

May 12, 2009

The Board of Directors  
Pohnpei State Housing Authority

Dear Members of the Board:

We have performed an audit of the special-purpose financial statements of Pohnpei State Housing Authority (the Authority), a component unit of the Pohnpei State Government, as of and for the year ended September 30, 2008, in accordance with auditing standards generally accepted in the United States of America and have issued our report thereon dated May 12, 2009.

We have prepared the following comments to assist you in fulfilling your obligation to oversee the financial reporting and disclosure process for which management of the Authority is responsible.

## **OUR RESPONSIBILITY UNDER GENERALLY ACCEPTED AUDITING STANDARDS AND GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS**

Our responsibility under 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, have been described in our engagement letter dated September 30, 2008. As described in that letter, the objective of a financial statement audit conducted in accordance with the aforementioned standards is:

- To express an opinion on the fairness of the presentation of the Authority's special-purpose financial statements and to disclaim an opinion on the required supplementary information for the year ended September 30, 2008 on the basis of accounting described in Notes 1 and 3 to the special-purpose financial statements; and
- To report on the Authority's internal control over financial reporting and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the year ended September 30, 2008 based on an audit of special-purpose financial statements performed in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*.

Our responsibilities under generally accepted auditing standards include forming and expressing an opinion about whether the special-purpose financial statements that have been prepared with the oversight of management and the the Board of Directors are presented fairly, in all material respects, in conformity with generally accepted accounting principles. The audit of the special-purpose financial statements does not relieve management or the Board of Directors of their responsibilities.

We considered the Authority's 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 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 would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

## **ACCOUNTING ESTIMATES**

Accounting estimates are an integral part of the special-purpose financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and on assumptions about future events. Significant accounting estimates reflected in the Authority's 2008 special-purpose financial statements include management's estimate of the allowance for uncollectible accounts, which is determined based upon past collection experience and aging of the accounts, and management's estimate of depreciation expense, which is based on estimated useful lives of the respective capital assets. During the year ended September 30, 2008, we are not aware of any significant changes in accounting estimates or in management's judgments relating to such estimates.

## **AUDIT ADJUSTMENTS AND UNCORRECTED MISSTATEMENTS**

As the result of our audit work, we identified matters that resulted in audit adjustments that we believe, either individually or in the aggregate, would have a significant effect on the Authority's financial reporting process. Such proposed adjustments, listed in Appendix I, have been recorded in the accounting records and are reflected in the 2008 special-purpose financial statements. Those proposed adjustments that were not recorded by management are also included in the schedule described in the next paragraph.

In addition, we have attached to this letter, as Appendix II, a summary of uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in the aggregate, to the special-purpose financial statements taken as a whole.

## **SIGNIFICANT ACCOUNTING POLICIES**

The Authority's significant accounting policies are set forth in Note 1 to the Authority's 2008 special-purpose financial statements. During the year ended September 30, 2008, there were no significant changes in previously adopted accounting policies or their application, except for the following pronouncements adopted by the Authority:

- Governmental Accounting Standards Board (GASB) 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.
- GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfer of Assets and Future Revenues*, which 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.
- GASB Statement No. 50, *Pension Disclosures an amendment of GASB Statements No. 25 and 27*, which more closely aligns the financial reporting requirements for pensions with those for other post-employment benefits.

The implementation of these pronouncements did not have a material effect on the special-purpose financial statements of the Authority.

## **OTHER INFORMATION IN THE ANNUAL REPORTS**

When audited special-purpose financial statements are included in documents containing other information such as the Authority's 2008 Annual Report, we will read such other information and consider whether it, or the manner of its presentation, is materially inconsistent with the information, or the manner of its presentation, in the special-purpose financial statements audited by us. We will read the other information in the Authority's 2008 Annual Report and will inquire as to the methods of measurement and presentation of such information. If we note a material inconsistency or if we obtain any knowledge of a material misstatement of fact in the other information, we will discuss this matter with management and, if appropriate, with the Board.

## **DISAGREEMENTS WITH MANAGEMENT**

We have not had any disagreements with management related to matters that are material to the Authority's 2008 special-purpose financial statements.

## **CONSULTATION WITH OTHER ACCOUNTANTS**

We are not aware of any consultations that management may have had with other accountants about auditing and accounting matters during 2008.

## **MANAGEMENT'S REPRESENTATIONS**

We have made specific inquiries of the Authority's management about the representations embodied in the special-purpose financial statements. Additionally, we have requested that management provide to us the written representations the Authority is required to provide to its independent auditors under generally accepted auditing standards. We have attached to this letter, as Appendix III, a copy of the representation letter we obtained from management.

## **MAJOR ISSUES DISCUSSED WITH MANAGEMENT PRIOR TO OUR INITIAL ENGAGEMENT OR RETENTION**

Throughout the year, routine discussions were held or were the subject of correspondence with management regarding the application of accounting principles or auditing standards in connection with transactions that have occurred, transactions that are contemplated, or reassessment of current circumstances. In our judgment, such discussions or correspondence were not held in connection with our retention as auditors.

## **SIGNIFICANT DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT**

In our judgment, we received the full cooperation of the Authority's management and staff and had unrestricted access to the Authority's senior management in the performance of our audit.

## **CONTROL-RELATED MATTERS**

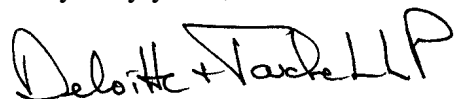
We have issued a separate report to you, also dated May 12, 2009, wherein no matters involving the Authority's internal control over financial reporting that were considered to be significant deficiencies and material weaknesses under standards established by the American Institute of Certified Public Accountants, and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters were reported.

\* \* \* \* \*

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

We wish to thank the staff and management of the Authority for their cooperation and assistance during the course of this engagement.

Very truly yours,

A handwritten signature in black ink that reads "Deloitte + Touche LLP". The signature is written in a cursive, slightly stylized font. The "D" is large and loops around the "eloitte". The "+" sign is small and positioned between "eloitte" and "Touche". "Touche" is written in a similar cursive style, and "LLP" is written in a simpler, more upright font at the end.

Pohnpei State Housing Authority  
09/30/08

Audit Adjustments

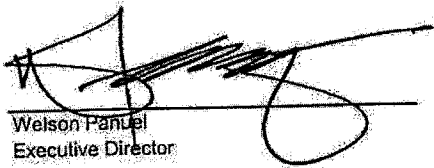
		Debit	Credit
	<b>1 AJE Bad Debt - 5313 (Posted)</b>		
	Allowance for Bad Debts - Advances	-	4,966.69
170.1			
502.1	BAD DEBT	4,966.69	-
		<u>4,966.69</u>	<u>4,966.69</u>
	<b>2 CAJE Negative Loan Receivable - 5315 (Posted)</b>		
150	LOANS RECEIVABLE	12,062.83	-
205	Other Payable	-	12,062.83
		<u>12,062.83</u>	<u>12,062.83</u>

  
Welson Panuel  
Executive Director

APPENDIX A

	TM or WP REF	Assets	Liabilities	Retained Earnings Beg of Year	Other Equity A/Cs	Income Statement
		Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)
<b>Current Year Known Misstatements</b>						
PAJE<1>	<5315>					14,053
Dr. Bad debt		(14,053)				
Cr. Allowance for doubtful account						
Dr. Interest income	<5314>					937
Cr. Loan receivable		(937)				
<b>Total Known Misstatements</b>		(14,990)	0		0	14,990

The above uncorrected misstatements do not represent fraud or illegal acts.



Wilson Panuel  
Executive Director



**POHNPEI STATE GOVERNMENT  
HOUSING AUTHORITY**

P.O. Box 1109  
Kolonias, Pohnpei, FSM 96941  
Phone: (691) 320-2582/2096 Fax: (691) 320-2304

May 12, 2009

Deloitte & Touche  
P.O. Box 753  
Kolonias, Pohnpei 96941

We are providing this letter in connection with your audits of the special-purpose financial statements of Pohnpei State Housing Authority (the Authority) as of September 30, 2008 and 2007, and for the years then ended, for the purpose of expressing an opinion as to whether the special-purpose financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows of the Authority which, except for the recognition of interest income on a cash basis, are presented conformity with accounting principles generally accepted in the United States of America (GAAP). We confirm that we are responsible for the following:

- a. The special-purpose financial statements, which 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, were prepared in accordance with GAAP except for the recognition of interest income on the cash basis.
- b. The fair presentation in the special-purpose financial statements of the Authority's net assets, related statements of revenues, expenses and changes in net assets, and cash flows in conformity with accounting principles generally accepted in the United States of America except for the recognition of interest income on the cash basis.
- c. The fair presentation of the information included in the Management's Discussion and Analysis accompanying the special-purpose financial statements.
- d. The design and implementation of programs and controls to prevent and detect fraud.
- e. Establishing and maintaining effective internal control over financial reporting
- f. Compliance with local and federal laws, rules and regulations, including compliance with the requirements of OMB Circular A-133, and provisions of grants and contracts relating to the Authority's operations. We are responsible for establishing and maintaining the components of internal control relating to our activities in order to achieve the objectives of providing reliable financial reports, effective and efficient operations, and compliance with laws and regulations
- g. Maintaining accounting and administrative control over revenues, obligations, expenditures, assets, and liabilities.
- h. The review and approval of the special-purpose financial statements and related notes and acknowledge your role in the preparation of this information. Specifically, we acknowledge that your role in the preparation of the special-purpose financial statements was a matter of convenience rather than one of necessity. We have reviewed the financial statement preparation assistance provided by you and acknowledge that the financial statements are prepared in accordance with GAAP except for the recognition of interest income on the cash basis. Our review was based on the use of the financial statement disclosure checklist for a stand-alone business-type activities obtained from the Government Finance Officers Association.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audits.

1. The special-purpose financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America except for the recognition of interest income on the cash basis. In addition:
  - a. Net asset components (invested in capital assets net of related debt, restricted and unrestricted) are properly classified and approved.
  - b. Revenues and expenses are appropriately classified in the statements of revenues, expenses and changes in net assets within operating and non-operating revenues and expenses
  - c. Deposits are properly classified in category of custodial credit risk
  - d. Capital assets are properly capitalized, reported and depreciated
  - e. Required supplementary information is measured and presented within prescribed guidelines
  - f. Costs to federal awards have been charged in accordance with applicable cost principles.
  
2. The Authority has made available to you all:
  - a. Financial records and related data for all financial transactions of the Authority and for all funds administered by the Authority. The records, books, and accounts, as provided to you, record the financial and fiscal operations of all funds administered by the Authority and provide the audit trail to be used in a review of accountability. Information presented in financial reports is supported by the books and records from which the special-purpose financial statements have been prepared.
  - b. Contracts and grant agreements (including amendments, if any) and any other correspondence that has taken place with federal agencies.
  - c. Resolutions and minutes of meetings of the Board of Directors pertinent to the operations of the Authority or summaries of actions of recent meetings for which minutes have not yet been prepared. Board meetings were held on the following dates:
 

May 28, 2008	April 16, 2008	September 5, 2008
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3. There have been no:
  - a. Action taken by the Authority's management that contravenes the provisions of federal laws and state laws and regulations or of contracts and grants applicable to the Authority and for all funds administered by the Authority.
  - b. Communication from other regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices or other matters that could have a material effect on the special-purpose financial statements.



4. We believe the effects of any uncorrected special-purpose financial statement misstatements aggregated by you during the current audit engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the special-purpose financial statements taken as a whole. A summary of such uncorrected misstatements has been attached as Appendix A.
5. The Authority has not performed a risk assessment, including the assessment of the risk that the special-purpose financial statements may be materially misstated as a result of fraud. However, management has made available to you their understanding about the risks of fraud in the Authority and do not believe that the special-purpose financial statements are materially misstated as a result of fraud.
6. We have no knowledge of any fraud or suspected fraud affecting the Authority involving (a) management, (b) employees who have significant roles in internal control over financial reporting, or (c) others if the fraud could have a material effect on the special-purpose financial statements.
7. We have no knowledge of any allegations of fraud or suspected fraud affecting the Authority received in communications from employees, former employees, analysts, regulators, or others.
8. There are no unasserted claims or assessments that legal counsel has advised us are probable of assertion and must be disclosed in accordance with Financial Accounting Standards Board ("FASB") Statement No. 5, *Accounting for Contingencies*.
9. We are responsible for compliance with local, state and federal laws, rules and regulations, and provisions of grants and contracts relating to the Authority's operations. We are responsible for establishing and maintaining the components of internal control relating to our activities in order to achieve the objectives of providing reliable financial reports, effective and efficient operations, and compliance with laws and regulations. The Authority is responsible for maintaining accounting and administrative control over revenues, obligations, expenditures, assets, and liabilities.
10. Management has identified and disclosed to you all laws and regulations that have a direct and material effect on the determination of special-purpose financial statement amounts.

Except where otherwise stated below, matters less than \$3,500 collectively are not considered to be exceptions that require disclosure for the purpose of the following representations. This amount is not necessarily indicative of amounts that would require adjustment to or disclosure in the special-purpose financial statements.

11. Except as listed in Appendix A, there are no transactions that have been improperly recorded in the accounting records underlying the special-purpose financial statements.
12. The Authority has no plans or intentions that may affect the carrying value or classification of assets and liabilities.
13. The following, to the extent applicable, have been appropriately identified and properly recorded and disclosed in the special-purpose financial statements:
  - a. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances and line-of-credit or similar arrangements.
  - b. Related-party transactions and associated amounts receivable or payable, including sales, purchases, loans, transfers, leasing arrangements, and guarantees (written or oral).

14. In preparing the special-purpose financial statements, management uses estimates. All estimates have been disclosed in the special-purpose financial statements for which known information available prior to the issuance of the special-purpose financial statements indicates that both of the following criteria are met:
- a. It is at least reasonably possible that the estimate of the effect on the special-purpose financial statements of a condition, situation, or set of circumstances that existed at the date of the financial statements will change in the near term due to one or more future confirming events.
  - b. The effect of the change would be material to the special-purpose financial statements.

We are not aware of any estimates at September 30, 2008 that may change and that the effect of the change would be material to the special-purpose financial statements.

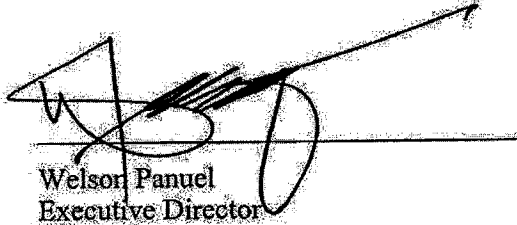
15. There are no:

- a. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
- b. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB Statement No. 5, *Accounting for Contingencies*.

16. The Authority has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged.
17. The Authority has complied with all aspects of contractual agreements that would have an effect on the special-purpose financial statements in the event of noncompliance.
18. No events have occurred subsequent to September 30, 2008 that requires consideration as adjustments to or disclosures in the special-purpose financial statements.
19. No department or agency of the Authority has reported a material instance of noncompliance to us.
20. There have been no actions taken by management, which contravene the provisions of Federal and Local laws or regulations or of contracts applicable to the Authority.
21. Provisions have been made to reduce accounts receivable to their estimated net realizable value.
22. The Authority is responsible for determining and maintaining the adequacy of the allowance for doubtful accounts receivable, as well as estimates used to determine such amounts. Management believes the allowances are adequate to absorb currently estimated bad debts in the account balances.
23. We have identified to you all awards provided by federal agencies in the form of grants, contracts, loans, loan guarantees, property, cooperative agreements, interest subsidies, insurance, or direct appropriations.
24. The Authority has obligated, expended, received, and used public funds of the Authority in accordance with the purpose for which such funds have been appropriated or otherwise authorized by federal law. Such obligation, expenditure, receipt, or use of public funds was in accordance with any limitations, conditions, or mandatory directions imposed by federal law.

25. Money or similar assets handled by the Authority on behalf of the Federal Government have been properly and legally administered and the accounting and recordkeeping related thereto is proper, accurate, and in accordance with law.
26. No evidence of fraud or dishonesty in fiscal operations of programs administered by the Authority has been discovered.
27. In June 2004, GASB issued Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. GASB Statement 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 financial statements of the Authority.
28. 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 financial statements of the Authority.
29. 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 financial statements of the Authority.
30. 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 financial statements of the Authority.
31. 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 financial statements of the Authority.

32. 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 financial statements.

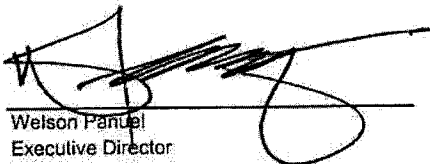


Wilson Panuel  
Executive Director

APPENDIX A

	TM or WP REF	Assets	Liabilities	Retained Earnings Beg of Year	Other Equity A/Cs	Income Statement
		Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)
<b>Current Year Known Misstatements</b>						
PAJE<1>	<5315>					
Dr. Bad debt						14,053
Cr. Allowance for doubtful account		(14,053)				
Dr. Interest income	<5314>					937
Cr. Loan receivable		(937)				
<b>Total Known Misstatements</b>		(14,990)	0		0	14,990

The above uncorrected misstatements do not represent fraud or illegal acts.



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Executive Director