

January 6, 2010

The Board of Directors
Pohnpei State Housing Authority

Dear Members of the Board:

We have performed an audit of the financial statements of the Pohnpei State Housing Authority (the Authority), a component unit of the Pohnpei State Government, as of and for the year ended September 30, 2009, in accordance with auditing standards generally accepted in the United States of America and have issued our report thereon dated January 6, 2010.

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 August 17, 2009. 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 financial statements and to disclaim an opinion on the required supplementary information for the year ended September 30, 2009; 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, 2009 based on an audit of 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 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 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.

MANAGEMENT JUDGMENTS AND ACCOUNTING ESTIMATES

Accounting estimates are an integral part of the 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 2009 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, 2009, 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 2009 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 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 2009 special-purpose financial statements. During the year ended September 30, 2009, there were no significant changes in previously adopted accounting policies or their application, except for the following pronouncements adopted by the Authority:

- GASB 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 postemployment benefits expense/expenditures and related liabilities, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers.
- GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, which provides guidance and consistency under which a governmental entity would be required to report a liability related to pollution remediation.
- GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, which 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.
- GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which improves financial reporting by contributing to the GASB's efforts to codify all GAAP for state and local governments so that they derive from a single source.
- GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*, which incorporates accounting and financial reporting guidance previously only contained in the American Institute of Certified Public Accountants (AICPA) auditing literature into the GASB's accounting and financial reporting literature for state and local governments, and addresses three issues from the AICPA's literature - related party transactions, going concern considerations, and subsequent events.

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

For the year ended September 30, 2010, the following pronouncements will be adopted by the Authority:

- In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which addresses whether and when intangible assets should be considered capital assets for financial reporting purposes.
- In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which 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.
- In December 2008, GASB issued Technical Bulletin No. 2008-1, *Determining the Annual Required Contribution Adjustment for Postemployment Benefits*, which clarifies the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for calculating the annual required contribution (ARC) adjustment.

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

For the year ended September 30, 2011, the following pronouncements will be adopted by the Authority:

- In March 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions.

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

OTHER INFORMATION IN THE ANNUAL REPORTS

When audited financial statements are included in documents containing other information such as the Authority's 2009 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 financial statements audited by us. We will read the other information in the Authority's 2009 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 2009 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 2009.

MANAGEMENT'S REPRESENTATIONS

We have made specific inquiries of the Authority's management about the representations embodied in the 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

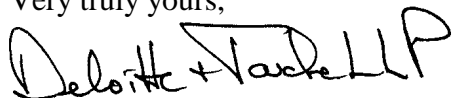
We have issued a separate report to you, also dated January 6, 2010, wherein we reported matters involving the Authority's internal control over financial reporting that were considered to be significant deficiencies and material weaknesses under standards established by the American Institute of Certified 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 entity 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,

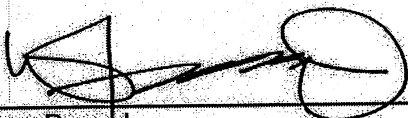
A handwritten signature in black ink that reads "Deloitte + Tatchell LLP". The signature is written in a cursive, stylized font.

APPENDIX I

Audit Adjustments

	Debit	Credit
No.1 Accrual of Payroll (client adjustment)		
Due from PSG	-	1,055.38
TRANSFERS IN	-	1,055.38
SALARIES & WAGES	1,055.38	-
OTHER INCOME: unused budget	1,055.38	-
	<u>2,110.76</u>	<u>2,110.76</u>
No.2 FY2007 Unused Budget (client adjustment)		
Due from PSG	791.03	-
OTHER INCOME: unused budget	-	791.03
	<u>791.03</u>	<u>791.03</u>
No.3 Decrease allowance for doubtful accounts PSHA and HPG loans		
Allowance for bad debts	1,536,136.00	-
Other Income: Recovery of Bad Debt - Loans	-	1,536,136.00
	<u>1,536,136.00</u>	<u>1,536,136.00</u>
No.4 Reserve allowance for doubtful accounts USDA Rural Development loans		
PROVISION FOR LOAN LOSSES	483,000.00	-
Allowance for Bad debts - USDA Rural	-	483,000.00
	<u>483,000.00</u>	<u>483,000.00</u>

The above adjustments are not due to fraud or illegal acts. In connection with the audit adjustments listed above, we have reviewed and approved them, on the basis of information we have provided to you.


 Wilson Panuel
 Executive Director

2/12/10
 Date

APPENDIX II

Uncorrected Misstatements

	Assets	Liabilities	Retained Earnings Beg of Year	Other Equity A/Cs	Income Statement
	Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)
PAJE <1> (Dr) Interest receivable (Cr) Interest income To reconcile interest income to portfolio.	5,840				(5,840)
PAJE <2> (Dr) Other expense (Cr) Due to PSG		(1,978)			1,978

The above adjustments are not due to fraud or illegal acts. In connection with the audit adjustments listed above, we have reviewed and approved them, on the basis of information we have provided to you.



Wilson Panhuel
Executive Director

2/12/10
Date



**POHNPEI STATE GOVERNMENT
HOUSING AUTHORITY**

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

APPENDIX III

January 6, 2010

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

Gentlemen:

We are providing this letter in connection with your audits of the statements of net assets of the Pohnpei State Housing Authority (the Authority), a component unit of the State of Pohnpei, as of September 30, 2009 and 2008 and the related statements of revenues, expenses and changes in net assets and of cash flows for the years then ended, which collectively comprise the Authority's basic financial statements for the purpose of expressing an opinion as to whether the basic financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of the Authority in conformity with accounting principles generally accepted in the United States of America (GAAP). We confirm that we are responsible for the following:

- a. The fair presentation in the basic financial statements of financial position, results of operations and change in net assets, and cash flows in conformity with GAAP.
- b. The fair presentation of the required supplementary information, including Management's Discussion and Analysis, accompanying the basic financial statements.
- c. The design and implementation of programs and controls to prevent and detect fraud, including fraud related to federal awards
- d. Establishing and maintaining effective internal control over financial reporting.
- e. The review and approval of the 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 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. Our review was based on the use of the financial statement disclosure checklist for 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.

APPENDIX III, CONTINUED

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

1. The basic financial statements referred to above are fairly presented in conformity with GAAP. In addition:
 - a. The financial statements properly classify all funds and activities, including special and extraordinary items.
 - b. Net asset components (invested in capital assets, and unrestricted) are properly classified and, if applicable, approved.
 - c. Expenses have been appropriately classified in or allocated to functions in the statement of revenues, expenses and changes in net assets, and allocations have been made on a reasonable basis.
 - d. Revenues are appropriately classified in the statement of revenues, expenses and changes in net assets within operating revenues, or capital contributions.
 - e. Deposits are properly classified in category of custodial credit risk.
 - f. Capital assets are properly capitalized, reported, and depreciated.
 - g. Required supplementary information is measured and presented within prescribed guidelines.
 - h. Costs to federal awards have been charged in accordance with applicable cost principles.
2. The Authority has made available to you all:
 - a. Summaries of actions of the board of directors of the Authority. The dates of minutes of meetings held from October 1, 2008 through the date of this letter are April 17, 2009 and August 13, 2009.
 - b. 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 and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared.
 - c. Contracts and grant agreements (including amendments, if any) and any other correspondence that has taken place with federal agencies.
3. There has been no:
 - a. Action taken by Authority management that contravenes the provisions of federal laws and Pohnpei laws and regulations or of contracts and grants applicable to the Authority.

APPENDIX III, CONTINUED

- b. Communication from other regulatory agencies concerning noncompliance with laws and regulations or deficiencies in financial reporting practices or other matters that could have a material effect on the financial statements.
- 4. We believe the effects of any uncorrected 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 financial statements taken as a whole. A summary of such uncorrected misstatements has been attached as Appendix A.
- 5. 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 financial statements.
- 6. The Authority has not performed a formal risk assessment, including the assessment of the risk that the financial statements may be materially misstated as a result of fraud. However, management has made available to you its understanding about the risks of fraud in the Authority and do not believe that the financial statements are materially misstated as a result of fraud.
- 7. We have no knowledge of any allegations of fraud or suspected fraud affecting the Authority received in communications from employees, former employees, 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*, except as disclosed in note 5 to the financial statements.
- 9. Management has identified and disclosed to you all laws and regulations that have a direct and material effect on the determination of financial statement amounts.
- 10. We have included in the financial statements all assets and liabilities under the Authority's control.

Except where otherwise stated below, matters less than \$20,000 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 financial statements.

- 11. Except as listed in Appendix A, there are no transactions that have not been properly recorded in the accounting records underlying the 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, properly recorded, and disclosed in the financial statements:
 - a. Guarantees, whether written or oral, under which the Authority is contingently liable.

APPENDIX III, CONTINUED

- b. Related party transactions and associated amounts receivable or payable, including sales, purchases, loans, transfers, leasing arrangements, and guarantees (written or oral).
14. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates. All estimates have been disclosed in the financial statements for which known information available prior to the issuance of the 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 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 financial statements.
15. In the ordinary course of business, the Authority enters into transactions with the State of Pohnpei and private businesses in which certain Authority Board members hold positions. We are of the opinion that the transactions with these related parties are executed under the same terms and conditions as transactions with unrelated parties.
16. The Authority is responsible for determining and maintaining the adequacy of the allowance for 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.
17. We represent to you that, subsequent to September 30, 2009, there were no changes in internal control or other factors that might significantly affect internal control, including any corrective action taken by management with regard to significant deficiencies (including material weaknesses).
18. 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*.
19. 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 as collateral.
20. The Authority has complied with all aspects of contractual agreements that would have an effect on the financial statements in the event of noncompliance.
21. No events have occurred subsequent to September 30, 2009, that requires consideration as adjustments to or disclosures in the schedule of federal awards and related notes.
22. During fiscal year 2009, the Authority implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than*

Pensions. GASB Statement No. 45 establishes standards for the measurement, recognition, and display of other postemployment benefits expense/expenditures and related liabilities, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. Management does not believe that the implementation of this Statement had a material effect on the financial statements of the Authority.


23. During fiscal year 2009, the Authority implemented GASB 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. Management does not believe that the implementation of this Statement had a material effect on the financial statements of the Authority.
24. During fiscal year 2009, the Authority implemented GASB 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. Management does not believe that the implementation of this statement had a material effect on the financial statements of the Authority.
25. 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.
26. 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.
27. In December 2008, GASB issued Technical Bulletin No. 2008-1, *Determining the Annual Required Contribution Adjustment for Postemployment Benefits*, which clarifies the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for calculating the annual required contribution (ARC) adjustment. The provisions of this statement are effective for periods beginning after December 15, 2008. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Authority.
28. In March 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The provisions of this statement are effective for periods beginning after June 15, 2010.

APPENDIX III, CONTINUED

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

29. The Authority carries insurance to cover its potential risks from fire on its building and the contents and full coverage on property damage. 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.

Very truly yours,



Wilson Panuel, Executive Director

2/12/10

Date

APPENDIX I

Audit Adjustments

	Debit	Credit
No.1 Accrual of Payroll (client adjustment)		
Due from PSG	-	1,055.38
TRANSFERS IN	-	1,055.38
SALARIES & WAGES	1,055.38	-
OTHER INCOME: unused budget	1,055.38	-
	<u>2,110.76</u>	<u>2,110.76</u>
No.2 FY2007 Unused Budget (client adjustment)		
Due from PSG	791.03	-
OTHER INCOME: unused budget	-	791.03
	<u>791.03</u>	<u>791.03</u>
No.3 Decrease allowance for doubtful accounts PSHA and HPG loans		
Allowance for bad debts	1,536,136.00	-
Other Income: Recovery of Bad Debt - Loans	-	1,536,136.00
	<u>1,536,136.00</u>	<u>1,536,136.00</u>
No.4 Reserve allowance for doubtful accounts USDA Rural Development loans		
PROVISION FOR LOAN LOSSES	483,000.00	-
Allowance for Bad debts - USDA Rural	-	483,000.00
	<u>483,000.00</u>	<u>483,000.00</u>

The above adjustments are not due to fraud or illegal acts. In connection with the audit adjustments listed above, we have reviewed and approved them, on the basis of information we have provided to you.



Wilson Panuel
Executive Director

2/12/10
Date


APPENDIX III, CONTINUED

APPENDIX II

Uncorrected Misstatements

	Assets	Liabilities	Retained Earnings Beg of Year	Other Equity A/Cs	Income Statement
	Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)
PAJE <1> (Dr) Interest receivable (Cr) Interest income To reconcile interest income to portfolio.	5,840				(5,840)
PAJE <2> (Dr) Other expense (Cr) Due to PSG		(1,978)			1,978

The above adjustments are not due to fraud or illegal acts. In connection with the audit adjustments listed above, we have reviewed and approved them, on the basis of information we have provided to you.



 Wilson Panpuel
 Executive Director

2/12/10

 Date