

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

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**FINANCIAL STATEMENTS  
AND INDEPENDENT AUDITORS' REPORT**

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**YEARS ENDED SEPTEMBER 30, 2010 AND 2009**

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

Table of Contents  
Years Ended September 30, 2010 and 2009

	<u>Page No.</u>
I. FINANCIAL STATEMENTS	
Independent Auditors' Report	1
Management's Discussion and Analysis	3
Statements of Net Assets	7
Statements of Revenues, Expenses, and Changes in Net Assets	8
Statements of Cash Flows	9
Notes to Financial Statements	10
II. INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS	
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	17
Unresolved Prior Year Findings	19

## **INDEPENDENT AUDITORS' REPORT**

Board of Directors  
Pohnpei State Housing Authority:

We have audited the accompanying statements of net assets of the Pohnpei State Housing Authority (the Authority), a component unit of the State of Pohnpei, as of September 30, 2010 and 2009 and the related statements of revenues, expenses and changes in net assets and of cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

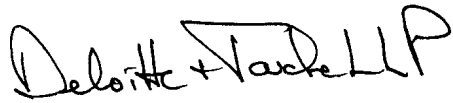
We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan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

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Pohnpei State Housing Authority as of September 30, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with the accounting principles generally accepted in the United States of America.

As discussed in Note 5 to the financial statements, certain loan obligations are not recorded by the Authority.

The Management's Discussion and Analysis on pages 3 through 6 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 9, 2011, 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 + Tatchell LLP". The signature is written in a cursive, flowing style.

May 9, 2011

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

Management's Discussion and Analysis  
September 30, 2010 and 2009

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, 2010 and 2009. Please read it in conjunction with the Authority's financial statements, which follows this section.

**Financial Highlights**

- For fiscal year ended September 30, 2010, the Authority's total operating revenues increased by \$72,925 or 42% from prior year.
- During the year, the Authority's total expenses increased by \$16,235 or 13% from prior year.
- For fiscal year 2010, the Authority collected an aggregate amount of \$213,868 representing the actual interest and fees paid by customers on loans.
- In fiscal year 2010, there was an increase in subsidy from the primary government in the amount of \$15,156 from prior year.

**Overview of the Financial Statements**

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

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

**Financial Analysis**

**Net Assets**

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

The following table summarizes the changes in net assets for FY2010, FY2009 and FY2008.

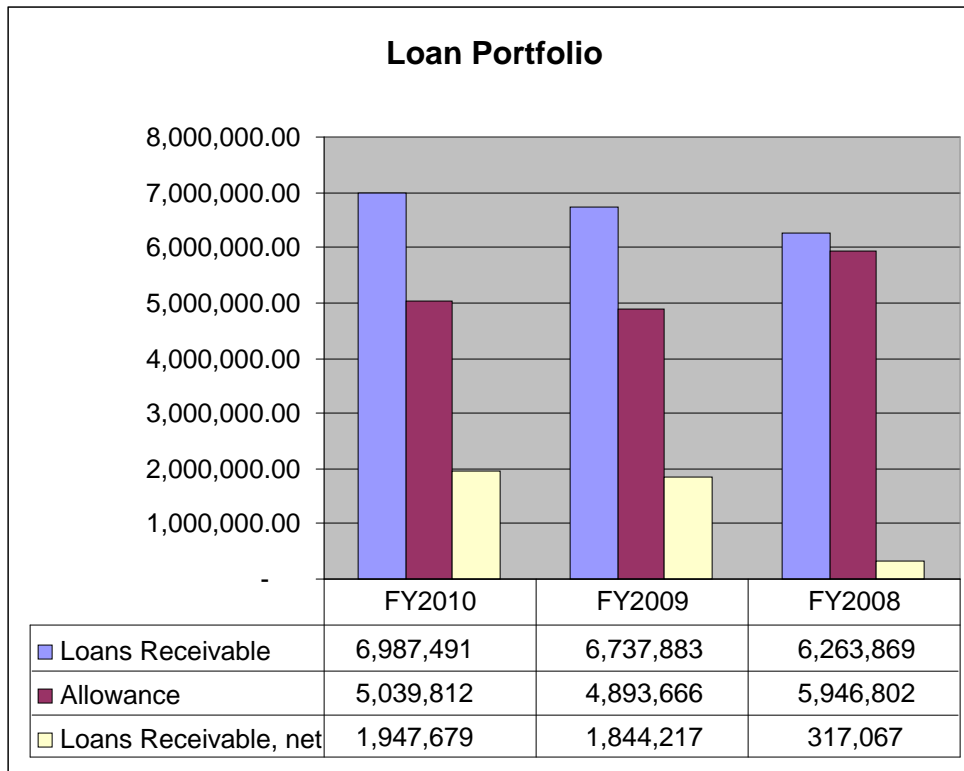
	<u>2010</u>	<u>2009</u>	<u>2008</u>
Current assets	\$ 2,200,532	\$ 2,148,453	\$ 366,867
Capital assets, net	<u>60,837</u>	<u>9,203</u>	<u>10,381</u>
Total assets	\$ <u>2,261,369</u>	\$ <u>2,157,656</u>	\$ <u>377,248</u>
Liabilities	\$ <u>543,307</u>	\$ <u>593,309</u>	\$ <u>31,481</u>
Net Assets:			
Invested in capital assets	60,837	9,203	10,381
Restricted	<u>1,657,225</u>	<u>1,555,144</u>	<u>335,386</u>
Total net assets	<u>1,718,062</u>	<u>1,564,347</u>	<u>345,767</u>
Total liabilities and net assets	\$ <u>2,261,369</u>	\$ <u>2,157,656</u>	\$ <u>377,248</u>

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

Management's Discussion and Analysis  
September 30, 2010 and 2009

Total net assets increased by \$153,715 or 10% during fiscal year 2010 compared from prior year. Current assets increased by \$52,079 or 2% and capital assets increased by \$51,634 or 561% while total liabilities decreased by \$50,002 or 8% as compared from prior year. For additional information on capital assets, please refer to Note 4 to the financial statements.

Following is a graphical presentation showing the 3-year trend loan portfolio of 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.

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

Management's Discussion and Analysis  
September 30, 2010 and 2009

For the year ended September 30, 2010, net assets of the Authority changed as follows with comparison from prior years:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Operating Revenues:			
Interest and fees on loans	\$ 213,868	\$ 169,675	\$ 160,382
Other	<u>33,411</u>	<u>4,679</u>	<u>18,013</u>
	<u>247,279</u>	<u>174,354</u>	<u>178,395</u>
(Provision for) recovery of loan losses	<u>(83,575)</u>	<u>1,053,136</u>	<u>-</u>
Operating Expenses:			
Salaries	91,756	93,876	96,395
Contractual services	14,921	2,060	39,324
Miscellaneous and others	12,709	10,676	7,687
Depreciation	5,248	4,385	5,467
Communication	5,150	3,960	2,248
Utilities	4,950	4,950	5,799
Supplies and materials	3,908	2,092	2,884
Transportation and travel	2,192	-	2,308
Bad debts	-	490	5,043
Repairs and maintenance	<u>-</u>	<u>2,110</u>	<u>2,557</u>
Total operating expenses	<u>140,834</u>	<u>124,599</u>	<u>169,712</u>
Operating income	22,870	1,102,891	8,683
Non-operating revenues:			
Operating subsidy from PSG	<u>130,845</u>	<u>115,689</u>	<u>97,344</u>
Change in net assets	\$ <u>153,715</u>	\$ <u>1,218,580</u>	\$ <u>106,027</u>

The result of the Authority's operation for the year ended September 30, 2010 increased net assets in the amount of \$153,715.

Management's Discussion and Analysis for the year ended September 30, 2009, is set forth in the Authority's report on the audit of financial statements, which is dated January 6, 2010. That Discussion and Analysis explains the major factors impacting the 2009 financial statements and can be viewed at the FSM Office of the National Public Auditors' website at [www.fsmpublicauditor.fm](http://www.fsmpublicauditor.fm).

**Economic Outlook**

The going forward plan of the Authority is to first go after collection at a more aggressive level to reduce loans receivable to an acceptable level before seeking outside funding assistance like a soft loan from banks, domestic or offshore, or seeking such assistance from state or national governments by way of stimulus package. The Authority could not start with a funding request without a concerted effort on collection and, with an improvement in the financial statements, such will be looked at should funding assistance is pursued. This is going to be a process and will take some time to be there at plans. The Authority is also in the process of lending to best customers with shortest loan term and increase of loan fees as well.

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

Management's Discussion and Analysis  
September 30, 2010 and 2009

**Others**

This is the first year that the Authority used a new data base to properly record and maintain the individual loan ledgers of its customers. It is anticipated that the recording and facilitation of reports on loan will be much improved and properly maintained in the succeeding years.

**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 the Authority'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**  
**(A COMPONENT UNIT OF THE STATE OF POHNPEI)**

Statements of Net Assets  
September 30, 2010 and 2009

<u>ASSETS</u>	<u>2010</u>	<u>2009</u>
Cash	\$ 204,667	\$ 255,001
Employee advances, net of an allowance for doubtful accounts of \$149,300 in 2010 and \$217,819 in 2009	-	-
Due from primary government	37,806	36,032
Loans receivable, net	1,947,679	1,844,217
Interest receivable	10,337	13,160
Prepays	43	43
Property and equipment, net	<u>60,837</u>	<u>9,203</u>
	<u>\$ 2,261,369</u>	<u>\$ 2,157,656</u>
 <u>LIABILITIES AND NET ASSETS</u>  		
Liabilities:		
Accrued liabilities	\$ 10,976	\$ 13,576
Due to primary government	<u>532,331</u>	<u>579,733</u>
Total liabilities	<u>543,307</u>	<u>593,309</u>
Commitments and contingencies		
Net assets:		
Invested in capital assets	60,837	9,203
Restricted	<u>1,657,225</u>	<u>1,555,144</u>
Total net assets	<u>1,718,062</u>	<u>1,564,347</u>
	<u>\$ 2,261,369</u>	<u>\$ 2,157,656</u>

See accompanying notes to financial statements.

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

Statements of Revenues, Expenses and Changes in Net Assets  
Years Ended September 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Operating revenues:		
Interest and fees on loans	\$ 213,868	\$ 169,675
Other	<u>33,411</u>	<u>4,679</u>
Total operating revenues	<u>247,279</u>	<u>174,354</u>
(Provision for) recovery of loan losses	<u>(83,575)</u>	<u>1,053,136</u>
Operating expenses:		
Salaries	91,756	93,876
Contractual services	14,921	2,060
Depreciation	5,248	4,385
Communication	5,150	3,960
Utilities	4,950	4,950
Supplies and materials	3,908	2,092
Transportation and travel	2,192	-
Repairs and maintenance	-	2,110
Bad debts	-	490
Miscellaneous and others	<u>12,709</u>	<u>10,676</u>
Total operating expenses	<u>140,834</u>	<u>124,599</u>
Operating income	<u>22,870</u>	<u>1,102,891</u>
Nonoperating revenues:		
Operating subsidy from primary government	<u>130,845</u>	<u>115,689</u>
Change in net assets	153,715	1,218,580
Net assets at beginning of year	<u>1,564,347</u>	<u>345,767</u>
Net assets at end of year	<u>\$ 1,718,062</u>	<u>\$ 1,564,347</u>

See accompanying notes to financial statements.

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

Statements of Cash Flow  
Years Ended September 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Cash received from customers	\$ 250,102	\$ 161,194
Cash paid to suppliers for goods and services	(46,430)	(41,899)
Cash paid to employees	(91,756)	(96,192)
Net cash provided by operating activities	<u>111,916</u>	<u>23,103</u>
Cash flows from noncapital financing activities:		
Operating subsidy received from primary government	129,071	97,385
Repayment to primary government	(47,402)	(1,978)
Net cash provided by noncapital financing activities	<u>81,669</u>	<u>95,407</u>
Cash flows from capital and related activities:		
Acquisition of fixed assets	(56,882)	(3,207)
Cash flows from investing activities:		
Loan originations and principal collections, net	(187,037)	107,697
Net change in cash	(50,334)	223,000
Cash at beginning of year	<u>255,001</u>	<u>32,001</u>
Cash at end of year	<u>\$ 204,667</u>	<u>\$ 255,001</u>
Cash flows from operating activities:		
Operating income	\$ 22,870	\$ 1,102,891
Adjustments to reconcile operating income to net cash provided by operating activities:		
Provision for (recovery of) loan losses	83,575	(1,053,136)
Depreciation	5,248	4,385
Bad debts	-	490
Decrease (increase) in assets:		
Interest receivable	2,823	(13,160)
Employee advances	-	(490)
Prepays	-	28
Decrease in liabilities:		
Accrued liabilities	(2,600)	(313)
Due to primary government	-	(17,592)
Net cash provided by operating activities	<u>\$ 111,916</u>	<u>\$ 23,103</u>

Summary schedule of non-cash activities:

During the year ended September 30, 2009, the Authority recorded \$581,711 of loans granted under the USDA Rural loan program and recorded a liability due to Pohnpei State, the primary government.

See accompanying notes to financial statements.

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

Notes to Financial Statements  
September 30, 2010 and 2009

(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 Rural Development through the Housing and Community Facilities Program.

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

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

Basis of Accounting

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

GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, which was subsequently amended by Statement No. 37, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments: Omnibus*, and modified by Statement No. 38, *Certain Financial Statement Note Disclosures*, establishes financial reporting standards for governmental entities which require that management's discussion and analysis of the financial activities be included with the basic financial statements and notes and modifies certain other financial statement disclosure requirements.

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

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

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

Notes to Financial Statements  
September 30, 2010 and 2009

(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.

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.

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.

Management Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses.

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

Notes to Financial Statements  
September 30, 2010 and 2009

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

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, 2010 and 2009, cash was \$204,667 and \$255,001, respectively, which approximated corresponding bank balances maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2010 and 2009, 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.

New Accounting Standards

During fiscal year 2010, the Authority implemented the following pronouncements:

- GASB 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.
- GASB 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.
- GASB 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.

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

Notes to Financial Statements  
September 30, 2010 and 2009

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

New Accounting Standards, Continued

- GASB Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*, which provides guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code, and establishes requirements for recognizing and measuring the effects of the bankruptcy process on assets and liabilities, and for classifying changes in those items and related costs.

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

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. Management has not evaluated the effect that the implementation of this statement will have on the financial statements of the Authority.

In December 2009, GASB issued Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which amends Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and addresses issues related to measurement of OPEB obligations by certain employers participating in agent multiple-employer OPEB plans. The provisions of Statement 57 related to the use and reporting of the alternative measurement method are effective immediately. The provisions related to the frequency and timing of measurements are effective for actuarial valuations first used to report funded status information in OPEB plan financial statements for periods beginning after June 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Authority.

In June 2010, GASB issued Statement No. 59, *Financial Instruments Omnibus*, which updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools. The provisions of this statement are effective for periods beginning after June 15, 2010. Management has not evaluated the effect that the implementation of this statement will have on the financial statements of the Authority.

(2) Due From Primary Government

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

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

Notes to Financial Statements  
September 30, 2010 and 2009

**(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 (USDA) Rural Development through the Housing and Community Facilities Program. 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, 2010 and 2009, are presented below:

	<u>2010</u>	<u>2009</u>
Pohnpei State Housing Authority loans	\$ 6,147,793	\$ 5,732,972
HPG loans	305,526	423,200
USDA Rural Development loans	<u>534,172</u>	<u>581,711</u>
	6,987,491	6,737,883
Less allowance for loan losses	<u>(5,039,812)</u>	<u>(4,893,666)</u>
Loans receivable, net	\$ <u>1,947,679</u>	\$ <u>1,844,217</u>

Movements in the allowance for loan losses for the years ended September 30, 2010 and 2009 are as follows:

	<u>2010</u>	<u>2009</u>
Balance at beginning of year	\$ 4,893,666	\$ 5,946,802
Recoveries	-	(1,053,136)
Write-off during the year	83,575	-
Reclassification from employee advances	<u>62,571</u>	<u>-</u>
	\$ <u>5,039,812</u>	\$ <u>4,893,666</u>

All loans, other than USDA Rural Development, are at fixed rates (substantially 4.5%) and the loan terms range from 3 to 25 years. The USDA Rural Development loans are non-interest bearing.

During the year ended September 30, 2009, the State of Pohnpei transferred to the Authority USDA Rural Development defaulted loans, which the State had guaranteed, in the aggregate amount of \$581,711. The Authority bears responsibility for collection and returning the collections to Pohnpei State Government.

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



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

Notes to Financial Statements  
September 30, 2010 and 2009

**(4) Property and Equipment**

Capital asset activity for the years ended September 30, 2010 and 2009, was as follows:

	Estimated Useful Life	2010			Balance at September 30, 2010
		Balance at October 1, 2009	Additions	Deletions	
Building	10 years	\$ 26,061	\$ -	\$ -	\$ 26,061
Machinery and equipment	3-5 year	163,335	10,353	-	173,688
Other equipment	2 years	9,199	987	-	10,186
Improvements		-	9,447	-	9,447
		198,595	20,787	-	219,382
Less accumulated depreciation		(192,084)	(5,248)	-	(197,332)
		<u>6,511</u>	<u>15,539</u>	<u>-</u>	<u>22,050</u>
Construction in progress		<u>2,692</u>	<u>45,542</u>	<u>(9,447)</u>	<u>38,787</u>
		\$ <u>9,203</u>	\$ <u>61,081</u>	\$ <u>(9,447)</u>	\$ <u>60,837</u>
2009					
		Balance at October 1, 2008	Additions	Deletions	Balance at September 30, 2009
Building	10 years	\$ 26,061	\$ -	\$ -	\$ 26,061
Machinery and equipment	3-5 year	163,335	-	-	163,335
Other equipment	2 years	8,684	515	-	9,199
		198,080	515	-	198,595
Less accumulated depreciation		(187,699)	(4,385)	-	(192,084)
		<u>10,381</u>	<u>(3,870)</u>	<u>-</u>	<u>6,511</u>
Construction in progress		<u>-</u>	<u>2,692</u>	<u>-</u>	<u>2,692</u>
		\$ <u>10,381</u>	\$ <u>(1,178)</u>	\$ <u>-</u>	\$ <u>9,203</u>

**(5) Commitments and Contingencies**

**Loan Commitments**

The Authority has loan commitments aggregating \$108,522 and \$1,032,700 as of September 30, 2010 and 2009, respectively. These loan commitments represent the remaining balances of approved loans for housing projects.

**Litigation**

The Authority is party to various legal proceedings. The Attorney General of the Pohnpei State Government is of the opinion that the probable outcome of such cases existing at September 30, 2010, is not predictable. No provision for any liability has been made in the accompanying financial statements because management believes that no unfavorable outcome is likely to occur.

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

Notes to Financial Statements  
September 30, 2010 and 2009

(5) Commitments and Contingencies, Continued

USDA Rural Development Loans

During the year ended September 30, 2010, additional defaulted loans in the aggregate amount of \$550,428 were turned over to the Authority. The Authority's management is of the opinion that the primary government will become ultimately liable for such liabilities to USDA Rural Development. Therefore, such loans and related liability are not recorded by the Authority in the accompanying financial statements.

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

The Board of Directors  
Pohnpei State Housing Authority:

We have audited the financial statements of the Pohnpei State Housing Authority (the Authority) as of and for the year ended September 30, 2010, and have issued our report thereon dated May 9, 2011, which report included an explanatory paragraph emphasizing a particular matter. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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

A *deficiency* in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements that is more than inconsequential will not be prevented, or detected and corrected on a timely basis.

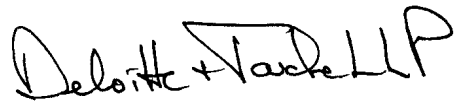
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses.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

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Authority in a separate letter dated May 9, 2011.

This report is intended solely for the information and use of management, Board of Directors of the Authority, others within the entity, and the Office of the National Public Auditor 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 9, 2011

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

Summary Schedule of Prior Year Findings  
Year Ended September 30, 2010

There are no prior year findings unresolved as of September 30, 2010.