

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

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**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT**

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**YEARS ENDED SEPTEMBER 30, 2021 AND 2020**

## **INDEPENDENT AUDITORS' REPORT**

Board of Directors  
Kosrae Housing and Rural Development Authority:

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Kosrae Housing and Rural Development Authority (the "Authority"), a component unit of the State of Kosrae, which comprise the statements of net position as of September 30, 2021 and 2020, 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 and Rural Development Authority as of September 30, 2021 and 2020, 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.

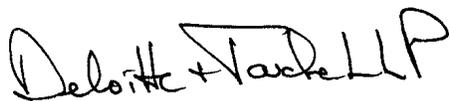
## Other Matters

### *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 December 5, 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.



December 5, 2022

**KOSRAE HOUSING AND RURAL DEVELOPMENT AUTHORITY  
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Management's Discussion and Analysis  
September 30, 2021 and 2020

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 financial activities for the year ended September 30, 2021. The Authority encourages readers to consider the information presented here in conjunction with Authority's financial statement, which follow this section. Fiscal year 2020 and 2019 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.

**FINANCIAL HIGHLIGHTS**

- The assets of the Authority exceeded its liabilities at the close of the most recent fiscal year (FY2021) by \$546.4 thousand (net position), increased by \$152.8 thousand (or up 38.8%) from a net position of \$393.6 thousand in the prior year (FY2020). Of this amount \$62.0 thousand represents the Authority's investments in capital assets, \$484.4 thousand represents amount restricted for programs and services.
- For the year ended September 30, 2021, the Authority's liabilities continue to consist of short term and long-term which included the LOC facility and loan with the Bank of FSM which now has a \$101.9 thousand balance. Other liabilities included payables and an unresolved amount due to Kosrae State Government.
- During the current fiscal year (FY2021) the Authority's expenses for operation were \$196.3 thousand and were funded part by \$95.8 thousand in interest income, fees and charges and \$213.0 thousand in federal grants from US Department of Commerce.
- The operational expenses of the Authority for the current fiscal year (FY2021) total up to \$196.3 thousand, which is a slight decrease as compared to prior year. The operation of the Authority continued to rely heavily on interest, fees and charges on loans.
- At the close of the FY2021, \$213.0 thousand was drawn down from the US EDA grant for its main purpose (the Producers projects) and to support administrative costs needed to continue implementation of the program.

**FINANCIAL ANALYSIS OF THE KOSRAE HOUSING & RURAL DEVELOPMENT AUTHORITY**

**Net Position**

The net position may serve over time as a useful indicator of an organization's or governments' financial position. In the case of the Authority, the assets exceeded liabilities by \$546.4 thousand at the close of FY2021. 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. The 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 \$526.4 thousand while current liabilities total up to \$182.2 thousand. The table below summarizes the Authority's net position at the close of current year compared with prior years FY2019 and FY2020:

	<u>2021</u>	<u>2020</u>	<u>2019</u>
<u>Assets:</u>			
Current assets	\$ 526,539	\$ 327,348	\$ 451,417
Time certificates of deposit	200,000	200,000	200,000
Property and equipment, net	<u>62,005</u>	<u>73,645</u>	<u>87,292</u>
Total assets	\$ <u>788,544</u>	\$ <u>600,993</u>	\$ <u>738,709</u>

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	<u>2021</u>	<u>2020</u>	<u>2019</u>
<b><u>Liabilities:</u></b>			
Current liabilities	\$ 182,231	\$ 105,422	\$ 87,776
Long-term debt, net	<u>59,941</u>	<u>101,974</u>	<u>142,156</u>
Total liabilities	<u>242,172</u>	<u>207,396</u>	<u>229,932</u>
<b><u>Net position:</u></b>			
Net investment in capital asset	\$ 62,005	\$ 73,645	\$ 87,292
Restricted	<u>484,367</u>	<u>319,952</u>	<u>421,485</u>
Total net position	<u>546,372</u>	<u>393,597</u>	<u>508,777</u>
Total liabilities and net position	<u>\$ 788,544</u>	<u>\$ 600,993</u>	<u>\$ 738,709</u>

The Authority's restricted net position at the close of FY21 increased to \$484,367 (a \$164.4 thousand increase), a result of commitments or obligations that are less than currently available resources. Specifically, the Authority did not include in its annual budget the full amounts needed to finance the dues to Kosrae State Government (KSG) until the amount is resolved.

**Changes in Net Position**

As noted earlier, the net position of the Authority increased by \$152.8 thousand, representing a 38.8% increase from the prior year's amount of \$393.6 thousand. The key elements of the differences from prior year are shown in the following schedule:

Revenues, Expenses and Changes in Net position

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Revenue			
Interest and fees	\$ 95,841	\$ 84,659	\$ 90,224
Provision for loan losses	<u>47,000</u>	<u>-</u>	<u>-</u>
Total revenues	<u>142,841</u>	<u>84,659</u>	<u>90,224</u>
Operating expenses	<u>196,325</u>	<u>196,679</u>	<u>202,309</u>
Non-operating revenues (expense)			
Subsidy from FSM National Gov't	-	800	33,365
Transfer from KSG	-	-	-
Operating grant from US	212,995	4,754	-
Interest Expense	<u>(6,736)</u>	<u>(8,714)</u>	<u>(10,082)</u>
Total non-oper.rev (expense)	206,259	(3,160)	23,283
Change in net position	152,775	(115,180)	(88,782)
Net position, beginning of the year	<u>393,597</u>	<u>508,777</u>	<u>597,559</u>
Net position, end of the year	<u>\$ 546,372</u>	<u>\$ 393,597</u>	<u>\$ 508,777</u>

**KOSRAE HOUSING AND RURAL DEVELOPMENT AUTHORITY  
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Management's Discussion and Analysis  
September 30, 2021 and 2020

**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 still limited. As in prior years, the Authority continues to rely heavily on interest and fees on loans to run daily operation. The grant received from the US Economic Development Assistance under the Department of Commerce provides a significant increase in its resources. 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, the revenues (interest) generated from loans presented a slight increase of \$58.2 thousand compared to prior year. The increase resulted from recovery of loan losses. 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 focus on supporting local production in Kosrae.

The cost of running the Authority for the year ended September 30, 2021 expenditures was \$196.3 thousand demonstrated a slight decrease due to travel still restricted and number of employees being reduced. The bulk of the expense occurred in the salaries.

The Authority has a loan portfolio of \$1.9 million and carries an updated credit classification report. The Authority must work with auditors to correct the accounting discrepancies on allowance for doubtful accounts. It is important to note that delinquency rate again decreased to 18% after year end of FY2021, yet doubtful amount still not adjusted which is set at 70% of total loan receivables of the Authority.

The current fiscal year (2021) is the final year of its SDP. The Authority continued to measure its work by its own SDP which has two monitoring device: (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.

Management's Discussion and Analysis for the year ended September 30, 2020 is set forth in the Authority's report on the audit of financial statements, which is dated April 13, 2022. That Discussion and Analysis explains the major factors impacting the 2020 financial statements and can be viewed at the Office of the Public Auditor's website at [www.fsmopa.fm](http://www.fsmopa.fm).

**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.

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Statements of Net Position  
September 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
<u>ASSETS</u>		
Current assets:		
Cash	\$ 30,771	\$ -
Loans receivable, net	479,593	305,529
Advances to employees	16,175	21,819
Total current assets	<u>526,539</u>	<u>327,348</u>
Restricted time certificates of deposit	200,000	200,000
Property and equipment, net	62,005	73,645
	<u>\$ 788,544</u>	<u>\$ 600,993</u>
<u>LIABILITIES AND NET POSITION</u>		
Current liabilities:		
Short-term debt	\$ 50,000	\$ -
Current portion of long-term debt	41,987	39,940
Accrued liabilities	22,396	17,758
Accounts payable	44,068	23,944
Due to primary government	23,780	23,780
Total current liabilities	<u>182,231</u>	<u>105,422</u>
Long-term debt, net of current portion	<u>59,941</u>	<u>101,974</u>
Total liabilities	<u>242,172</u>	<u>207,396</u>
Commitments and contingencies		
Net position:		
Net investment in capital assets	62,005	73,645
Restricted	484,367	319,952
Total net position	<u>546,372</u>	<u>393,597</u>
	<u>\$ 788,544</u>	<u>\$ 600,993</u>

See accompanying notes to financial statements.

**KOSRAE HOUSING AND RURAL DEVELOPMENT AUTHORITY**  
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Statements of Revenues, Expenses and Changes in Net Position  
Years Ended September 30, 2021 and 2020

	2021	2020
Operating revenues:		
Interest and fees on loans	\$ 95,841	\$ 84,659
Recovery of loan losses	47,000	-
Net operating revenues	142,841	84,659
Operating expenses:		
Salaries	138,560	141,246
Depreciation	14,000	13,647
Contractual services	11,105	8,650
Supplies and materials	6,230	5,199
Communication	4,531	6,679
Utilities	4,386	4,600
Food	3,632	3,629
Meetings	3,550	3,600
Fuel	3,093	2,707
Repairs and maintenance	1,025	1,948
Travel and transportation	525	1,438
Miscellaneous	5,688	3,336
Total operating expenses	196,325	196,679
Operating loss	(53,484)	(112,020)
Nonoperating revenues (expenses), net:		
Operating grant from FSM National Government	-	800
Operating grant from U.S. Government	212,995	4,754
Interest expense	(6,736)	(8,714)
Total nonoperating revenues, net	206,259	(3,160)
Change in net position	152,775	(115,180)
Net position at beginning of year	393,597	508,777
Net position at end of year	\$ 546,372	\$ 393,597

See accompanying notes to financial statements.

**KOSRAE HOUSING AND RURAL DEVELOPMENT AUTHORITY**  
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Statements of Cash Flows  
Years Ended September 30, 2021 and 2020

	2021	2020
Cash flows from operating activities:		
Cash received from customers	\$ 95,841	\$ 84,659
Cash paid to suppliers for goods and services	(23,641)	(37,129)
Cash paid to employees	(128,278)	(129,812)
Net cash used in operating activities	(56,078)	(82,282)
Cash flows from noncapital financing activities:		
Operating grant from FSM National Government	-	800
Operating grant from U.S. Government	212,995	4,754
Short-term debt proceeds	50,000	-
Principal repayment on long-term debt	(39,986)	(37,407)
Interest payment on long-term debt	(6,736)	(8,714)
Net cash provided by (used in) noncapital financing activities	216,273	(40,567)
Cash flows from capital and related financing activities:		
Acquisition of fixed assets	(2,360)	-
Cash flows from investing activities:		
Loan originations and principal collections, net	(127,064)	106,041
Net change in cash	30,771	(16,808)
Cash at beginning of year	-	16,808
Cash at end of year	\$ 30,771	\$ -
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (53,484)	\$ (112,020)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	14,000	13,647
Recovery of loan losses	(47,000)	-
Decrease in advance to employees	5,644	1,220
Increase in accrued liabilities	4,638	10,214
Increase in accounts payable	20,124	4,657
Net cash used in operating activities	\$ (56,078)	\$ (82,282)

See accompanying notes to financial statements.

**KOSRAE HOUSING AND RURAL DEVELOPMENT AUTHORITY  
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Notes to Financial Statements  
September 30, 2021 and 2020

(1) Organization and Summary of Significant Accounting Policies

Organization

The Kosrae Housing and Rural Development Authority (the "Authority") 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. The Authority's name was changed from Kosrae Housing Authority to Kosrae Housing and Rural Development Authority.

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 HOUSING AND RURAL DEVELOPMENT AUTHORITY  
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Notes to Financial Statements  
September 30, 2021 and 2020

(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, 2021 and 2020, the carrying amount of the Authority's total cash and time certificates of deposit was \$230,771 and \$200,000, respectively, and the corresponding bank balance was \$234,381 and \$200,000, respectively, which is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2021 and 2020, total bank deposits in the amount of \$234,381 and \$200,000, 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.

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Notes to Financial Statements  
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(1) Organization and Summary of Significant Accounting Policies, Continued

New Accounting Standards

In 2020, GASB issued Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance, which postponed 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.

During the year ended September 30, 2021, the Authority implemented the following pronouncements:

- GASB Statement No. 84, Fiduciary Activities, which improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.
- GASB Statement No. 90, Majority Equity Interests - An Amendment of GASB Statements No. 14 and 61, which improves 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.
- GASB Statement No. 93, Replacement of Interbank Offered Rates, which establishes accounting and reporting requirements related to the replacement of Interbank Offered Rates such as the London Interbank Offered Rate (LIBOR) for hedging derivative instruments. The provision removing LIBOR as an appropriate benchmark interest rate for the evaluation of the effectiveness of derivative instruments is effective for the year ended September 30, 2022.

The implementation of these statements did not have a material effect on the accompanying financial statements.

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 HOUSING AND RURAL DEVELOPMENT AUTHORITY  
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Notes to Financial Statements  
September 30, 2021 and 2020

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

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. In accordance with GASB Statement No. 95, 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. 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.

**KOSRAE HOUSING AND RURAL DEVELOPMENT AUTHORITY  
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Notes to Financial Statements  
September 30, 2021 and 2020

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

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. GASB Statement No. 97 will be effective for fiscal year ending September 30, 2022.

In October 2021, GASB issued Statement No. 98, The Annual Comprehensive Financial Report. This Statement establishes the term annual comprehensive financial report and its acronym ACFR. That new term and acronym replace instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 98 will be effective for fiscal year ending September 30, 2022.

(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, 2021 and 2020 are as follows:

	Balance October 1, <u>2020</u>	<u>Additions</u>	<u>Reductions</u>	Balance September 30, <u>2021</u>	Due Within <u>One Year</u>
Due to primary government	\$ <u>23,780</u>	\$ _____	\$ _____	\$ <u>23,780</u>	\$ <u>23,780</u>
	Balance October 1, <u>2019</u>	<u>Additions</u>	<u>Reductions</u>	Balance September 30, <u>2020</u>	Due Within <u>One Year</u>
Due to primary government	\$ <u>23,780</u>	\$ _____	\$ _____	\$ <u>23,780</u>	\$ <u>23,780</u>

(3) Short-Term Debt

In January 2021, a \$50,000 bank Line of Credit was obtained to fund operations. As of September 30, 2021, the balance outstanding was \$50,000, interest at 3.51%, payable monthly with a maturity of January 20, 2022, collateralized by \$200,000 of time certificates of deposit. The Line of Credit was renewed in January 2022.

**KOSRAE HOUSING AND RURAL DEVELOPMENT AUTHORITY  
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Notes to Financial Statements  
September 30, 2021 and 2020

**(3) Short-Term Debt, Continued**

Changes in short-term debt during the year ended September 30, 2021 are as follows:

	October 1, <u>2020</u>	<u>Additions</u>	<u>Reductions</u>	September 30, <u>2021</u>	Due Within <u>One Year</u>
Short-term debt	\$ <u>-----</u>	\$ <u>50,000</u>	\$ <u>-----</u>	\$ <u>50,000</u>	\$ <u>50,000</u>

**(4) Long-Term Debt**

In March 2019, a \$200,000 bank term-loan was obtained to fund operations. As of September 30, 2021 and 2020, the balance outstanding was \$101,928 and \$141,914, respectively, interest at 5.01%, payable monthly with a maturity of February 25, 2024, collateralized by \$200,000 of time certificates of deposit.

As of September 30, 2021, 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>
2022	\$ 41,987	\$ 4,133	\$ 46,120
2023	44,140	1,981	46,121
2024	<u>15,801</u>	<u>165</u>	<u>15,966</u>
	\$ <u>101,928</u>	\$ <u>6,279</u>	\$ <u>108,207</u>

**(4) Loans Receivable**

The Authority's loan portfolio is comprised of Kosrae Home Improvement Program, USDA Rural Development ("USDA RD") loans and Economic Development Administration Revolving Loan Fund ("EDA RLF") 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 \$51,949 and \$74,402 as of September 30, 2021 and 2020, respectively. The Authority has pledged an escrow account in support of USDA RD loans. As of September 30, 2021 and 2020, \$200,000 of time certificates of deposit 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.

The Authority administers EDA RLF loans and bears responsibility for collection. The balance of EDA Revolving Loan Fund loans is \$139,553 as of September 30, 2021. The Authority provides its non-Federal Matching Share contribution for eligible project expenses in proportion to the Federal share requested for such project expenses. The Authority's non-Federal Matching Share is 20% of the total project expenses.

**KOSRAE HOUSING AND RURAL DEVELOPMENT AUTHORITY  
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Notes to Financial Statements  
September 30, 2021 and 2020

**(4) Loans Receivable, Continued**

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, 2021 and 2020, is presented below:

	<u>2021</u>	<u>2020</u>
Kosrae Home Improvement Program loans	\$ 1,674,151	\$ 1,664,187
EDA Revolving Loan Fund loans	139,553	-
USDA Rural Development loans	<u>51,949</u>	<u>74,402</u>
	1,865,653	1,738,589
Less allowance for loan losses	<u>(1,386,060)</u>	<u>(1,433,060)</u>
Loans receivable, net	\$ <u>479,593</u>	\$ <u>305,529</u>

Movements in the allowance for loan losses during the years ended September 30, 2021 and 2020, are as follows:

	<u>2021</u>	<u>2020</u>
Balance at beginning of year	\$ 1,433,060	\$ 1,433,060
Recoveries from loan losses	<u>(47,000)</u>	<u>-</u>
Balance at end of year	\$ <u>1,386,060</u>	\$ <u>1,433,060</u>

**(5) Property and Equipment**

Capital asset activities for the years ended September 30, 2021 and 2020 are as follows:

	Estimated <u>Useful Life</u>	Balance at October <u>1, 2020</u>	Additions and <u>Transfers</u>	Deletions and <u>Transfers</u>	Balance at September <u>30, 2021</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	2,360	-	5,600
Vehicles	1-5 years	<u>22,920</u>	<u>-</u>	<u>-</u>	<u>22,920</u>
		112,814	2,360	-	115,174
Less accumulated depreciation		<u>(39,169)</u>	<u>(14,000)</u>	<u>-</u>	<u>(53,169)</u>
		\$ <u>73,645</u>	\$ <u>(11,640)</u>	\$ <u>-</u>	\$ <u>62,005</u>

**KOSRAE HOUSING AND RURAL DEVELOPMENT AUTHORITY  
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Notes to Financial Statements  
September 30, 2021 and 2020

(5) Property and Equipment, Continued

	Estimated <u>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	\$ 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>

(6) Commitments and Contingencies

Loan Commitments

The Authority has loan commitments aggregating \$472,658 and \$282,847 as of September 30, 2021 and 2020, 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, 2021 and 2020 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, 2021 and 2020, the Authority has \$110,249 and \$118,920, respectively, of loans receivable from employee family members, who are eligible to file loan applications.

The Authority initiated an Employee Pay Advance Program in May 2018. As of September 30, 2021 and 2020, the balance of advances to employees is \$16,175 and \$21,819, respectively. The Authority requires 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 Housing and Rural Development 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 Housing and Rural Development Authority (the "Authority"), which comprise the statement of net position as September 30, 2021, 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 December 5, 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 Questioned Costs, that we consider to be material weaknesses as items 2021-001 and 2021-002.

## Compliance and Other Matters

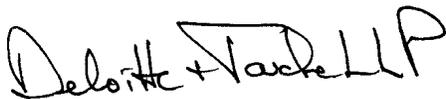
As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material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



December 5, 2022

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

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2021

Finding No.: 2021-001  
Area: Loan Receivable

Criteria: The Authority should maintain an adequate system of accounting to facilitate the reconciliation of its general ledger with supporting schedules, including individual loan account history reports.

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.

USDA loan collections were recorded in the incorrect GL account.

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: 2020-001

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: The Authority agrees with this finding as a repeat finding. The office has revived contract discussions with software company and will procure the loan and accounting system likely in FY2023. Funding is the primary cause of delays.

**KOSRAE HOUSING AND RURAL DEVELOPMENT AUTHORITY  
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Schedule of Findings and Questioned Costs  
Year Ended September 30, 2021

Finding No.:	2021-002
Federal Agency:	U.S. Department of Commerce
CFDA Program:	11.307 Economic Adjustment Assistance
Federal Award No. :	07-79-07560
Compliance Requirement:	Audit Requirements
Questioned Costs:	\$-0-

Criteria: The Authority must comply with the audit requirements set forth at subpart F of 2 CFR part 200 and Appendix XI to 2 CFR part 200 (the Compliance Supplement). Pursuant to Part II, section E)8), of the RLF Standard Terms and Conditions, if a recipient of grant is under the \$750,000 federal expenditure threshold and was not otherwise required to arrange for a single or program-specific audit for the fiscal year, the recipient is required to submit to Economic Development Administration (EDA) a program-specific independent audit that fulfills the requirements of 2 CFR § 200.507 and adheres to the Compliance Supplement for the fiscal year, unless such requirement is waived by EDA.

Condition: A program-specific audit has not performed for the fiscal year. The audit requirement was not waived by EDA.

Cause: The cause of this condition is primarily due to inadequate understanding of the grant requirements and the absence of closing review by management.

Effect: The Authority is in noncompliance with applicable audit requirements. The total questioned costs presented at this finding is unknown until the required audit is performed.

Recommendation: Management should review grant award and review compliance requirement. The Authority should arrange for a program-specific audit for the year ended September 30, 2021.

Auditee Response and Corrective Action Plan: The grant requirement as cited was never discussed at the start and throughout the life of the project per email received by EDA representative. EDA was notified following the auditor's recommendations and subsequently sent an email waiving the requirement. It is neither a lack of capacity on the part of HRDA nor any forms of bad judgement by the grantor. Knowing that grant is below the threshold for single audit, it did not catch the attention of either parties.