

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

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**SPECIAL-PURPOSE FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT**

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**YEARS ENDED SEPTEMBER 30, 2008 AND 2007**

## **INDEPENDENT AUDITORS' REPORT**

Board of Directors  
Pohnpei State Housing Authority:

We have audited the accompanying special-purpose financial statements of the Pohnpei State Housing Authority (the Authority), a component unit of the State of Pohnpei, as of and for the years ended September 30, 2008 and 2007. These special-purpose financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these special-purpose financial statements based on our audits.

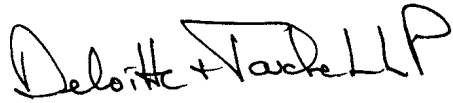
We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the special-purpose 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 special-purpose financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall special-purpose 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, 2008 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, 2008 and 2007, 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 to the special-purpose financial statements.

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 May 12, 2009, 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 + Tuckers LLP". The signature is written in a cursive, stylized font.

May 12, 2009

**POHNPEI STATE HOUSING AUTHORITY  
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Management's Discussion and Analysis  
September 30, 2008 and 2007

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, 2008. Please read it in conjunction with the Authority's special-purpose financial statements, which follows this section.

Financial Highlights

- For fiscal year ended September 30, 2008, the Authority's total operating revenues increased by \$28,891 or 19% from prior year.
- During the year, the Authority's total expenses, including bad debts, decreased by \$2,062,210 or 92% from prior year.
- For fiscal year 2008, the Authority collected an aggregate amount of \$139,605 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 special-purpose 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 special-purpose 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 special-purpose 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 special-purpose financial statement communicates the lending ability of the Authority through the turnover 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 net assets of the Authority for FY2008, FY2007 and FY2006.

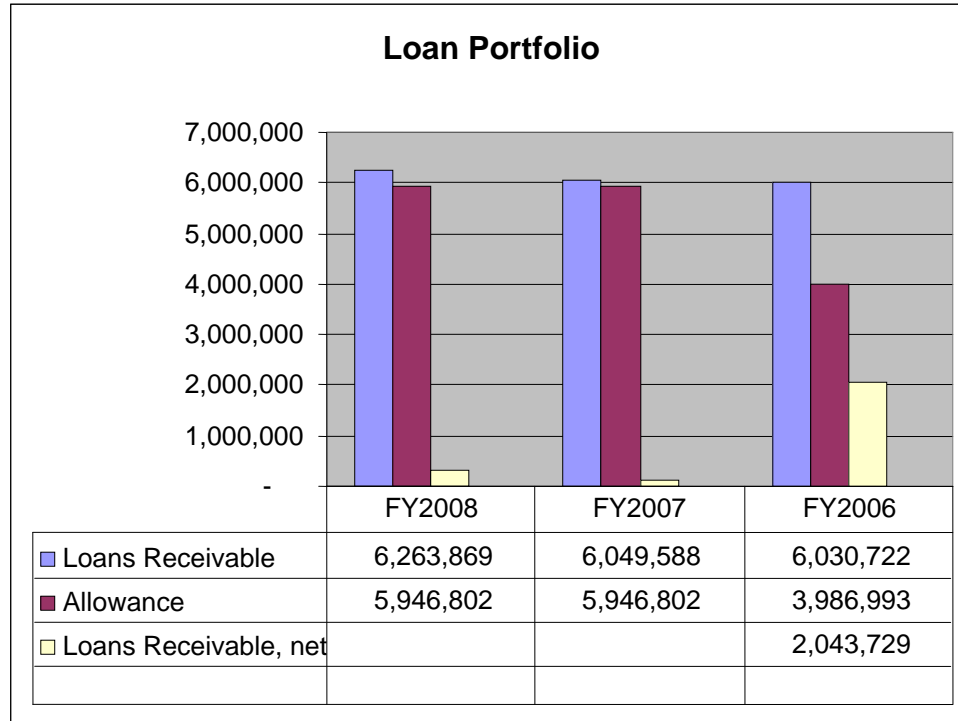
	<u>2008</u>	<u>2007</u>	<u>2006</u>
Current assets	\$ 366,867	\$ 242,510	\$ 2,231,410
Capital assets, net	<u>10,381</u>	<u>11,216</u>	<u>9,364</u>
Total assets	\$ <u>377,248</u>	\$ <u>253,726</u>	\$ <u>2,240,774</u>
Current liabilities	\$ <u>31,481</u>	\$ <u>13,986</u>	\$ <u>11,847</u>
Net Assets:			
Invested in capital assets	10,381	11,216	9,364
Restricted	<u>335,386</u>	<u>228,524</u>	<u>2,219,563</u>
Total net assets	<u>345,767</u>	<u>239,740</u>	<u>2,228,927</u>

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Management's Discussion and Analysis  
September 30, 2008 and 2007

Total liabilities and net assets                   \$ 377,248                   \$ 253,726                   \$ 2,240,774  
Total net assets increased by \$106,027 or 44% during fiscal year 2008 compared to prior year. Current assets increased by \$124,357 or 51% while capital assets decreased by \$835 or 7% and total liabilities increased by \$17,495 or 125%.

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, 2008, net assets of the Authority changed as follows with comparison from prior years:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Operating revenues:			
Interest and fees on loans	\$ 160,382	\$ 147,971	\$ 142,105
Other	<u>18,013</u>	<u>1,533</u>	<u>31,003</u>
	<u>178,395</u>	<u>149,504</u>	<u>173,108</u>
Provision for loan losses	<u>-</u>	<u>1,959,809</u>	<u>31,370</u>

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Management's Discussion and Analysis  
September 30, 2008 and 2007

Operating expenses:			
Salaries	96,395	94,029	87,249
Contractual services	39,324	33,152	40,312
Bad debts	5,043	109,953	4,891
Depreciation	5,467	4,906	7,714
Supplies and materials	2,884	3,419	5,226
Transportation and travel	2,308	8,632	-
Utilities	5,799	6,149	4,941
Repairs and maintenance	2,557	4,182	2,802
Communication	2,248	1,172	765
Miscellaneous and others	<u>7,687</u>	<u>6,519</u>	<u>1,089</u>
 Total operating expenses	 <u>169,712</u>	 <u>272,113</u>	 <u>154,989</u>
 Operating income (loss)	 8,683	 (2,082,418)	 (13,251)
 Nonoperating revenues:			
Operating subsidy from primary government	<u>97,344</u>	<u>93,231</u>	<u>90,912</u>
 Change in net assets	 \$ <u>106,027</u>	 \$ <u>(1,989,187)</u>	 \$ <u>77,661</u>

The result of the Authority's operation for the year ended September 30, 2008 is a favorable variance in the change in net assets of \$106,027 from prior year.

Management's Discussion and Analysis for the year ended September 30, 2007 is set forth in the Authority's report on the audit of financial statements, which is dated June 16, 2008. That Discussion and Analysis explains the major factors impacting the 2007 financial statements and can be viewed at the Office of the Public Auditor's website at [www.fsmpublicauditor.fm](http://www.fsmpublicauditor.fm).

#### Capital Assets and Debt

For additional information concerning capital assets, please refer to note 4 of the financial statements.

The Authority has no long-term debt.

#### 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) 320-2582.

**POHNPEI STATE HOUSING AUTHORITY**  
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Statements of Net Assets  
September 30, 2008 and 2007

<u>ASSETS</u>	<u>2008</u>	<u>2007</u>
Cash	\$ 32,001	\$ 111,327
Employee advances, net of an allowance for doubtful accounts of \$218,096 in 2008 and \$213,053 in 2007	-	246
Due from primary government	17,728	28,080
Loans receivable, net	317,067	102,786
Prepays	71	71
Property and equipment, net	<u>10,381</u>	<u>11,216</u>
	<u>\$ 377,248</u>	<u>\$ 253,726</u>
<u>LIABILITIES AND NET ASSETS</u>		
Liabilities:		
Accrued liabilities	\$ <u>31,481</u>	\$ <u>13,986</u>
Total liabilities	<u>31,481</u>	<u>13,986</u>
Commitments and contingencies		
Net assets:		
Invested in capital assets	10,381	11,216
Restricted	<u>335,386</u>	<u>228,524</u>
Total net assets	<u>345,767</u>	<u>239,740</u>
	<u>\$ 377,248</u>	<u>\$ 253,726</u>

See accompanying notes to special-purpose financial statements.

**POHNPEI STATE HOUSING AUTHORITY**  
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 Statements of Revenues, Expenses and Changes in Net Assets  
 Years Ended September 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Operating revenues:		
Interest and fees on loans	\$ 160,382	\$ 147,971
Other	18,013	1,533
Total operating revenues	<u>178,395</u>	<u>149,504</u>
Provision for loan losses	<u>-</u>	<u>1,959,809</u>
Operating expenses:		
Salaries	96,395	94,029
Contractual services	39,324	33,152
Utilities	5,799	6,149
Depreciation	5,467	4,906
Bad debts	5,043	109,953
Supplies and materials	2,884	3,419
Repairs and maintenance	2,557	4,182
Transportation and travel	2,308	8,632
Communication	2,248	1,172
Miscellaneous and others	7,687	6,519
Total operating expenses	<u>169,712</u>	<u>272,113</u>
Operating income (loss)	<u>8,683</u>	<u>(2,082,418)</u>
Nonoperating revenues:		
Operating subsidy from primary government	<u>97,344</u>	<u>93,231</u>
Change in net assets	106,027	(1,989,187)
Net assets at beginning of year	<u>239,740</u>	<u>2,228,927</u>
Net assets at end of year	<u>\$ 345,767</u>	<u>\$ 239,740</u>

See accompanying notes to special-purpose financial statements.



**POHNPEI STATE HOUSING AUTHORITY**  
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Statements of Cash Flow  
Years Ended September 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Cash received from customers	\$ 182,793	\$ 153,902
Cash paid to suppliers for goods and services	(62,807)	(63,181)
Cash paid to employees	<u>(100,158)</u>	<u>(106,360)</u>
Net cash provided by (used in) operating activities	<u>19,828</u>	<u>(15,639)</u>
Cash flows from noncapital activities:		
Operating subsidy received from primary government	<u>107,696</u>	<u>103,358</u>
Cash flows from capital and related activities:		
Acquisition of fixed assets	<u>(4,632)</u>	<u>(6,758)</u>
Cash flows from investing activities:		
Loan originations and principal collections, net	<u>(202,218)</u>	<u>(18,866)</u>
Net (decrease) increase in cash	(79,326)	62,095
Cash at beginning of year	<u>111,327</u>	<u>49,232</u>
Cash at end of year	\$ <u><u>32,001</u></u>	\$ <u><u>111,327</u></u>
Cash flows from operating activities:		
Operating income (loss)	\$ 8,683	\$ (2,082,418)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Provision for loan losses	-	1,959,809
Bad debts	5,043	109,953
Depreciation	5,467	4,906
Decrease (increase) in assets:		
Employee advances	(4,797)	(10,072)
Prepays	-	44
Increase in liabilities:		
Accrued liabilities	<u>5,432</u>	<u>2,139</u>
Net cash provided by (used in) operating activities	\$ <u><u>19,828</u></u>	\$ <u><u>(15,639)</u></u>

See accompanying notes to special-purpose financial statements.

**POHNPEI STATE HOUSING AUTHORITY**  
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Notes to Special-Purpose Financial Statements  
September 30, 2008 and 2007

(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 special-purpose 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.

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Notes to Special-Purpose Financial Statements  
September 30, 2008 and 2007

(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, which is an accounting basis other than accounting principles generally accepted in the United States of America (GAAP). The accompanying special-purpose financial statements have been prepared to enable the State of Pohnpei to meet its financial reporting responsibilities. Therefore, the accompanying special-purpose 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.

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Notes to Special-Purpose Financial Statements  
September 30, 2008 and 2007

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

Management Estimates

The preparation of special-purpose 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 assets and cash flows, cash is defined as cash in checking accounts, savings accounts and cash on hand. As of September 30, 2008 and 2007, cash was \$32,001 and \$111,327, respectively, which approximated corresponding bank balances maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2008 and 2007, 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, which range from three to ten years. The Authority capitalizes all fixed assets, irrespective of value, that have estimated useful lives of more than one year.

Compensated Absences

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

Reclassifications

Certain reclassifications have been made to the 2007 special-purpose financial statements to correspond with the 2008 financial statement presentation.

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Notes to Special-Purpose Financial Statements  
September 30, 2008 and 2007

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

New Accounting Standards

During fiscal year 2008, the Authority implemented GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfer of Assets and Future Revenues*, and GASB Statement No. 50, *Pension Disclosures an amendment of GASB Statements No. 25 and 27*. GASB Statement No. 43 establishes uniform financial reporting for other postemployment benefit plans by state and local governments and GASB Statement No. 50 more closely aligns the financial reporting requirements for pensions with those for other post-employment benefits. GASB Statement No. 48 establishes criteria that governments will use to ascertain whether certain transactions should be regarded as a sale or a collateralized borrowing, and includes a provision that stipulates that governments should not revalue assets that are transferred between financial reporting entity components. The implementation of these pronouncements did not have a material effect on the accompanying special-purpose financial statements.

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Post employment Benefits Other Than Pensions*. GASB Statement No. 45 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. Management does not believe that the implementation of this statement will have a material effect on the special-purpose financial statements of the Authority.

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. Management does not believe that the implementation of this statement will have a material effect on the special-purpose financial statements of the Authority.

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 this statement will have a material effect on the special-purpose financial statements of the Authority.

In November 2007, GASB issued Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*. GASB Statement No. 52 improves the quality of financial reporting by requiring endowments to report their land and other real estate investments at fair value, creating consistency in reporting among similar entities that exist to invest resources for the purpose of generating income. The provisions of this statement are effective for periods beginning after June 15, 2008. Management does not believe that the implementation of this statement will have a material effect on the special-purpose financial statements of the Authority.

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Notes to Special-Purpose Financial Statements  
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(1) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. GASB Statement No. 53 is intended to improve how state and local governments report information about derivative instruments - financial arrangements used by governments to manage specific risks or make investments - in their financial statements. The provisions of this statement are effective for periods beginning after June 15, 2009. Management does not believe that the implementation of this statement will have a material effect on the special-purpose 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.

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, 2008 and 2007, are presented below:

	<u>2008</u>	<u>2007</u>
Pohnpei State Housing Authority Loans	\$ 5,832,557	\$ 5,723,555
HPG Loans	<u>431,312</u>	<u>326,033</u>
	6,263,869	6,049,588
Less allowance for loan losses	<u>(5,946,802)</u>	<u>(5,946,802)</u>
Loans receivable, net	\$ <u>317,067</u>	\$ <u>102,786</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.

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Notes to Special-Purpose Financial Statements  
September 30, 2008 and 2007

(3) Loans Receivable, Continued

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, 2008 and 2007, was as follows:

	Estimated Useful Life	2008			Balance at September 30, 2008
		Balance at October 1, 2007	Additions	Deletions	
Building	10 years	\$ 26,061	\$ -	\$ -	\$ 26,061
Machinery and equipment	3-5 year	160,343	2,992	-	163,335
Other equipment	2 years	<u>7,044</u>	<u>1,640</u>	<u>-</u>	<u>8,684</u>
		193,448	4,632	-	198,080
Less accumulated depreciation		<u>(182,232)</u>	<u>(5,467)</u>	<u>-</u>	<u>(187,699)</u>
		<u>\$ 11,216</u>	<u>\$ (835)</u>	<u>\$ -</u>	<u>\$ 10,381</u>
		2007			
	Estimated Useful Life	Balance at October 1, 2006	Additions	Deletions	Balance at September 30, 2007
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>-</u>	<u>7,044</u>
		186,690	6,758	-	193,448
Less accumulated depreciation		<u>(177,326)</u>	<u>(4,906)</u>	<u>-</u>	<u>(182,232)</u>
		<u>\$ 9,364</u>	<u>\$ 1,852</u>	<u>\$ -</u>	<u>\$ 11,216</u>

(5) Commitments and Contingencies

Loan Commitments

The Authority has loan commitments to borrowers aggregating \$1,099,700 as of September 30, 2008. 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, \$18,424 in questioned costs exist for fiscal year 1993 through 2008 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 special-purpose financial statements.

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

Notes to Special-Purpose Financial Statements  
September 30, 2008 and 2007

**(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, 2008, and have issued our report thereon dated May 12, 2009, 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2008-1 through 2008-4 to be significant deficiencies in internal control over financial reporting.

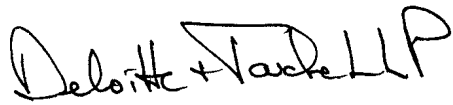
A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material misstatement of the financial statements will not be prevented or detected by the Authority's internal control.

Our consideration of the 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 the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiencies described above are material weaknesses.

#### 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*.

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 + Tatchell LLP". The signature is written in a cursive, stylized font.

May 12, 2009

# POHNPEI STATE HOUSING AUTHORITY

Schedule of Findings and Responses  
Year Ended September 30, 2008

## **Finding 2008-1: Cash Management**

Criteria: All cash receipts should be banked in a timely manner.

Condition: We obtained a schedule of employee advances and noted that there are additional advances in the total amount of \$4,966 to two employees from loan collections. Furthermore, the advances have not been paid back to the Authority.

Cause: The cause of this condition is internal control weakness over the cash management cycle.

Effect: The effect of this condition is potential misappropriation of cash.

Recommendation: We recommend that all cash receipts be banked in a timely manner and should not be advanced to employees.

Auditee Response and Corrective Action Plan: The \$4,966 still missing needs to be paid by two employees. The Attorney General office will handle this upon final Audit output. There has been no effort by the two employees in paying back the amount.

**POHNPEI STATE HOUSING AUTHORITY**

Schedule of Findings and Responses, Continued  
Year Ended September 30, 2008

**Finding 2008-2: Cash Management**

Criteria: All cash receipts should be banked in a timely manner.

Condition: We noted that cash receipts on 06/30/08 in the total amount of \$348 were not deposited until 11/25/08.

Cause: The cause of this condition is internal control weakness over the cash management cycle.

Effect: The effect of this condition is potential misappropriation of cash.

Recommendation: We recommend that all cash receipts be banked in a timely manner.

Auditee Response and Corrective Action Plan: This \$348 has already been taken care of and deposited on 11/25/08. The current timely deposit mandate of independently reviewing and signing daily deposit entries will not repeat similar situation.

## POHNPEI STATE HOUSING AUTHORITY

Schedule of Findings and Responses, Continued  
Year Ended September 30, 2008

### **Finding 2008-3: Cash Management**

Criteria: All cash receipts should be banked in a timely manner.

Condition: We noted that \$489 in a recorded deposit in transit in the September 30, 2008 bank reconciliation has not been deposited. Furthermore, there are no supporting cash receipt forms that support this amount.

Cause: The cause of this condition is internal control weakness over the cash management cycle.

Effect: The effect of this condition is potential misappropriation of cash.

Recommendation: We recommend that all cash receipts be banked in a timely manner.

Auditee Response and Corrective Action Plan: The \$489 deposit entry is still missing and will be reported to the Attorney General for handling.

## POHNPEI STATE HOUSING AUTHORITY

Schedule of Findings and Responses, Continued  
Year Ended September 30, 2008

### **Finding 2008-4: Employee Advances**

Criteria: Policies and procedures should be in place to promote timely collection of employee advances.

Condition: Employee advances are not being paid back per payment schedule, and \$218,096 still remains uncollected at year end.

Cause: Set procedures are not in place to monitor and enforce collection of employee advances.

Effect: Excessively aged employee advance balances increase the likelihood of large balances becoming uncollectible.

Recommendation: We recommend that management actively pursue collection of employee advances.

Auditee Response and Corrective Action Plan: Employees advances of \$218,096 needs also the Attorney General's handling for prosecution. This way both still on board employees and those former employees could be dealt with accordingly through the court system.

**POHNPEI STATE HOUSING AUTHORITY**

Schedule of Unresolved Prior Year Questioned Costs  
Year Ended September 30, 2008

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 2007 Audit <u>Report</u>	Questioned Costs Resolved in Fiscal Year <u>2008</u>	Questioned Costs at <u>September 30, 2008</u>
	\$ 184,842	\$ 166,418	\$ 18,424
Questioned Costs per the 2008 Audit Report	-	-	<u>-</u>
			<u>\$ 18,424</u>