

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

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2020 AND 2019

INDEPENDENT AUDITORS' REPORT

Board of Directors
Kosrae State Housing Authority:

Report on the Financial Statements

We have audited the accompanying financial statements of the Kosrae State Housing Authority (the "Authority" or "KHA"), a component unit of the State of Kosrae, 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 Kosrae Housing Authority as of September 30, 2020 and 2019, and the changes in its net position and its cash flows, for the years then ended in accordance with accounting principles generally accepted in the United States of America.

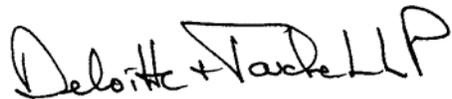
Other Matters

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 basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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 April 13, 2022, 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 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 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.



April 13, 2022

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

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

This analysis prepared by Kosrae Housing and Rural Development Authority (Authority) offers readers of the Authority's financial statements a narrative overview and analysis of its activities for the year ended September 30, 2020. The Authority encourages readers to consider this information in conjunction with the financial statement, which follow this section. Fiscal year 2019 and 2018 comparative information has been included where appropriate. This analysis is required by the Government Accounting Standards Board (GASB), which provides guidelines on what must be included and excluded from the analysis.

FINACIAL HIGHLIGHTS

- The Authority's net position for the year-ended September 30, 2020 is \$393.6 thousand, a decrease of \$115.2 thousand from prior year. Assets represent cash, net loan receivables, advances, net investment in capital assets, and a restricted TCD. Liabilities at year-end sum to \$207.4 thousand which decreased due to repayment of a long-term loan with Bank of FSM.
- At the close of FY20, assets owned by the Authority decreased by \$137.7 thousand (18.6%) compared to prior year assets of \$738.7 thousand. Out of this total amount (\$601.0 thousand), \$73.6 thousand represents net investment in capital assets and \$327.4 thousand represents amounts restricted for projects.
- During the year ended September 30, 2020, the Authority's operational expense total \$196.7 thousand which is a decrease of (\$5.6 thousand) as compared to prior year. The operation of the Authority continues to rely heavily on interest, fees and charges on loans.
- The Authority, during the year-ended September 30, 2020, received a 3 year grant of \$500 thousand from the Economic Development Assistance under the US Department of Commerce to support Producer Loan Program. At the end of the FY20, a total of \$4.8 thousand was drawn from the grant to support administrative costs to kick-start the program.

FINANCIAL ANALYSIS OF THE KOSRAE HOUSING & RURAL DEVELOPMENT AUTHORITY

Net Position

Net position may serve over time as a useful indicator of an organization's or government's financial position. In the case of the Authority, assets exceeded liabilities by \$393.6 thousand at the close of FY2020. However, this net position either restricted as to the purpose for or invested in capital assets. The majority of the Authority's net position is comprised of capital assets net and restricted net assets. Current assets and liabilities are amounts that are available in the current period and obligations that will be paid within one year, respectively. The Authority's current assets amounted to \$327.3 thousand while current liabilities total \$105.4 thousand. The table below summarizes the Authority's net position at the close of current year compared with prior years FY2018 and FY2019:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
<u>Assets:</u>			
Current assets	\$ 327,348	\$ 451,417	\$ 487,999
Time certificates of deposit	200,000	200,000	200,000
Property and equipment, net	<u>73,645</u>	<u>87,292</u>	<u>99,841</u>
Total assets	<u>\$ 600,993</u>	<u>\$ 738,709</u>	<u>\$ 787,840</u>

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

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>
<u>Liabilities:</u>			
Current liabilities	\$ 105,422	\$ 87,776	\$ 190,281
Long-term debt, net	<u>101,974</u>	<u>142,156</u>	<u>-</u>
Total liabilities	<u>207,396</u>	<u>229,932</u>	<u>190,281</u>
<u>Net position:</u>			
Net investment in capital asset	73,645	87,292	99,841
Restricted	<u>319,952</u>	<u>421,485</u>	<u>497,718</u>
Total net position	<u>393,597</u>	<u>508,777</u>	<u>597,559</u>
Total liabilities and net position	<u>\$ 600,993</u>	<u>\$ 738,709</u>	<u>\$ 787,840</u>

The Authority's restricted net position at the close of FY20 decreased to \$319,952 a decrease of \$101.5 thousand, as a result of commitments or obligations that are greater than current available resources. Specifically, the Authority did not include in its annual budget the full amounts needed to finance the amounts due to Kosrae State Government (KSG) and a loan with a bank. The Authority will include these amounts in future budgets.

Changes in Net Position

As noted earlier, the net position of the Authority decreased by \$115.2 thousand, representing a 18% decrease from the prior year's amount of \$508.8 thousand. The key elements of the differences from prior year are shown in the following schedule:

Revenues, Expenses and Changes in Net position

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Revenue			
Interest and fees	\$ 84,659	\$ 90,224	\$ 99,993
Provision for loan losses	<u>-</u>	<u>-</u>	<u>(28,000)</u>
Total revenues	<u>84,659</u>	<u>90,224</u>	<u>71,993</u>
Operating expenses	<u>196,679</u>	<u>202,309</u>	<u>206,903</u>
Non-operating revenues (expense)			
Subsidy from FSM National Gov't	800	33,365	24,100
Transfer from KSG	-	-	97,950
Operating grant from US	4,754	-	-
Interest expense	<u>(8,714)</u>	<u>(10,082)</u>	<u>(3,164)</u>
Total non-operating revenue (expense)	<u>(3,160)</u>	<u>23,283</u>	<u>118,886</u>
Change in net position	<u>(115,180)</u>	<u>(88,782)</u>	<u>(16,024)</u>
Net position, beginning of the year	<u>508,777</u>	<u>597,559</u>	<u>613,583</u>
Net position, end of the year	<u>\$ 393,597</u>	<u>\$ 508,777</u>	<u>\$ 597,559</u>

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

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

Economic factors and Next Year's Budget

The Kosrae Housing Authority & Rural Development Authority (Authority) continue facing economic and financial challenges as the demands from its clients continue to increase and available resources to fill the gap of \$700 thousand and run its operation is still limited. As in prior years, the Authority continues to rely heavily on interest and fees on loans to run daily operation. The Authority still receive no funding assistance or subsidies from the State Government to offset demands of our clients.

As noted in the schedule provided above, revenues (interest) generated from loans presented a slight decrease of \$5.6 thousand compared to prior year. This decrease resulted from loan pay-offs and loan lending being slowed due to limited resources. There are several factors that contributed to this year's improvement in operating revenues.

The Kosrae State Law 10-115 authorized the Authority to lend toward rural development projects. The Authority after its effort and tireless work to secure more funding for the Production Loan Program for expansion and revenue generation to the Kosrae's economy, a \$500,000 was granted by the Economic Development Assistance (EDA) under the US Department of Commerce which focuses on supporting local production in Kosrae. The Authority is required to put up \$100,000 and the remaining \$400,000 will be matched by EDA.

For the cost of running the Authority for the year ended September 30, 2020, expenditures were \$196.7 thousand, which demonstrated a slight decrease due to travel being restricted and employee reductions. The bulk of the expense occurred in salaries. With its developed Strategic Development Plan, the Authority continues to encounter challenges including the need to expand its revenue streams through loan diversification other than housing loans as well as increasing lending toward off-island clients.

The Authority has a loan portfolio of \$1.7 million and carries an updated credit classification report. The Authority must work with auditors to correct the discrepancies in the allowance for doubtful accounts. It is important to note that the delinquency rate increased to 20% after year end FY2020 for FY2021 loans, yet the doubtful amount is not adjusted in fiscal year 2021.

The Authority continues to measure its work by its own SDP which has two monitoring devices: (i) outcome level monitoring; (ii) activity level monitoring. Its daily operation is linked against 3 outcome measures: (a) loan making to grow 2% each year; (b) loan collection to increase 5% each year; and (c) delinquency to drop to 10% or less in 3 years. It is important to note that the Authority was able to meet only 2 of 4 major targets which is the lending and loan collection. As in previous years, the Authority will continue to focus on achieving its set targets as outlined in the HRDA SDP.

Contacting the Authority's Financial Management

This financial report is designed to provide our customers, creditors, and other interested parties a general overview of Kosrae Housing & Rural Development Authority's finances. If you have questions about this report or need additional financial information, contact the Executive Director, Kosrae State Housing Authority P.O. Box 533 Tofol, Lelu, Kosrae, FM 96944.

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

Statements of Net Position
September 30, 2020 and 2019

<u>ASSETS</u>	<u>2020</u>	<u>2019</u>
Current assets:		
Cash	\$ -	\$ 16,808
Loans receivable, net	305,529	411,570
Advances to employees	21,819	23,039
Total current assets	<u>327,348</u>	<u>451,417</u>
Restricted time certificates of deposit	200,000	200,000
Property and equipment, net	73,645	87,292
	<u>\$ 600,993</u>	<u>\$ 738,709</u>
<u>LIABILITIES AND NET POSITION</u>		
Current liabilities:		
Current portion of long-term debt	\$ 39,940	\$ 37,165
Accrued liabilities	17,758	7,544
Accounts payable	23,944	19,287
Due to primary government	23,780	23,780
Total current liabilities	<u>105,422</u>	<u>87,776</u>
Long-term debt, net of current portion	<u>101,974</u>	<u>142,156</u>
Total liabilities	<u>207,396</u>	<u>229,932</u>
Commitments and contingencies		
Net position:		
Net investment in capital assets	73,645	87,292
Restricted	319,952	421,485
Total net position	<u>393,597</u>	<u>508,777</u>
	<u>\$ 600,993</u>	<u>\$ 738,709</u>

See accompanying notes to financial statements.

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

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

	2020	2019
Operating revenues:		
Interest and fees on loans	\$ 84,659	\$ 90,244
Provision for loan losses	-	-
Net operating revenues	84,659	90,244
Operating expenses:		
Salaries	141,246	119,144
Depreciation	13,647	13,649
Contractual services	8,650	6,439
Communication	6,679	6,959
Supplies and materials	5,199	8,531
Utilities	4,600	4,775
Food	3,629	2,695
Meetings	3,600	3,600
Fuel	2,707	2,964
Repairs and maintenance	1,948	1,038
Travel and transportation	1,438	28,895
Training	-	400
Miscellaneous	3,336	3,220
Total operating expenses	196,679	202,309
Operating loss	(112,020)	(112,065)
Nonoperating revenues (expenses), net:		
Operating grant from FSM National Government	800	33,365
Operating grant from U.S. Government	4,754	-
Interest expense	(8,714)	(10,082)
Total nonoperating revenues, net	(3,160)	23,283
Change in net position	(115,180)	(88,782)
Net position at beginning of year	508,777	597,559
Net position at end of year	\$ 393,597	\$ 508,777

See accompanying notes to financial statements.

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

Statements of Cash Flows
Years Ended September 30, 2020 and 2019

	2020	2019
Cash flows from operating activities:		
Cash received from customers	\$ 84,659	\$ 90,244
Cash paid to suppliers for goods and services	(37,129)	(57,848)
Cash paid to employees	(129,812)	(120,131)
	(82,282)	(87,735)
Net cash used in operating activities		
Cash flows from noncapital financing activities:		
Operating grant from FSM National Government	800	33,365
Operating grant from U.S. Government	4,754	
Long-term debt proceeds	-	200,000
Principal repayment on short-term debt	-	(149,912)
Principal repayment on long-term debt	(37,407)	(20,679)
Interest payment on short-term debt	-	(3,858)
Interest payment on long-term debt	(8,714)	(6,224)
	(40,567)	52,692
Net cash (used in) provided by noncapital financing activities		
Cash flows from capital and related financing activities:		
Acquisition of fixed assets	-	(1,100)
Cash flows from investing activities:		
Loan originations and principal collections, net	106,041	45,316
Net change in cash	(16,808)	9,173
Cash at beginning of year	16,808	7,635
Cash at end of year	\$ -	\$ 16,808
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (112,020)	\$ (112,065)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	13,647	13,649
Decrease (increase) in advance to employees	1,220	(3,213)
Decrease in travel advance	-	3,652
Increase (decrease) in accrued liabilities	10,214	(1,426)
Increase in accounts payable	4,657	11,668
	(82,282)	(87,735)
Net cash used in operating activities	\$ (82,282)	\$ (87,735)

See accompanying notes to financial statements.

-

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

Notes to Financial Statements
September 30, 2020 and 2019

(1) Organization and Summary of Significant Accounting Policies

Organization

The Kosrae State Housing Authority (the "Authority" or "KHA") was established in October 2015 by Kosrae State Public Law 10-113. The purpose of the Authority is to manage and invest funds of Kosrae Home Improvement Program and other funds of the Authority and to lend money to qualified Kosraeans who wish to build and maintain residential homes in Kosrae.

The affairs of the Authority are managed by a five-member Board of Directors, consisting of representatives of the Kosrae 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 was re-established as Kosrae Housing and Rural Development Authority by Kosrae State Public Law 11-115 and related corporate documentation revisions are in progress.

The Authority's financial statements are incorporated into the financial statements of the Kosrae 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 basic 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 statement 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.

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

Notes to Financial Statements
September 30, 2020 and 2019

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

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.

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 of cash flows, cash is defined as cash in checking accounts, savings accounts and cash on hand. As of September 30, 2020 and 2019, the carrying amount of the Authority's total cash and time certificates of deposit was \$200,000 and \$216,808, respectively, and the corresponding bank balance was \$200,000 and \$217,976, respectively, which is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2020 and 2019, total bank deposits in the amount of \$200,000 and \$217,976, respectively, were FDIC insured.

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 one to five 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.

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

Notes to Financial Statements
September 30, 2020 and 2019

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

New Accounting Standards

During the year ended September 30, 2020, the Authority implemented the following pronouncement:

- GASB issued Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance, which postpones the effective dates of GASB Statement No. 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.

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

In January 2017, GASB issued Statement No. 84, Fiduciary Activities. 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 ending September 30, 2022.

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

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 is 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.

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

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.

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

Notes to Financial Statements
September 30, 2020 and 2019

(2) Due to Primary Government

The Authority received \$96,296 of cash from the Kosrae State Government (KSG) during the year ended September 30, 2016. The outstanding balance is noninterest bearing. Account activities for the years ended September 30, 2020 and 2019 are as follows:

	Balance October 1, 2019	Additions	Reductions	Balance September 30, 2020	Due Within One Year
Due to primary government	\$ <u>23,780</u>	\$ _____	\$ _____	\$ <u>23,780</u>	\$ <u>23,780</u>

	Balance October 1, 2018	Additions	Reductions	Balance September 30, 2019	Due Within One Year
Due to primary government	\$ <u>23,780</u>	\$ _____	\$ _____	\$ <u>23,780</u>	\$ <u>23,780</u>

(3) Long-Term Debt

In March 2019, a \$200,000 bank term-loan was obtained to fund operations. As of September 30, 2020 and 2019, the balance outstanding was \$141,914 and \$179,321, respectively, interest at 5.01% and 5.50%, respectively, payable monthly with a maturity of February 25, 2024, collateralized by \$200,000 of time certificates of deposit.

As of September 30, 2020, the scheduled payments of the above long-term debt are as follows:

<u>Year ending September 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 39,940	\$ 6,181	\$ 46,121
2022	41,987	4,133	46,120
2023	44,140	1,981	46,121
2024	<u>15,847</u>	<u>165</u>	<u>16,012</u>
	\$ <u>141,914</u>	\$ <u>12,460</u>	\$ <u>154,374</u>

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

Notes to Financial Statements
September 30, 2020 and 2019

(4) Loans Receivable

The Authority's loan portfolio is comprised of Kosrae Home Improvement Program and USDA Rural Development ("USDA RD") loans.

The State of Kosrae transferred defaulted USDA Rural Development (RD) loans to the Authority. The Authority guarantees USDA RD loans and bears responsibility for collection. The balance of USDA Rural Development loans is \$74,402 and \$76,321 as of September 30, 2020 and 2019, respectively. The Authority has pledged an escrow account in support of USDA RD loans. As of September 30, 2020 and 2019, \$200,000 of time certificates of deposit and cash in the amount of approximately \$0 and \$1,870, respectively, has been so pledged. Per the USDA RD agreement with the State, \$300,000 is to be so pledged. In the event of default, the Authority could be exposed to an amount in excess of the escrow account balance, which is presently indeterminable.

Loans are stated at face value, net of an allowance for loan losses. The allowance represents an amount which, in management's judgment, will be adequate to absorb possible losses on existing loans that may become uncollectible. Management's judgment in determining the adequacy of the allowance is based on evaluations of the collectability of loans. The allowance for loan losses are reported based on certain assumptions pertaining to the Authority's periodic review and evaluation of the loan portfolio, which is subject to change. Due to uncertainties inherent in the estimations and assumptions process, it is at least reasonably possible that changes in the estimates and assumptions in the near term would be material to the financial statements.

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

	<u>2020</u>	<u>2019</u>
Kosrae Home Improvement Program loans	\$ 1,664,187	\$ 1,768,309
USDA Rural Development loans	<u>74,402</u>	<u>76,321</u>
	1,738,589	1,844,630
Less allowance for loan losses	<u>(1,433,060)</u>	<u>(1,433,060)</u>
Loans receivable, net	\$ <u>305,529</u>	\$ <u>411,570</u>

Movements in the allowance for loan losses during the years ended September 30, 2020 and 2019, are as follows:

	<u>2020</u>	<u>2019</u>
Balance at beginning of year	\$ 1,433,060	\$ 1,433,060
Provision for loan losses	-	-
Recoveries from loan losses	<u>-</u>	<u>-</u>
Balance at end of year	\$ <u>1,433,060</u>	\$ <u>1,433,060</u>

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

Notes to Financial Statements
September 30, 2020 and 2019

(5) Property and Equipment

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

	<u>Estimated Useful Life</u>	<u>Balance at October 1, 2019</u>	<u>Additions and Transfers</u>	<u>Deletions and Transfers</u>	<u>Balance at September 30, 2020</u>
Depreciable:					
Building	10 years	\$ 79,000	\$ -	\$ -	\$ 79,000
Office equipment	1-5 years	7,594	-	-	7,594
Furniture and fixtures	1-5 years	3,300	-	-	3,300
Vehicles	1-5 years	<u>22,920</u>	<u>-</u>	<u>-</u>	<u>22,920</u>
		112,814	-	-	112,814
Less accumulated depreciation		<u>(25,522)</u>	<u>(13,647)</u>	<u>-</u>	<u>(39,169)</u>
		<u>\$ 87,292</u>	<u>\$ (13,647)</u>	<u>\$ -</u>	<u>\$ 73,645</u>
	<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	\$ 79,000	\$ -	\$ -	\$ 79,000
Office equipment	1-5 years	7,594	-	-	7,594
Furniture and fixtures	1-5 years	2,200	1,100	-	3,300
Vehicles	1-5 years	<u>22,920</u>	<u>-</u>	<u>-</u>	<u>22,920</u>
		111,714	1,100	-	112,814
Less accumulated depreciation		<u>(11,873)</u>	<u>(13,649)</u>	<u>-</u>	<u>(25,522)</u>
		<u>\$ 99,841</u>	<u>\$ (12,549)</u>	<u>\$ -</u>	<u>\$ 87,292</u>

(6) Commitments and Contingencies

Loan Commitments

The Authority has loan commitments aggregating \$282,847 and \$427,044 as of September 30, 2020 and 2019, respectively. The loan commitments represent undisbursed balances of approved loans for housing projects.

Risk Management

The Authority does not purchase insurance to cover risks associated with potential losses. Management is of the opinion that no material losses during the years ended September 30, 2020 and 2019 have resulted from this practice.

(7) Related Parties

The Authority is prohibited from lending money to its employees or their immediate relatives pursuant to Kosrae State Public Law 10-113. As of September 30, 2020 and 2019, the Authority has \$118,920 and \$126,542, respectively, of loans receivable from employee family members, who are eligible to file loan applications.

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

Notes to Financial Statements
September 30, 2020 and 2019

(7) Related Parties, Continued

The Authority initiated an Employee Pay Advance Program in May 2018. As of September 30, 2020 and 2019, the balance of advances to employees is \$21,819 and \$23,039, respectively. The Authority requires the employees to repay the amount of the advance with 10.5% interest within a one-year term.

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
Kosrae 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 Kosrae State Housing Authority (the "Authority"), which comprise the statement 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 April 13, 2022.

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 were not identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses, that we consider to be material weaknesses as item 2020-001.

Compliance and Other Matters

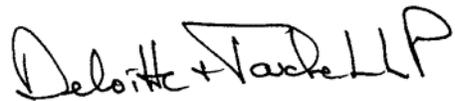
As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material 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 Responses to Findings

The Authority's responses to the 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.

A handwritten signature in black ink that reads "Deloitte + Touche LLP". The signature is written in a cursive, stylized font.

April 13, 2022

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

Schedule of Findings and Responses
Year Ended September 30, 2020

Finding No. 2020-001 – Loan Receivable

Criteria: The Authority should maintain an adequate system of accounting to facilitate the reconciliation of its general ledger with subsidiary ledgers.

Condition: Because of inadequacies in the accounting records, detailed records regarding loans and the allowance for loan losses were not substantiated by underlying supporting documentation evidencing the validity of loans. The Authority did not utilize accounting or loan software and did not maintain an adequate system of accounting.

Cause: The cause of this condition is primarily due to inadequate accounting assistance, the absence of closing procedures and review and the lack of adequate filing and document maintenance systems.

Effect: The effect of this condition is an inability to substantiate certain financial statement balances, financial statement transactions and compliance with laws and regulations.

Identification as a Repeat Finding: 2019-001

Recommendation: The Authority should acquire adequate accounting assistance, should prepare monthly financial statements that are supported by its books and records, and should maintain an adequate filing and retention system and be able to demonstrate compliance with laws and regulations.

Auditee Response and Corrective Action Plan: We agree to the finding. Housing & Rural Development Authority (HRDA) waited for funding assistance specifically to procure the new loan management system from state as well as national government during the course of the fiscal year. No funding received nor appropriated. HRDA intends to search funding elsewhere to bring the system and put into operation. The need for the system is growing as HRDA has added another program in its portfolio.