than $21,000 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.

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

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

23. 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.

24. 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 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.

25. 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. Known actual or likely instances of abuse that have occurred that could be quantitatively or qualitatively material to the consolidated financial statements.

d. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB Codification Section C50, Claims and Judgments, except as disclosed in Note 9 to the financial statements.

26. 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 except as disclosed in the notes to the financial statements.

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

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

29. The Authority has disclosed whether, subsequent to September 30, 2020, 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.

30. Regarding required supplementary information:

a. We confirm that we are responsible for the required supplementary information

b. The required supplementary information is measured and presented in accordance with GASB Codification Section 2200, *Comprehensive Annual Financial Report*

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

31. Receivables recorded in the financial statements represent valid claims against debtors for sales or other charges arising on or before the balance-sheet date and have been appropriately reduced to their estimated net realizable value.

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

33. During the year ended September 30, 2020 , GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postpones the effective dates of GASB Statement Nos. 84, 89, 90, 91, 92 and 93 by one year and GASB Statement No. 87 by 18 months; however, earlier application of the provisions addressed in GASB Statement No. 95 is encouraged and is permitted to the extent specified in each pronouncement as originally issued. In accordance with GASB Statement No. 95, management has elected to postpone implementation of these statements.

34. Regarding the future implementation of GASB Statements effective for the years ending September 30, 2021 and after, as detailed in the Note 2 of the financial statements, the Authority does not believe the implementation will have a material effect on its financial statements with the exception of *Statement No. 87, Leases*, which will be effective for fiscal year ending September 30, 2022. The Authority has not completed the process of evaluating the impact that will result from adopting GASB Statement No. 87 *Leases*, as discussed in Note 2. The Authority is therefore unable to disclose the impact that adopting GASB Statement No. 84 will have on its financial position, results of operations, and cash flows when such statement is adopted.

35. The Authority's retirement plan (the Plan) is a self-administered program established to pay retirement, disability and survivor income to employees and their survivors to supplement similar benefits that employees receive from the FSM Social Security System. Management is of the opinion that the Plan does not represent an asset or a liability of the Authority.

36. On March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. In response, governments all over the world implemented actions, which affected the macroeconomic environment, increased economic uncertainty and reduced economic activities. The Authority's business and earnings are closely tied to the economies of the FSM. The impacts of travel restrictions have resulted in immediate adverse impact to the Authority's operations. During the year ended September 30, 2020, the Authority generated reduced earnings from its seaport and airport operations, as well as granted rent abatements to concessionaries. These impacts are expected to continue throughout the year ending September 30, 2021. The length of time such conditions will continue to exist as well as the significance of the impact to the Authority's operations is presently not determinable.

37. No events have occurred after September 30, 2020, but before October 11, 2021, the date the financial statements were available to be issued that require consideration as adjustments to or disclosures in the financial statements.

Plus Roby
General Manager

Pelma J. Mingii
Comptroller

**APPENDIX A**
**RECORDED ADJUSTMENTS AND RECLASSIFICATIONS**

**AUDIT ADJUSTING ENTRIES**

| | | | |
|---|---|---|---|
| | **1 AJE To adjust investment based on GASB 72** | | |
| 1010 | Shares - FSM Bank | 18,918 | |
| 4701 | Unrealized gain/loss on investment | | 18,918 |
| | | 18,918 | 18,918 |
| | To adjust investment based on GASB 72 | | |

**APPENDIX B**
**UNCORRECTED MISSTATEMENT**

| | ASSETS DR (CR) | LIABILITIES DR (CR) | Beginning Net Position DR (CR) | CHANGE IN NET POSITION DR (CR) |
|---|---|---|---|---|
| **<1> - To record asset disposal in 2020** | | | | |
| Dr. Accumulated Depreciation | 13,434 | | | |
| Cr. Fixed Assets | (13,434) | | | |