

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

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

YEARS ENDED SEPTEMBER 30, 2007 and 2006

INDEPENDENT AUDITORS' REPORT

Board of Directors
Pohnpei State Housing Authority:

We have audited the accompanying special-purpose statements of net assets of the Pohnpei State Housing Authority (the Authority), a component unit of the State of Pohnpei, as of September 30, 2007 and 2006, and the related special-purpose statements of revenues, expenses and changes in net assets and of cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

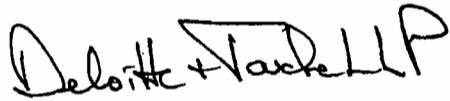
We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide reasonable basis for our opinion.

The accompanying special-purpose financial statements were prepared for the purpose of allowing the preparation of the government-wide financial statements of the State of Pohnpei as of and for the year ended September 30, 2007 and are not intended to be a presentation in conformity with accounting principles generally accepted in the United States of America. This report is intended solely for the use of the Authority and the State of Pohnpei for the purpose set forth in the preceding sentence and should not be used for any other purpose.

In our opinion, such special-purpose financial statements present fairly, in all material respects, the financial position of the Pohnpei State Housing Authority as of September 30, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended on the basis of accounting described in Notes 1 and 3.

The Management's Discussion and Analysis on pages 3 through 5 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Authority's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 16, 2008, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

June 16, 2008

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

Management Discussion and Analysis
September 30, 2007 and 2006

Our discussion and analysis of the Pohnpei State Housing Authority's financial performance provides an overview of the authority's financial activities for the fiscal year ended September 30, 2007. Please read it in conjunction with the Authority's financial statements, which follows this section.

Financial Highlights

- For fiscal year ended September 30, 2007, the Authority's total operating revenues decreased by \$23,604 or 14% from prior year.
- During the year, the Authority's total expenses, including bad debts, increased by \$2,045,563 or 1097% from prior year.
- For fiscal year 2007, the Authority collected an aggregate amount of \$104,209 representing the actual interest paid by customers on loans. Due to difficulty in assessing when the loans will be paid, the accrual of interest on loans has been recorded only when customers actively pay.

Overview of the Financial Statements

The financial statements presented herein include all of the activities of the Authority. Included in this report are the statement of net assets and the statement of revenues, expenses, and changes in net assets. These financial statements present the complete financial picture of the Authority from the economic measurement focus substantially using the accrual basis of accounting. It can be read from these statements whether the Authority is solvent, liquid, stable or profitable.

The Authority operates on an annual budget appropriated by the Legislature, which is accounted for by the Pohnpei State Department of Treasury.

Financial Analysis

Net Assets

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

The following table summarizes the changes in net assets for FY2007, FY2006 and FY2005.

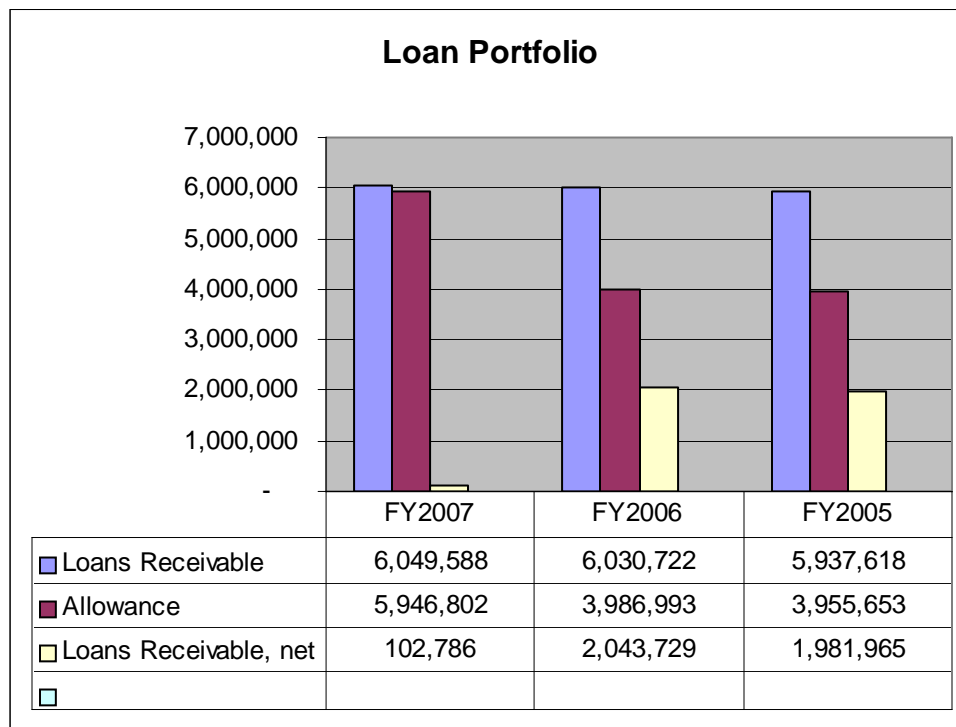
	<u>2007</u>	<u>2006</u>	<u>2005</u>
Current assets	\$ 242,510	\$ 2,231,410	\$ 2,137,364
Capital assets, net	<u>11,216</u>	<u>9,364</u>	<u>14,784</u>
Total assets	\$ <u>253,726</u>	\$ <u>2,240,774</u>	\$ <u>2,152,148</u>
Current liabilities	\$ <u>13,986</u>	\$ <u>11,847</u>	\$ <u>882</u>
Net assets:			
Invested in capital assets	11,216	9,364	14,784
Restricted	<u>228,524</u>	<u>2,219,563</u>	<u>2,136,482</u>
Total net assets	<u>239,740</u>	<u>2,228,927</u>	<u>2,151,266</u>
Total liabilities and assets	\$ <u>253,726</u>	\$ <u>2,240,774</u>	\$ <u>2,152,148</u>

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

Management Discussion and Analysis
September 30, 2007 and 2006

Total net assets decreased by \$1,989,187 or 892% during fiscal year 2007 compared to prior year. Current assets decreased by \$1,988,900 or 961% while capital assets increased by \$1,852 or 20% and total liabilities increased by \$2,139 or 18%. For additional information concerning capital assets, please refer to the notes to the financial statements, primarily note 4.

Following is a graphical presentation showing the 3-year trend loan portfolio for PSHA:



Changes in Net Assets

The statement of revenues, expenses, and changes in net assets shows the results of operation of the Authority. It reports the revenues earned and expenses incurred and it indicates the effect on the net assets of the Authority.

For the year ended September 30, 2007, net assets of the Authority changed as follows with comparison from prior years:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Operating revenues:			
Interest and fees on loans	\$ 147,971	\$ 142,105	\$ 136,036
Other	<u>1,533</u>	<u>31,003</u>	<u>68,168</u>
	<u>149,504</u>	<u>173,108</u>	<u>204,204</u>
Provision for loan losses	<u>1,959,809</u>	<u>31,370</u>	<u>380,047</u>

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

Management Discussion and Analysis
September 30, 2007 and 2006

Operating expenses:			
Bad debts	109,953	4,891	-
Salaries	94,029	87,249	94,666
Contractual services	33,152	40,312	36,374
Transportation and travel	8,632	-	7,268
Utilities	6,149	4,941	1,848
Depreciation	4,906	7,714	13,537
Repairs and maintenance	4,182	2,802	4,011
Supplies and materials	3,419	5,226	6,390
Communication	1,172	765	6,280
Miscellaneous and others	<u>6,519</u>	<u>1,089</u>	<u>8,602</u>
 Total operating expenses	 <u>272,113</u>	 <u>154,989</u>	 <u>178,976</u>
 Operating loss	 (2,082,418)	 (13,251)	 (354,819)
Nonoperating revenues:			
Operating subsidy from primary government	<u>93,231</u>	<u>90,912</u>	<u>99,017</u>
 (Decrease) increase in net assets	 \$ <u>(1,989,187)</u>	 \$ <u>77,661</u>	 \$ <u>(255,802)</u>

The result of the Authority's operation for the year ended September 30, 2007 is a unfavorable variance in the change in net assets of (\$1,989,187) or a decrease of 892% from prior year. This change occurred primarily due to the provision for loan losses, which appears due to the ramifications of severe increases in cost of living (power, gas and food stuffs).

Management's Discussion and Analysis for the year ended September 30, 2006 is set forth in the Authority's report on the audit of financial statements, which is dated August 21, 2007. That Discussion and Analysis explains the major factors impacting the 2006 financial statements and can be viewed at the Office of the Public Auditor's website at www.fsmpublicauditor.fm.

Contacting the PSHA's Financial Management

This Management's Discussion and Analysis is designed to provide our citizens, taxpayers, customers, creditors, and other interested parties, with a general overview of the Pohnpei State Housing Authority's finances and to demonstrate PSHA's accountability for the appropriations it receives. Questions concerning any of the information provided in this discussion and analysis or requests for additional information should be addressed to the Executive Director, Pohnpei State Housing Authority P.O. Box 1109, Kolonia, Pohnpei, FM 96941, or call (691) 320-4225 or (691) 320-1906.

POHNPEI STATE HOUSING AUTHORITY

Statements of Net Assets
September 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
<u>ASSETS</u>		
Cash	\$ 111,327	\$ 49,232
Employee advances, net of an allowance for doubtful accounts of \$213,053 in 2007 and \$114,018 in 2006	246	100,127
Due from primary government	28,080	38,207
Loans receivable, net	102,786	2,043,729
Prepays	71	115
Property and equipment, net	<u>11,216</u>	<u>9,364</u>
	<u>\$ 253,726</u>	<u>\$ 2,240,774</u>
 <u>LIABILITIES AND NET ASSETS</u>		
Liabilities:		
Accrued liabilities	\$ <u>13,986</u>	\$ <u>11,847</u>
Total liabilities	<u>13,986</u>	<u>11,847</u>
Commitments and contingencies		
Net assets:		
Invested in capital assets	11,216	9,364
Restricted	<u>228,524</u>	<u>2,219,563</u>
Total net assets	<u>239,740</u>	<u>2,228,927</u>
	<u>\$ 253,726</u>	<u>\$ 2,240,774</u>

See accompanying notes to financial statements.

POHNPEI STATE HOUSING AUTHORITY

Statements of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Operating revenues:		
Interest and fees on loans	\$ 147,971	\$ 142,105
Other	<u>1,533</u>	<u>31,003</u>
Total operating revenues	<u>149,504</u>	<u>173,108</u>
Provision for loan losses	<u>1,959,809</u>	<u>31,370</u>
Operating expenses:		
Bad debts	109,953	4,891
Salaries	94,029	87,249
Contractual services	33,152	40,312
Transportation and travel	8,632	-
Utilities	6,149	4,941
Depreciation	4,906	7,714
Repairs and maintenance	4,182	2,802
Supplies and materials	3,419	5,226
Communication	1,172	765
Miscellaneous and others	<u>6,519</u>	<u>1,089</u>
Total operating expenses	<u>272,113</u>	<u>154,989</u>
Operating loss	<u>(2,082,418)</u>	<u>(13,251)</u>
Nonoperating revenues:		
Operating subsidy from primary government	<u>93,231</u>	<u>90,912</u>
Net (loss) earnings	(1,989,187)	77,661
Net assets at beginning of year	<u>2,228,927</u>	<u>2,151,266</u>
Net assets at end of year	<u>\$ 239,740</u>	<u>\$ 2,228,927</u>

See accompanying notes to financial statements.

POHNPEI STATE HOUSING AUTHORITY

Statements of Cash Flow
Years Ended September 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Cash received from customers	\$ 129,847	\$ 173,108
Cash paid to suppliers for goods and services	(59,928)	(44,160)
Cash paid to employees	<u>(94,297)</u>	<u>(86,554)</u>
Net cash (used in) provided by operating activities	<u>(24,378)</u>	<u>42,394</u>
Cash flows from noncapital activities:		
Operating subsidy received from primary government	<u>93,231</u>	<u>79,043</u>
Cash flows from capital and related activities:		
Acquisition of fixed assets	<u>(6,758)</u>	<u>(2,294)</u>
Cash flows from investing activities:		
Net change in loans receivable	<u>-</u>	<u>(93,135)</u>
Net increase in cash	62,095	26,008
Cash at beginning of year	<u>49,232</u>	<u>23,224</u>
Cash at end of year	\$ <u><u>111,327</u></u>	\$ <u><u>49,232</u></u>
Cash flows from operating activities:		
Operating loss	\$ (2,082,418)	\$ (13,251)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Provision for loan losses	1,959,809	31,370
Bad debts	109,953	4,891
Depreciation	4,906	7,714
(Increase) decrease in assets:		
Advances	(18,722)	695
Prepays	(44)	10
Increase in liabilities:		
Accounts payable	<u>2,138</u>	<u>10,965</u>
Net cash (used in) provided by operating activities	\$ <u><u>(24,378)</u></u>	\$ <u><u>42,394</u></u>

See accompanying notes to financial statements.

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

Notes to Financial Statements
September 30, 2007 and 2006

(1) Organization and Summary of Significant Accounting Policies

Organization

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

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

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

Basis of Accounting

The accounting policies of the Authority conform to accounting principles generally accepted in the United States of America as applicable to governmental entities, specifically proprietary funds. Governmental Accounting Standards Board (GASB) Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting," requires that proprietary activities apply all applicable GASB pronouncements as well as Statements and Interpretations issued by the Financial Accounting Standards Board (FASB), Accounting Principle Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989. The Authority has implemented GASB 20 and elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

GASB issued 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*. These statements establish 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.

To conform to the requirements of GASB Statement 34, retained earnings are presented in the following net asset categories:

- Invested in capital assets; capital assets, net of accumulated depreciation, plus construction or improvement of those assets.
- Restricted:
 - Nonexpendable – Net assets subject to externally imposed stipulations that require the Authority to maintain them permanently.

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

Notes to Financial Statements
September 30, 2007 and 2006

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

Basis of Accounting, Continued

- Expendable – Net assets whose use by the Authority is subject to externally imposed stipulations that can be fulfilled by actions of the Authority pursuant to those stipulations or that expire by the passage of time.
- Unrestricted; net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

All of the Authority assets are restricted for loan programs.

Proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of the fund are included in the statements of net assets. Proprietary fund operating statements present increases and decreases in net assets. 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.

The Authority currently recognizes interest income on a cash basis. This policy varies with accounting principles generally accepted in the United States of America (GAAP). The accompanying financial statements have been prepared to enable the State of Pohnpei to meet its financial reporting responsibilities. Therefore, the accompanying financial statements do not necessarily portray the Authority's financial position and result of operations under GAAP.

Net Assets

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

Budget

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

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

Notes to Financial Statements
September 30, 2007 and 2006

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

Management Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

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 assets and cash flows, cash is defined as cash in checking accounts, savings accounts and cash on hand. As of September 30, 2007 and 2006, cash was \$111,327 and \$49,232, respectively, which approximated corresponding bank balances maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2007 and 2006, bank deposits were fully 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. Lives of property and equipment range from three to ten years. The Authority capitalizes all fixed assets, irrespective of value, that have estimated useful lives of more than one year.

Compensated Absences

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

Reclassifications

Certain reclassifications have been made to the 2006 financial statements to correspond with the 2007 financial statement presentation.

New Accounting Standards

In April 2004, GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which establishes uniform financial reporting for other postemployment benefit plans by state and local governments. The provisions of this statement are effective for periods beginning after December 15, 2006.

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

Notes to Financial Statements
September 30, 2007 and 2006

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

New Accounting Standards, Continued

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which establishes standards for the measurement, recognition, and display of other post employment benefits expense/expenditures and related liabilities, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The provisions of this statement are effective for periods beginning after December 15, 2007.

In September 2006, GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, which establishes uniform financial reporting for these types of revenues. The provisions of this statement are effective for periods beginning after December 15, 2006.

In December 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. GASB Statement No. 49 provides guidance and consistency under which a governmental entity would be required to report a liability related to pollution remediation. The provisions of this statement are effective for periods beginning after December 15, 2007.

In May 2007, GASB issued Statement No. 50, *Pension Disclosures an Amendment of GASB Statements No. 25 and 27*. GASB Statement No. 50 more closely aligns the financial reporting requirements for pensions with those for other post-employment benefits. The provisions of this statement are effective for periods beginning after June 15, 2007.

In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. GASB Statement No. 51 addresses whether and when intangible assets should be considered capital assets for financial reporting purposes. The provisions of this statement are effective for periods beginning after June 15, 2009.

Management does not believe that the implementation of these statements will have a material effect on the financial statements of the Authority.

(2) Due From Primary Government

Due from primary government represents the accumulation of the unobligated portion of the State's annual operating subsidy, which under the Authority's enabling legislation (Pohnpei State Public Law 5-37) is to be transferred to the Authority's loan fund.

(3) Loans Receivable

The Authority's loan portfolio is comprised of two loan funds, Pohnpei State Housing Authority (PSHA) loan fund and the Housing Preservation Grant (HPG) loan fund.

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

Notes to Financial Statements
September 30, 2007 and 2006

(3) Loans Receivable, Continued

The PSHA loans derive from the capital contributions of Compact of Free Association Capital Account Funds - Capital Projects by Pohnpei State to fund the Housing Development Loan Fund. The HPG loans are from a grant extended by the United States Department of Agriculture through the Rural Services Office. 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 collectibility 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, 2007 and 2006, are presented below:

	<u>2007</u>	<u>2006</u>
Pohnpei State Housing Authority Loans	\$ 5,723,555	\$ 5,707,742
HPG Loans	<u>326,033</u>	<u>322,980</u>
	6,049,588	6,030,722
Less allowance for loan losses	<u>(5,946,802)</u>	<u>(3,986,993)</u>
Loans receivable, net	\$ <u>102,786</u>	\$ <u>2,043,729</u>

All loans are at fixed rates (substantially 4.5%) and the loan terms range from 3 to 25 years.

Future maturities of loans receivable, due to existing nonrepayment cases, will not represent predictive information and therefore, such is not presented.

Additionally, given the inability to predict non-repayment cases, the Authority essentially recognizes interest income as received. The Authority does not believe that the amount of accrued interest at each balance sheet date accruable is material. However, cash basis recognition of interest income does not conform to accounting principles generally accepted in the United States of America.

(4) Property and Equipment

Capital asset activity for the years ended September 30, 2007 and 2006, was as follows:

		<u>2007</u>			
		<u>Balance at</u> <u>October</u> <u>1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	
Building	10 years	\$ 26,061	\$ -	\$ -	\$ 26,061
Machinery and equipment	3-5 year	154,920	5,423	-	160,343
Other equipment	2 years	<u>5,709</u>	<u>1,335</u>	-	<u>7,044</u>
		186,690	6,758	-	193,448
Less accumulated depreciation		<u>(177,326)</u>	<u>(4,906)</u>	-	<u>(182,232)</u>
		\$ <u>9,364</u>	\$ <u>1,852</u>	\$ -	\$ <u>11,216</u>

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

Notes to Financial Statements
September 30, 2007 and 2006

(4) Property and Equipment, Continued

		2006			
	<u>Estimated Useful Life</u>	<u>Balance at October 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at September 30, 2006</u>
Building	10 years	\$ 26,061	\$ -	\$ -	\$ 26,061
Machinery and equipment	3-5 year	154,920	-	-	154,920
Other equipment	2 years	3,415	2,294	-	5,709
		184,396	2,294	-	186,690
Less accumulated depreciation		(169,612)	(7,714)	-	(177,326)
		<u>\$ 14,784</u>	<u>\$ (5,420)</u>	<u>\$ -</u>	<u>\$ 9,364</u>

(5) Commitments and Contingencies

Loan Commitments

The Authority has loan commitments to borrowers aggregating \$969,700 as of September 30, 2007. These loan commitments represent the remaining balances of approved loans for borrower housing projects.

Federal Program Questioned Costs

The Authority is a subrecipient of U.S. Federally assisted programs subject to financial and compliance audits to ascertain if Federal laws and guidelines have been followed. Currently, \$184,842 in questioned costs exist for fiscal year 1993 through 2007 grants. If these questioned costs are ultimately disallowed, the Authority may bear responsibility for absorbing the amount disallowed. No provision for any liability that may result from this matter has been recorded in the accompanying financial statements.

(6) Risk Management

The Authority carries life insurance. The Authority is substantially self-insured for all other risks. Management is of the opinion that no material losses have been sustained as a result of this practice during the last three years.

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

Board of Directors
Pohnpei State Housing Authority:

We have audited the special-purpose financial statements of the Pohnpei State Housing Authority (the Authority), as of and for the year ended September 30, 2007, and have issued our report thereon dated June 16, 2008, which report indicates that interest income is essentially recognized on a cash basis. We conducted our audit 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material misstatement of the financial statements will not be prevented or detected by the Authority's internal control.

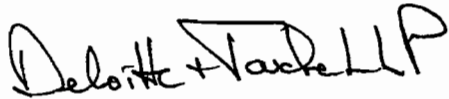
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of 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*.

We noted certain matters that we reported to management of the Authority in a separate letter dated June 16, 2008.

This report is intended solely for the information and use of the Board of Directors, management, and others within the entity and is not intended to be and should not be used by anyone other than these specified parties.

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

June 16, 2008

POHNPEI STATE HOUSING AUTHORITY

Schedule of Unresolved Prior Year Questioned Costs
Year Ended September 30, 2007

The following is a summary of questioned costs noted and prior year unresolved federal questioned costs for the Pohnpei State Housing Authority:

	Questioned Costs Set Forth in 2006 Audit <u>Report</u>	Questioned Costs Resolved in Fiscal Year <u>2007</u>	Questioned Costs at <u>September 30, 2007</u>
	\$ 184,842	\$ -	\$ 184,842
Questioned Costs per the 2007 Audit Report	-	-	<u>-</u>
			\$ <u>184,842</u>