

June 27, 2012

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) as of and for the year ended September 30, 2011, in accordance with auditing standards generally accepted in the United States of America (“generally accepted auditing standards”) and have issued our report thereon dated June 27, 2012.

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 generally accepted auditing standards 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 October 14, 2011. 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 basic financial statements and to disclaim an opinion on the required supplementary information for the year ended September 30, 2011 in conformity with accounting principles generally accepted in the United States of America (“generally accepted accounting principles”), in all material respects; 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, 2011 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 Board 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 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 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 2011 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; management's estimate of the allowance for loan losses, which is determined based upon evaluations of the collectability of loans; 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, 2011, 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 2011 financial statements.

We noted no 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 2011 financial statements. During the year ended September 30, 2011, 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. 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.
- GASB Statement No. 59, *Financial Instruments Omnibus*, which updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools.

The implementation of these pronouncements did not have a material effect 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 December 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which addresses how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. The provisions of this statement are effective for periods beginning after December 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 December 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus*, which is designed to improve financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity*, and No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively. The provisions of this statement are effective for periods beginning after June 15, 2012. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Authority.

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In July 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which establishes guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Authority.

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CRITICAL ACCOUNTING POLICIES AND PRACTICES

Critical accounting policies are those that are both most important to the portrayal of the Authority's financial condition and results and require management's most difficult, subjective, or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. The Authority has not identified any critical accounting policies or practices.

ALTERNATE ACCOUNTING TREATMENTS

We had no discussions with management regarding alternative accounting treatments within generally accepted accounting principles for policies and practices related to material items, including recognition, measurement, and disclosure considerations related to the accounting for specific transactions as well as general accounting policies, related to the year ended September 30, 2011.

OTHER INFORMATION IN THE ANNUAL REPORTS

When audited financial statements are included in documents containing other information such as the Authority's 2011 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 2011 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 2011 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 2011.

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 II, 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, dated June 27, 2012, wherein no matters involving the Authority's internal control over financial reporting were considered to be 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.

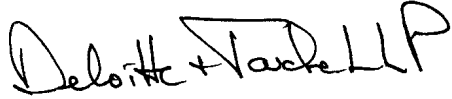
We also noted certain matters that we reported to management of the Authority in a separate letter dated June 27, 2012.

* * * * *

This report is intended solely for the information and use of the Board of Directors, management, and others within the organization, and the Office of the FSM National Public Auditor 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, flowing style.

Journal Entries - AJE

W	Name	Debit	Credit
1 AJE To adjust USDA loan - 5332.1 (Posted)			
1501	Loans Receivable- USDA Rural	532,082.00	-
1502	Allowance for Bad debts - USDA Rural	-	532,082.00
		<u>532,082.00</u>	<u>532,082.00</u>
2 AJE To adjust advances - 5341 (Posted)			
1801	Property and equipment	48,693.00	-
1802	Accumulated Depreciation	-	48,693.00
		<u>48,693.00</u>	<u>48,693.00</u>
3 AJE To adjust accrued interest receivable - 5311 (Posted)			
1801	Interest Receivable	11,421.00	-
4101	Interest Income from Loan (Collected)	-	11,421.00
		<u>11,421.00</u>	<u>11,421.00</u>

I have reviewed the adjustments above and authorize that they be recorded in the general ledger as of September 30, 2011. The adjustments are the result of errors and are not the result of fraud or illegal acts.

Henry Salmon Jr.
Acting Executive Director

6/27/2012

Date

Stephen Solomon
Accountant in charge

6/27/12

Date



**POHNPEI STATE GOVERNMENT
HOUSING AUTHORITY**

P.O. Box 1109

Kolonia, Pohnpei, FSM 96941

Phone: (691)320-2582/2096 Fax: (691)320-2304

APPENDIX II

June 27, 2012

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

Gentlemen:

We are providing this letter in connection with your audits of the statements of net assets of Pohnpei State Housing Authority (the Authority) as of September 30, 2011 and 2010 and the related statements of revenues, expenses and changes in net assets and of cash flows for the years then ended, for the purpose of expressing an opinion as to whether the 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 the Authority's net assets, and the 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.
- b. The fair presentation of the information included in supplemental schedules and Management's Discussion and Analysis accompanying the basic financial statements.
- c. The design and implementation of programs and controls to prevent and detect fraud.
- 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.

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 accounting principles generally accepted in the United States of America. 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. Capital assets are properly capitalized, reported and depreciated
2. The Authority has made available to you all:
 - a. Financial records and related data.
 - b. Board minutes, last of which was held on August 4, 2011.
 3. There have been no:
 - a. Action taken by the Authority's management that contravenes the provisions of 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 financial statements.
 4. 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.
 5. 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.
 6. There are no unasserted claims or assessments that legal counsel has advised us are probable of assertion in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 450 Contingencies other than that disclosed in the financial statements.
 7. We are responsible for compliance with local and state laws, rules and regulations, including compliance with the 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.
 8. There are no reportable conditions, including significant deficiencies and material weaknesses, in the design or operation of internal control that could adversely affect the Authority's ability to initiate, record, process, and report financial information.
 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. 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 their 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.

Except where otherwise stated below, matters less than \$13,200 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. There are no transactions that have been improperly recorded in the accounting records underlying the financial statements except for those listed in Appendix A.
12. The Authority has no plans or intentions that may affect the carrying value or classification of assets and liabilities.
13. In preparing the financial statements in conformity with accounting principles generally accepted in the United States of America, management uses 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.

We are not aware of any estimates at September 30, 2011 that may change and that the effect of the change would be material to the financial statements.

14. 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 ASC 450 Contingencies other than that disclosed in the financial statements.
15. 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.
16. The Authority has complied with all aspects of contractual agreements that would have an effect on the financial statements in the event of noncompliance.
17. No events have occurred subsequent to September 30, 2011 to the dates of our signatures below that require consideration as adjustments to or disclosures in the financial statements.
18. We have disclosed to you that no change in the Authority's internal control over financial reporting has occurred during the Authority's most recent fiscal year that has materially affected, or is reasonably likely to materially affect, the Authority's internal control over financial reporting.

19. There have been no actions taken by management, which contravene the provisions of local laws or regulations or of contracts applicable to the Authority.
20. Provisions have been made to reduce accounts receivable to their estimated net realizable value.
21. The Authority is responsible for determining and maintaining the adequacy of the allowance for doubtful loans 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.
22. 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.
23. 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.
24. 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.
25. No evidence of fraud or dishonesty in fiscal operations of programs administered by the Authority has been discovered.
26. During fiscal year 2011, PSHA implemented the following pronouncements
 - GASB 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.
 - GASB Statement No. 59, *Financial Instruments Omnibus*, which updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools.

The implementation of these pronouncements did not have a material effect on PSHA's financial statements.

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.

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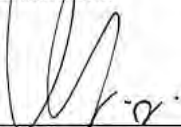
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27. The Authority does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk. The Authority has not experienced any losses on such accounts and management believes it is not exposed to any significant credit risk on its deposits.

28. During the year ended September 30, 2010, additional defaulted loans in the aggregate amount of \$550,428 were turned over to the Authority. Of \$10,749,895 in outstanding loans as of September 30, 2011, \$5,225,272 was deemed delinquent by USDA. 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.



Henry Saimon Jr.
Acting Executive Director



Stayleen Solomon
Accountant in Charge