

**POHNPEI STATE HOUSING AUTHORITY
(A COMPONENT UNIT OF THE STATE OF POHNPEI)**

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

YEARS ENDED SEPTEMBER 30, 2020 AND 2019

**POHNPEI STATE HOUSING AUTHORITY
(A COMPONENT UNIT OF THE STATE OF POHNPEI)**

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Years Ended September 30, 2020 and 2019

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Pohnpei State Housing Authority:

Report on the Financial Statements

We have audited the accompanying financial statements of the Pohnpei State Housing Authority (the "Authority"), a component unit of the State of Pohnpei, which comprise the statements of net position 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.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pohnpei State Housing Authority as of September 30, 2020 and 2019, and the results of its operations and its cash flows, for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 to 5 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 1, 2021, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Deloitte & Touche LLP

September 1, 2021

**POHNPEI STATE HOUSING AUTHORITY
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Management's Discussion and Analysis
Years Ended September 30, 2020 and 2019

Our discussion and analysis of the Pohnpei Housing Authority's (the "Authority") financial performance provides an overview of the Authority's financial activities for the fiscal years ended September 30, 2020 and 2019. Please read it in conjunction with the Authority's financial statements, which follows this section.

FINANCIAL HIGHLIGHTS

- For fiscal year ended September 30, 2020 the Authority's net operating revenue increased by \$220,403 or 129% from prior year's (\$170,309). The increase in revenues was due to improvement in collection translated into improvement in bad debt expense, the loan receivable estimated by the Authority to be uncollectible.
- During the year, the Authority's total expenses decreased by \$18,484 or improvement of 9% of total expense of \$210,868 from prior year.
- For fiscal year 2020, the Authority charged \$226,729 in interest and fees, however collected \$222,528. The principal amount collected was \$616,055 aggregate of old, refinanced and current loans.

Overview of the Financial Statements

The financial statements presented herein include all of the activities of the Authority included in this report are the statement of net position and the statement of revenues, expenses, changes in net position. These financial statements present the complete financial picture of the Authority from the economic measurement focus substantially using the accrual basis of accounting. The Authority operated on an annual budget appropriated by the Legislature, which accounted for by the Pohnpei State Department of Treasury.

Financial Analysis

Net Position

The statement of net position presents the financial position or condition of the Authority and it shows the information on all of the Authority's assets and liabilities, with the difference between the two reported as net position. The financial statement communicates the lending ability of the Authority through the turnover of its receivable. The passage of time and/or increase or the decrease in the net position may serve as a usual indicator whether the financial position of the Authority is improving or deteriorating.

**POHNPEI STATE HOUSING AUTHORITY
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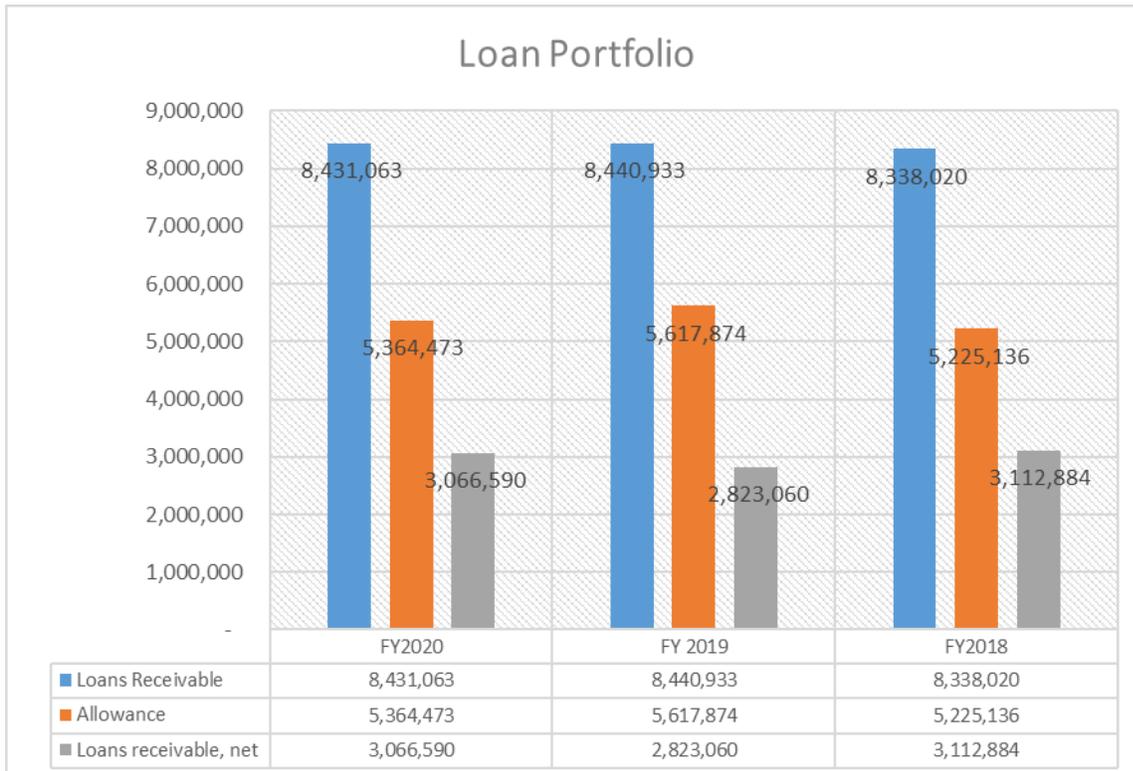
Management's Discussion and Analysis
Years Ended September 30, 2020 and 2019

The following table summarizes the Statement of Net Position for FY 2020, FY 2019, and FY 2018:

| | Net Position | | |
|---|---------------------|---------------------|---------------------|
| | <u>2020</u> | <u>2019</u> | <u>2018</u> |
| Other assets | \$ 3,290,306 | \$ 3,360,332 | \$ 3,560,052 |
| Capital assets, net | 26,447 | 31,568 | 44,047 |
| Total assets | \$ 3,316,753 | \$ 3,391,900 | \$ 3,604,099 |
| Liabilities | \$ 99,948 | \$ 119,640 | \$ 145,812 |
| Net position: | | | |
| Net investment in capital assets | 26,447 | 31,568 | 44,047 |
| Restricted | 3,190,358 | 3,240,692 | 3,414,240 |
| | <u>3,216,805</u> | <u>3,272,260</u> | <u>3,458,287</u> |
| Total liabilities and net position | \$ 3,316,753 | \$ 3,391,900 | \$ 3,604,099 |

Total net position decreased by \$55,455 or 2% during fiscal year 2020. In addition, other major account changes compared from prior year were as follows: Other assets decreased by \$70,026 or 2% due to the provision reserved as uncollectible loans, net of new loans. For additional information concerning capital assets, please refer to Note 4 to the financial statements.

The following is the graphical presentation showing the 3-year trend loan portfolio of PSHA:



**POHNPEI STATE HOUSING AUTHORITY
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Management's Discussion and Analysis
Years Ended September 30, 2020 and 2019

OVERVIEW OF THE FINANCIAL STATEMENTS

Changes in Net Position

The statement of revenues, expenses and changes in net position shows the result of operation of the Authority. It reports the revenues earned and expenses incurred and it indicated the effect on the net position of the Authority.

The table below shows the changes in net position for the year ended September 30, 2020, 2019, and 2018:

| Changes in Net Position | | | |
|---|-------------|--------------|-------------|
| | <u>2020</u> | <u>2019</u> | <u>2018</u> |
| Operating revenues: | | | |
| Interest and fees on loan | \$ 226,729 | \$ 215,736 | \$ 165,151 |
| other | 7,467 | 6,693 | 6,825 |
| Total operating revenues | 234,196 | 222,429 | 171,976 |
| (Provision for) Recovery of loan losses | (184,102) | (392,738) | 54,031 |
| Net operating revenues | 50,094 | (170,309) | 226,007 |
| Operating expenses | | | |
| Salaries | 132,301 | 114,217 | 100,397 |
| Travel and transportation | 10,418 | 26,336 | 20,910 |
| Depreciation | 15,259 | 19,543 | 17,643 |
| Contractual services | - | 10,134 | 10,500 |
| Utilities | 6,052 | 3,703 | 6,292 |
| Repairs and maintenance | 1,781 | 2,652 | 5,466 |
| Office Supplies | 6,797 | 6,494 | 5,077 |
| Training | 3,310 | 350 | 4,650 |
| Communication | 4,169 | 1,953 | 3,641 |
| Miscellaneous | 12,297 | 25,486 | 8,857 |
| Total operating expenses | 192,384 | 210,868 | 183,433 |
| Operating income | (142,290) | (381,177) | 42,574 |
| Non-operating revenues: | | | |
| Operating subsidy from PSG | 137,751 | 158,651 | 116,951 |
| Recovery from other losses/disposal of fixed assets | (50,916) | 36,499 | - |
| Changes in net position | \$ (55,455) | \$ (186,027) | \$ 159,525 |

Outlook

It is the Authority's goal and mission to provide safe, decent and sanitary housing at low cost for the people of Pohnpei. To reduce the delinquency rate and improve customer servicing and lending in FY 2020, the Authority shall continuously pursue aggressive collection which include filing in court of delinquent accounts to foreclose its collateral.

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Management's Discussion and Analysis
Years Ended September 30, 2020 and 2019

Management's Discussion and Analysis for the year ended September 30, 2019, is set forth in the Authority's report on the audit of financial statements, which is dated February 25, 2021. That Discussion and Analysis explains the major factors impacting the 2019 financial statements and can be viewed at the office of the Public Auditor's website at www.fsmopa.fm.

This Management's Discussion and Analysis is designed to provide our citizens, taxpayers, customers, creditors, and other interested parties, with a general overview of the Pohnpei State Housing Authority's finances and to demonstrate PSHA's accountability and transparency for the appropriations it receives. Questions concerning any of the information provided in this discussion and analysis or request for additional information should be addressed to the Executive Director, Pohnpei Housing Authority P.O. Box 1109, Kolonia, Pohnpei FM 96941, or call (691) 320-4225 or (691) 320-2582.

**POHNPEI STATE HOUSING AUTHORITY
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Statements of Net Position
September 30, 2020 and 2019

| <u>ASSETS</u> | <u>2020</u> | <u>2019</u> |
|---|---------------------|---------------------|
| Assets: | | |
| Cash | \$ 209,269 | \$ 467,820 |
| Employee advances, net of an allowance for doubtful accounts of \$155,229 in 2020 and 2019 | - | - |
| Due from primary government | - | 50,916 |
| Loans receivable, net | 3,066,590 | 2,823,060 |
| Interest receivable | 14,447 | 17,508 |
| Prepaid expense | - | 1,028 |
| Property and equipment, net | <u>26,447</u> | <u>31,568</u> |
| | <u>\$ 3,316,753</u> | <u>\$ 3,391,900</u> |
| <u>LIABILITIES AND NET POSITION</u> | | |
| Liabilities: | | |
| Accrued liabilities | \$ 29,695 | \$ 29,867 |
| Due to states and primary government | <u>70,253</u> | <u>89,773</u> |
| Total liabilities | <u>99,948</u> | <u>119,640</u> |
| Commitments and contingencies | | |
| Net position: | | |
| Net investment in capital assets | 26,447 | 31,568 |
| Restricted | <u>3,190,358</u> | <u>3,240,692</u> |
| Total net position | <u>3,216,805</u> | <u>3,272,260</u> |
| | <u>\$ 3,316,753</u> | <u>\$ 3,391,900</u> |

See accompanying notes to financial statements.

POHNPEI STATE HOUSING AUTHORITY
(A COMPONENT UNIT OF THE STATE OF POHNPEI)

Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2020 and 2019

| | <u>2020</u> | <u>2019</u> |
|---|---------------------|---------------------|
| Operating revenues: | | |
| Interest and fees on loans | \$ 226,729 | \$ 215,736 |
| Other | <u>7,467</u> | <u>6,693</u> |
| Total operating revenues | 234,196 | 222,429 |
| Provisions for loan losses | <u>(184,102)</u> | <u>(392,738)</u> |
| Net operating revenues (loss) | 50,094 | (170,309) |
| Operating expenses: | | |
| Salaries | 132,301 | 114,217 |
| Depreciation | 15,259 | 19,543 |
| Travel and transportation | 10,418 | 26,336 |
| Supplies and materials | 6,797 | 6,494 |
| Utilities | 6,052 | 3,703 |
| Communication | 4,169 | 1,953 |
| Training | 3,310 | 350 |
| Repairs and maintenance | 1,781 | 2,652 |
| Contractual services | - | 10,134 |
| Miscellaneous | <u>12,297</u> | <u>25,486</u> |
| Total operating expenses | <u>192,384</u> | <u>210,868</u> |
| Operating loss | (142,290) | (381,177) |
| Nonoperating revenues: | | |
| Operating subsidy from primary government | 137,751 | 158,651 |
| Other (losses) recovery | (50,916) | 38,684 |
| Loss on disposal of fixed assets | <u>-</u> | <u>(2,185)</u> |
| Change in net position | (55,455) | (186,027) |
| Net position at beginning of year | <u>3,272,260</u> | <u>3,458,287</u> |
| Net position at end of year | <u>\$ 3,216,805</u> | <u>\$ 3,272,260</u> |

See accompanying notes to financial statements.

**POHNPEI STATE HOUSING AUTHORITY
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Statements of Cash Flows
Years Ended September 30, 2020 and 2019

| | <u>2020</u> | <u>2019</u> |
|---|-------------------|-------------------|
| Cash flows from operating activities: | | |
| Cash received from customers | \$ 237,257 | \$ 265,386 |
| Cash paid to suppliers for goods and services | <u>(38,518)</u> | <u>(76,809)</u> |
| Net cash provided by operating activities | <u>198,739</u> | <u>188,577</u> |
| Cash flows from noncapital financing activities: | | |
| Decrease in due to primary government | <u>(19,520)</u> | <u>(15,054)</u> |
| Cash flows from capital and related financing activities: | | |
| Acquisition of fixed assets | <u>(10,138)</u> | <u>(9,249)</u> |
| Cash flows from investing activities: | | |
| Loan originations and principal collections, net | <u>(427,632)</u> | <u>(102,914)</u> |
| Net change in cash | (258,551) | 61,360 |
| Cash at beginning of year | <u>467,820</u> | <u>406,460</u> |
| Cash at end of year | <u>\$ 209,269</u> | <u>\$ 467,820</u> |
| Reconciliation of operating loss to net cash provided by operating activities: | | |
| Operating loss | \$ (142,290) | \$ (381,177) |
| Adjustments to reconcile operating loss to net cash provided by operating activities: | | |
| Depreciation | 15,259 | 19,543 |
| Provisions for loan losses | 184,102 | 392,738 |
| Recovery from other losses | - | 38,684 |
| Non-cash contribution by primary government | 137,751 | 125,634 |
| Decrease in interest receivable | 3,061 | 4,273 |
| Decrease in prepaid expenses | 1,028 | - |
| Decrease in accrued liabilities | <u>(172)</u> | <u>(11,118)</u> |
| Net cash provided by operating activities | <u>\$ 198,739</u> | <u>\$ 188,577</u> |

Supplemental information on a noncash operating and noncapital financing activities:

During the year ended September 30, 2020, operating subsidy was used as direct payments to employees of \$132,301 and other operating expense of \$5,450 by the primary government.

Bad debts of \$50,916 was recognized on due from primary government for the year ended September 30, 2020.

During the year ended September 30, 2019, operating subsidy was used as direct payments to employees of \$113,238 and other operating expense of \$12,396 by the primary government, with \$33,017 as due from primary government as of September 30, 2019.

See accompanying notes to financial statements.

**POHNPEI STATE HOUSING AUTHORITY
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Notes to Financial Statements
September 30, 2020 and 2019

(1) Organization and Summary of Significant Accounting Policies

Organization

The Pohnpei State Housing Authority (the "Authority" or "PSHA") was established in 1988 by Pohnpei State Public Law 2L-81-88. The purpose of the Authority is to facilitate, through low-interest loans, the construction of safe and sanitary residential housing for low income families of Pohnpei State. Additionally, the Authority monitors the Housing Preservation Grant (HPG) loan funds extended by the United States Department of Agriculture (USDA) Rural Development through the Housing and Community Facilities Program.

The affairs of the Authority are managed by a five-member Board of Directors, consisting of representatives of the Pohnpei State Government appointed by the Governor to four-year terms. Daily operation of the Authority is delegated to an executive director, who is also appointed by the Governor and serves at the pleasure of the Board.

The Authority's financial statements are incorporated into the financial statements of the Pohnpei State Government as a component unit.

Basis of Accounting

The accounting policies of the Authority conform to accounting principles generally accepted in the United States of America as applicable to governmental entities, specifically proprietary funds.

GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, which was subsequently amended by Statement No. 37, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments: Omnibus*, and modified by Statement No. 38, *Certain Financial Statement Note Disclosures*, establishes financial reporting standards for governmental entities which require that management's discussion and analysis of the financial activities be included with the financial statements and notes and modifies certain other financial statement disclosure requirements.

Proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of the fund are included in the statements of net position. Proprietary fund operating statements present increases and decreases in net position. The accrual basis of accounting is utilized by proprietary funds. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The Authority considers interest income and costs that are directly related to lending operations to be operating revenues and expenses. Revenues and expenses related to financing and other activities are reflected as nonoperating.

Net Position

Net position represents the residual interest in the Authority's assets after liabilities are deducted and consist of three sections: net investment in capital assets; restricted and unrestricted. Net position classified as net investment in capital assets, include capital assets, restricted and unrestricted, net of accumulated depreciation and reduced by outstanding debt net of debt service reserve. Net position are reported as restricted when constraints are imposed by third parties or enabling legislation. The Authority's restricted assets are expendable and are restricted for loan programs.

**POHNPEI STATE HOUSING AUTHORITY
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Notes to Financial Statements
September 30, 2020 and 2019

(1) Organization and Summary of Significant Accounting Policies, Continued

Budget

The Authority operates on an annual budget appropriated by the Legislature which is accounted for by the Pohnpei State Department of Treasury. Appropriation Acts require that funds be administered in accordance with the provisions of the Financial Management Act. The enabling legislation does provide the Authority the power to expend revenues generated by projects maintained by the Authority. Such expenditures must, however, be in accordance with the provisions of the Financial Management Act and other applicable laws and regulations.

Management Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses.

Cash

Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name. The Authority does not have a deposit policy for custodial credit risk.

For the purposes of the statements of net position and cash flows, cash is defined as cash in checking accounts, savings accounts and cash on hand. As of September 30, 2020 and 2019, cash carrying value was \$209,269 and \$467,820, respectively, which corresponding bank balances of \$279,729 and \$493,578, respectively, maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2020 and 2019, \$279,729 and \$404,388, respectively, in total banks deposits were FDIC insured. The Authority has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk on its deposits.

Loans and Allowance for Loan Losses

Loans receivable are stated at unpaid principal balance less the allowance for loan losses.

Management maintains the allowance for loan losses at a level adequate to absorb probable losses. Management determines the adequacy of the allowance based upon reviews of individual loans, recent loss experience, current economic conditions, the risk characteristics of the various categories of loans and other pertinent factors. Loans deemed uncollectible are written off and charged to the allowance. Provisions for losses and recoveries on loans previously charged off are added to the allowance.

Interest on loans is accrued and credited to income based on the principal amount outstanding. The accrual of interest on loans is discontinued when, in the opinion of management, there is an indication that the borrower may be unable to meet payments as they become due. Upon such discontinuance, all unpaid accrued interest is reversed.

**POHNPEI STATE HOUSING AUTHORITY
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Notes to Financial Statements
September 30, 2020 and 2019

(1) Organization and Summary of Significant Accounting Policies, Continued

Property and Equipment

Property and equipment are stated at cost. Depreciation of property and equipment is calculated using the straight-line method over the estimated useful lives of the respective assets, which range from three to ten years. The Authority capitalizes all fixed assets, irrespective of value, that have estimated useful lives of more than one year.

Compensated Absences

Vested or accumulated vacation leave is recorded as an expense and liability as the benefit accrues to employees. No liability is recorded for nonvesting accumulating rights to receive sick leave pay benefits. The related sick leave pay expense is recorded when the benefit is actually taken.

New Accounting Standards

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.

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.

**POHNPEI STATE HOUSING AUTHORITY
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Notes to Financial Statements
September 30, 2020 and 2019

(1) Organization and Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

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.

**POHNPEI STATE HOUSING AUTHORITY
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Notes to Financial Statements
September 30, 2020 and 2019

(1) Organization and Summary of Significant Accounting Policies, Continued

New Accounting Standards, 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.

(2) Due From (To) Primary Government

Due from primary government represents the accumulation of the unobligated portion of the State of Pohnpei (the State) appropriations. During the year ended September 30, 2020, the Authority wrote off \$50,916 of unobligated appropriations due from the prior fiscal years.

Due to primary government represents loans provided to the Authority by the State as a result of loan guarantees issued by the State to USDA (Note 3).

**POHNPEI STATE HOUSING AUTHORITY
(A COMPONENT UNIT OF THE STATE OF POHNPEI)**

Notes to Financial Statements
September 30, 2020 and 2019

(3) Loans Receivable

The Authority's loan portfolio is comprised of three loan funds - Pohnpei State Housing Authority (PSHA) loan fund, the Housing Preservation Grant (HPG) loan fund, and USDA Rural Development ("USDA RD") loans.

The PSHA loans derive from the capital contributions of Compact of Free Association Capital Account Funds - Capital Projects by Pohnpei State to fund the Housing Development Loan Fund. The HPG loans are from a grant extended by the United States Department of Agriculture (USDA) Rural Development through the Housing and Community Facilities Program.

During the years ended September 30, 2009 and 2010, the State of Pohnpei transferred to the Authority defaulted USDA RD loans, which the State had guaranteed. The Authority bears responsibility for collection and returning the collections to Pohnpei State Government (PSG) for approximately \$500,000 of the balance. The Authority is not responsible for the ultimate recovery of these balances and as such, no liability beyond what has been collected has been recorded in the accompanying financial statements. At September 30, 2020 and 2019, cumulative unremitted collections due to PSG were \$70,253 and \$89,773, respectively.

A summary of loans receivable as of September 30, 2020 and 2019, is presented below:

| | <u>2020</u> | <u>2019</u> |
|---------------------------------------|---------------------|---------------------|
| Pohnpei State Housing Authority loans | \$ 6,527,680 | \$ 6,926,300 |
| HPG loans | 453,640 | 342,551 |
| USDA RD loans | <u>1,449,743</u> | <u>1,172,083</u> |
| | 8,431,063 | 8,440,934 |
| Less allowance for loan losses | <u>(5,364,473)</u> | <u>(5,617,874)</u> |
| Loans receivable, net | <u>\$ 3,066,590</u> | <u>\$ 2,823,060</u> |

Bad debts of \$184,102 and \$392,738 for the years ended September 30, 2020 and 2019, respectively, represent change in assessed requirements of allowance for loan losses. During the years ended September 30, 2020 and 2019, loan charge-offs totaled \$715,163 and \$0, respectively.

All loans, other than the USDA RD loans, bear interest rate fixed substantially at 4.5% with terms ranging from 3 to 25 years. The USDA RD loans are non-interest bearing.

(4) Property and Equipment

Capital asset activities for the years ended September 30, 2020 and 2019, is as follows:

| | <u>Estimated Useful Life</u> | Balance at October <u>1, 2019</u> | Additions and <u>Transfers</u> | Deletions and <u>Transfers</u> | Balance at September <u>30, 2020</u> |
|-------------------------------|----------------------------------|---|--------------------------------------|--------------------------------------|--|
| Depreciable: | | | | | |
| Building | 10 years | \$ 126,408 | \$ - | \$ - | \$ 126,408 |
| Machinery and equipment | 3-5 years | 36,254 | 710 | - | 36,964 |
| Vehicle | 3-5 years | 6,900 | 9,428 | - | 16,328 |
| Improvements | 10 years | <u>15,824</u> | <u>-</u> | <u>-</u> | <u>15,824</u> |
| | | 185,386 | 10,138 | - | 195,524 |
| Less accumulated depreciation | | <u>(153,818)</u> | <u>(15,259)</u> | <u>-</u> | <u>(169,077)</u> |
| | | <u>\$ 31,568</u> | <u>\$ (5,121)</u> | <u>\$ -</u> | <u>\$ 26,447</u> |

**POHNPEI STATE HOUSING AUTHORITY
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Notes to Financial Statements
September 30, 2020 and 2019

(4) Property and Equipment, Continued

| | <u>Estimated Useful Life</u> | <u>Balance at October 1, 2018</u> | <u>Additions and Transfers</u> | <u>Deletions and Transfers</u> | <u>Balance at September 30, 2019</u> |
|-------------------------------|----------------------------------|---|--|--|--|
| Depreciable: | | | | | |
| Building | 10 years | \$ 126,408 | \$ - | \$ - | \$ 126,408 |
| Machinery and equipment | 3-5 years | 96,287 | 2,349 | (62,382) | 36,254 |
| Vehicle | 4-5 years | - | 6,900 | - | 6,900 |
| Other equipment | 2 years | 12,409 | - | (12,409) | - |
| Improvements | 10 years | <u>15,824</u> | <u>-</u> | <u>-</u> | <u>15,824</u> |
| | | 250,928 | 9,249 | (74,791) | 185,386 |
| Less accumulated depreciation | | <u>(206,881)</u> | <u>(19,543)</u> | <u>72,606</u> | <u>(153,818)</u> |
| | | <u>\$ 44,047</u> | <u>\$ (10,294)</u> | <u>\$ (2,185)</u> | <u>\$ 31,568</u> |

(5) Commitments and Contingencies

Loan Commitments

The Authority has loan commitments aggregating \$481,883 as of September 30, 2020. These loan commitments represent undisbursed balances of approved loans for housing projects.

Litigation

The Authority is party to a legal proceeding. The Attorney General of the Pohnpei State Government is of the opinion that the probable outcome of such case existing at September 30, 2020, is not predictable. No provision for any liability has been made in the accompanying financial statements because management believes that no unfavorable outcome is likely to occur.

Risk Management

The Authority is essentially self-insured for potential losses. Management is of the opinion that no material losses during the past three years have resulted from this practice.

(6) Related Parties

As of September 30, 2020 and 2019, the Authority has \$216,404 and \$185,567, respectively, of loans receivable from employees. Additionally, outstanding advances to former and current employees totaling of \$155,229 are fully provided with an allowance.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Board of Directors
Pohnpei State Housing Authority:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Pohnpei State Housing Authority (the "Authority"), which comprise the statements of net position as September 30, 2020, and the related statements of revenues, expenses and changes in net position and of cash flows for the year then ended and the related notes to the financial statements, and have issued our report thereon dated September 1, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A deficiency in internal control 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 and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in accompanying Schedule of Findings and Responses as items 2020-001 and 2020-002 that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Authority's Response to Findings

The Authority's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The Authority's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Deloitte & Touche LLP

September 1, 2021

**POHNPEI STATE HOUSING AUTHORITY
(A COMPONENT UNIT OF THE STATE OF POHNPEI)**

Schedule of Findings and Responses
Year Ended September 30, 2020

Finding No.: 2020-001

Loan Receivable

Criteria: Measures and actions should be strengthened to improve the collection of delinquent loans and maintenance of loan portfolio.

Condition: At September 30, 2020, a significant portion of the Authority's loan portfolio represent delinquent loans. Specifically, of the Authority's total housing and HPG loans of approximately \$6.98 million, \$2.95 million relate to loans that have no transactions (payments or disbursements) during the year. Additionally, \$0.22 million of the remaining loans are six months or over past due.

Cause: The cause of the above condition appears to be the lack of adequate controls over loan collections and the lack of appropriate loan origination controls to eligible and qualified borrowers in the past years which contributed to loan defaults.

Effect: The effect of the above condition is the accumulation of uncollectible receivables and possible misstatement of loans receivable.

Recommendation: The Authority should perform a review of existing collection measures and strategies, including policies over loan write-offs. Additionally, the Authority should strengthen its procedures over maintenance of the loan portfolio.

Identification as a Repeat Finding: Finding 2019-001

Views of Auditee and Planned Corrective Actions: See the auditee-prepared corrective action plan.

**POHNPEI STATE HOUSING AUTHORITY
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Schedule of Findings and Responses
Year Ended September 30, 2020

Finding No.: 2020-002

Loan Application

Criteria: All loan applications and disbursements should adhere to the Authority's Rules and Regulations.

Conditions: The following matters were noted in test of loans:

Six of twenty two (22) current year originated new loan accounts tested (loan nos. 1831, 1834, 1863, 1876, 1823 and 1889) did not have one or more of the following documents in file as required by the Authority's Rules and Regulations:

- Promissory note;
- Property inspection;
- Development plan;
- Property map;
- Scope of work;
- Contractor agreements;
- Power of attorney;
- Mortgage agreement; or
- Land-certificate of title.

For seven (7) of the 22 current year originated new loan or refinanced accounts tested (loan nos. 1803, 1829, 1853, 1861, 1881, 1885 and 1890), minutes of meetings evidencing loan approval were not provided.

For 7 of the sixty three (63) prior year originated loans tested (loan nos. 357, 1383, 1475, 1670, 1677, 1710, 1726), the total loan disbursements per the disbursements journal exceeded approved loan amount. The Authority was not able to provide a reconciliation on the differences.

Cause: The cause of the above conditions is ineffective loan package monitoring and document retention procedures and system.

Effect: The effect of the above conditions is potential noncompliance with the Authority's Rules and Regulations, which may contribute to insufficient loan documentation to support future loan collection efforts.

Recommendation: The Authority should take reasonable steps to document compliance with loan application rules and regulations.

Identification as a Repeat Finding: Finding 2019-002

Views of Auditee and Planned Corrective Actions: See the auditee-prepared corrective action plan.

**POHNPEI STATE HOUSING AUTHORITY
(A COMPONENT UNIT OF THE STATE OF POHNPEI)**

Corrective Action Plan
Year Ended September 30, 2020

| Finding No: | Criteria | Auditee's Response | Corrective Action Plan |
|-------------|---|--------------------|---|
| 2020-001 | Measures and Actions should be strengthened to improve the collection of delinquent and maintenance of loan portfolio | Auditee Concurrs | 1. Deliver loan statements to all borrowers every other month starting the new fiscal year 2022 |
| | | | 2. Enhance or expand the collection facility and services. Example apply to become Bank of Guam credit / debit Merchant |
| | | | 3. Outsource collection of hard case delinquent accounts |
| | | | 4. Recommend to Board and standardize incentive for resuming allotment, resuming payment, accelerate monthly payment and payoff, etc. |
| | | | 5. Litigate at least one case to verdict or foreclosure |
| | | | |
| 2020-002 | All loan applications and disbursements should adhere to the authority's Rules and Regulations | Auditee Concurrs | 1. Centralize the filing system for the loan process from start to finish |
| | | | 2. Develop a checklist of required documentation to attach to each loan and approval process. |
| | | | 3. Improve on the purchase control and accounting |

**POHNPEI STATE HOUSING AUTHORITY
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Unresolved Prior Year Findings
Year Ended September 30, 2020

Summary Schedule of Prior Audit Findings

| <u>Finding Number</u> | <u>Finding Title</u> | <u>Status</u> |
|-----------------------|----------------------|---------------------------|
| 2019-001 | Loan Receivable | Not Corrected or Resolved |
| 2019-002 | Loan Application | Not Corrected or Resolved |
| 2019-003 | Financial Reporting | Corrected or Resolved |