

**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, 2013 AND 2012**

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

Table of Contents  
Years Ended September 30, 2013 and 2012

	<u>Page No.</u>
I. Independent Auditors' Report	1
II. Management's Discussion and Analysis	3
III. Basic Financial Statements:	
Statements of Net Position	6
Statements of Revenue, Expenses, and Changes in Net Position	7
Statements of Cash Flows	8
Notes to Financial Statements	9
IV. 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>	15
Summary Schedule of Prior Year Findings	17

## **INDEPENDENT AUDITORS' REPORT**

Board of Directors  
Pohnpei State Housing Authority:

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Pohnpei State Housing Authority (the "Authority"), a component unit of the State of Pohnpei, which comprise the statements of net position as of September 30, 2013 and 2012, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pohnpei State Housing Authority as of September 30, 2013 and 2012, and the results of its operations and its cash flows, for the years then ended in accordance with accounting principles generally accepted in the United States of America.

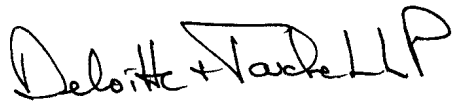
## ***Other Matters***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 to 5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 26, 2014 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.



June 26, 2014

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

Management's Discussion and Analysis  
September 30, 2013 and 2012

Our discussion and analysis of the Pohnpei State Housing Authority's (the "Authority's") financial performance provides an overview of the Authority's financial activities for the fiscal years ended September 30, 2013 and 2012. Please read it in conjunction with the Authority's financial statements, which follows this section.

Financial Highlights

For fiscal year ended September 30, 2013:

- the Authority's total operating revenues decreased by \$14,931 or 7% to \$204,575 from the prior year;
- the Authority's total expenses decreased by \$7,501 or 6% from the prior year; and
- the Authority collected an aggregate amount of \$177,165 representing actual interest and fees paid by customers on loans.

Overview of the Financial Statements

The financial statements presented herein include all of the activities of the Authority. Included in this report are the statement of net position and the statement of revenues, expenses, and changes in net position. 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 Position**

The statement of net position 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 position. 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 position may serve as a usual indicator whether the financial position of the Authority is improving or deteriorating.

The following table summarizes the Statements of Net Position for FY2013, FY2012 and FY2011

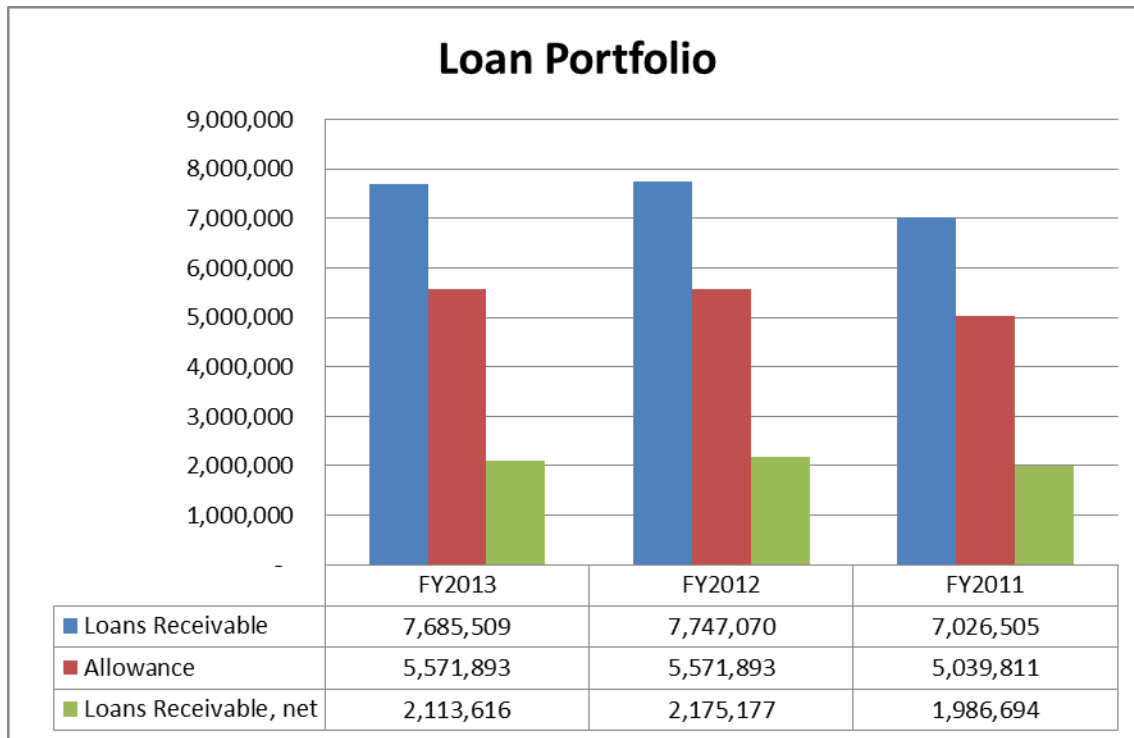
	<u>2013</u>	<u>2012</u>	<u>2011</u>
Current assets	\$ 2,687,250	\$ 2,511,364	\$ 2,355,421
Capital assets, net	<u>91,653</u>	<u>106,883</u>	<u>122,066</u>
Total Assets	\$ <u>2,778,903</u>	\$ <u>2,618,247</u>	\$ <u>2,477,487</u>
Liabilities	\$ 457,671	\$ 466,949	\$ 506,103
Net Position			
Net investment in capital assets	91,653	106,883	122,066
Restricted	<u>2,229,579</u>	<u>2,044,415</u>	<u>1,849,318</u>
	<u>2,321,232</u>	<u>2,151,298</u>	<u>1,971,384</u>
Total Liabilities and Net Position	\$ <u>2,778,903</u>	\$ <u>2,618,247</u>	\$ <u>2,477,487</u>

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

Management's Discussion and Analysis  
September 30, 2013 and 2012

Total Net position increased by \$169,934 or 8% during fiscal year 2013 compared with the prior year due to higher loan revenue. In addition, other major account changes compared from the prior year were as follows: Current assets increased by \$175,886 or 7% due to higher loan availed by customers, and capital assets decreased by \$15,230 or 14% due mainly from depreciation.

The following is a graphical presentation showing the 3-year trend loan portfolio of PSHA:



**Changes in Net Position**

The statement of revenues, expenses, and changes in net position shows the results of operation of the Authority. It reports revenues earned and expenses incurred and indicates the effect on the net position of the Authority.

The table below shows the changes in net assets for the years ended September 30, 2013, 2012 and 2011.

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Operating revenues			
Interest and fees on loans	\$ 177,165	\$ 218,393	\$ 210,788
Other	<u>27,410</u>	<u>1,113</u>	<u>7,153</u>
	204,575	219,506	217,941

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

Management's Discussion and Analysis  
September 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Operating expenses			
Salaries	84,116	88,603	90,663
Contractual services	2,012	7,434	21,803
Miscellaneous and others	6,867	1,504	6,113
Depreciation	16,123	17,406	11,090
Communication	4,336	4,854	4,710
Utilities	6,090	6,538	4,765
Supplies and materials	2,276	2,893	3,992
Repairs and maintenance	<u>219</u>	<u>308</u>	<u>2,051</u>
Total operating expenses	<u>122,039</u>	<u>129,540</u>	<u>145,187</u>
Operating income	<u>82,536</u>	<u>89,966</u>	<u>72,754</u>
Non-operating revenues			
Operating subsidy from PSG	87,398	89,948	130,590
Donation	<u>-</u>	<u>-</u>	<u>49,979</u>
Total non-operating revenues	<u>87,398</u>	<u>89,948</u>	<u>180,569</u>
Increase in net position	\$ <u>169,934</u>	\$ <u>179,914</u>	\$ <u>253,323</u>

Management's Discussion and Analysis for the year ended September 30, 2012 is set forth in the Authority's report on the audit of financial statements, which is dated June 20, 2013. That Discussion and Analysis explains the major factors impacting the 2012 financial statements and can be viewed at the Office of the Public Auditor's website at [www.fsmopa.fm](http://www.fsmopa.fm).

**Outlook**

As in the previous years, it is the Authority's goal to ensure that major drop in delinquent accounts in FY2014 occurs. The Authority shall continuously pursue aggressive collections to reduce delinquent accounts to an acceptable level. Some cases have already been filed in court to foreclose on related collaterals. In addition, we are also in talks with a few borrowers so they could restructure their loans to make them current.

**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 its accountability and transparency 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 Position  
September 30, 2013 and 2012

<u>ASSETS</u>	<u>2013</u>	<u>2012</u>
Cash	\$ 524,173	\$ 282,229
Employee advances, net of an allowance for doubtful accounts \$155,249 in 2013 and 2012	-	-
Due from primary government	27,340	30,772
Loans receivable, net	2,113,616	2,175,177
Interest receivable	21,758	21,758
Prepaid expense	363	1,428
Property and equipment, net	91,653	106,883
	<u>\$ 2,778,903</u>	<u>\$ 2,618,247</u>
 <u>LIABILITIES AND NET POSITION</u>  		
Liabilities:		
Accrued liabilities	\$ 17,933	\$ 17,933
Due to primary government	439,738	449,016
Total liabilities	<u>457,671</u>	<u>466,949</u>
Commitments and contingencies		
Net position:		
Net investment in capital assets	91,653	106,883
Restricted	2,229,579	2,044,415
Total net position	<u>2,321,232</u>	<u>2,151,298</u>
	<u>\$ 2,778,903</u>	<u>\$ 2,618,247</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 Position  
Years Ended September 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Operating revenues:		
Interest and fees on loans	\$ 177,165	\$ 218,393
Other	27,410	1,113
Total operating revenues	<u>204,575</u>	<u>219,506</u>
Operating expenses:		
Salaries	84,116	88,603
Depreciation	16,123	17,406
Utilities	6,090	6,538
Communication	4,336	4,854
Supplies and materials	2,276	2,893
Contractual services	2,012	7,434
Repairs and maintenance	219	308
Miscellaneous and others	6,867	1,504
Total operating expenses	<u>122,039</u>	<u>129,540</u>
Operating income	82,536	89,966
Nonoperating revenues:		
Operating subsidy from primary government	<u>87,398</u>	<u>89,948</u>
Change in net position	169,934	179,914
Net position at beginning of year	<u>2,151,298</u>	<u>1,971,384</u>
Net position at end of year	<u>\$ 2,321,232</u>	<u>\$ 2,151,298</u>

See accompanying notes to financial statements.

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

Statements of Cash Flows  
Years Ended September 30, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Cash received from customers	\$ 204,575	\$ 219,506
Cash paid to suppliers for goods and services	(20,735)	(18,344)
Cash paid to employees	(84,116)	(88,603)
Net cash provided by operating activities	99,724	112,559
Cash flows from noncapital financing activities:		
Operating subsidy received from primary government	87,398	89,948
Repayment to primary government	(5,846)	(35,163)
Net cash provided by noncapital financing activities	81,552	54,785
Cash flows from capital and related financing activities:		
Acquisition of fixed assets	(893)	(2,223)
Cash flows from investing activities:		
Loan originations and principal collections, net	61,561	(188,483)
Net change in cash	241,944	(23,362)
Cash at beginning of year	282,229	305,591
Cash at end of year	\$ 524,173	\$ 282,229
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 82,536	\$ 89,966
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	16,123	17,406
Decrease in prepaid expense	1,065	-
Increase in accrued liabilities	-	5,187
Net cash provided by operating activities	\$ 99,724	\$ 112,559

See accompanying notes to financial statements.

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

Notes to Financial Statements  
September 30, 2013 and 2012

(1) Organization and Summary of Significant Accounting Policies

Organization

The Pohnpei State Housing Authority (the "Authority" or "PSHA") 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.

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.

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 Position

Net position represents the residual interest in the Authority's assets after liabilities are deducted and consist of three sections: net investment in capital assets; restricted and unrestricted. Net position 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 position are reported as restricted when constraints are imposed by third parties or enabling legislation. The Authority's restricted assets are expendable, and are restricted for loan programs.

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

Notes to Financial Statements  
September 30, 2013 and 2012

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

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.

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, 2013 and 2012, cash was \$524,173 and \$282,229, respectively, which approximated the corresponding bank balances maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2013 and 2012, \$367,721 and \$328,749, respectively, in total banks deposits were 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.

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

Notes to Financial Statements  
September 30, 2013 and 2012

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

New Accounting Standards

During the year ended September 30, 2013, PSHA implemented the following pronouncements:

- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which addressed 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 implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, which improved 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 implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which enhanced the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements issued on or before November 30, 1989, which does not conflict or contradict GASB pronouncements. GASB Statement no. 62 superseded GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which established guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. These Statements amend the net asset reporting requirements in Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. With the implementation of GASB Statement No. 63 and Statement No. 65, the Statement of Net Assets was renamed the Statement of Net Position. In addition, the Statement of Net Position includes two new classifications separate from assets and liabilities. Amounts reported as deferred outflows of resources are reported in a separate section following assets. Likewise, amounts reported as deferred inflows of resources are reported in a separate section following liabilities.

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

Notes to Financial Statements  
September 30, 2013 and 2012

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

New Accounting Standards, Continued

In April 2012, GASB issued Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of PSHA.

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans, and Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 67 are effective for financial statements for periods beginning after June 15, 2013. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of these statements on the financial statements of PSHA.

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*, which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The provisions in Statement 69 are effective for fiscal years beginning after December 15, 2013. Management has not yet determined the effect of implementation of this statement on the financial statements of PSHA.

In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. The provisions in Statement 70 are effective for fiscal years beginning after June 15, 2013. Management has not yet determined the effect of implementation of this statement on the financial statements of PSHA.

(2) Due From (To) Primary Government

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

(3) Loans Receivable

The Authority's loan portfolio is comprised of three loan funds, Pohnpei State Housing Authority (PSHA) loan fund, the Housing Preservation Grant (HPG) loan fund, and USDA Rural Development ("USDA RD") loans.

During the year ended September 30, 2009, the State of Pohnpei transferred to the Authority defaulted USDA RD 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.

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

Notes to Financial Statements  
September 30, 2013 and 2012

(3) Loans Receivable, Continued

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, 2013 and 2012, are presented below:

	<u>2013</u>	<u>2012</u>
Pohnpei State Housing Authority loans	\$ 6,475,248	\$ 6,473,314
HPG loans	261,434	298,129
USDA Rural Development loans	<u>948,827</u>	<u>975,627</u>
	7,685,509	7,747,070
Less allowance for loan losses	<u>(5,571,893)</u>	<u>(5,571,893)</u>
Loans receivable, net	\$ <u>2,113,616</u>	\$ <u>2,175,177</u>

There were loan provisions provided, loan written off or loan recoveries during the years ended September 30, 2013 and 2012.

All loans, other than the USDA RD loans, bear interest rate fixed substantially at 4.5% with terms ranging from 3 to 25 years. The USDA RD loans are non-interest bearing.

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

(4) Property and Equipment

Capital asset activity for the years ended September 30, 2013 and 2012, was as follows:

	<u>Estimated Useful Life</u>	Balance at October <u>1, 2012</u>	Additions and <u>Transfers</u>	Deletions and <u>Transfers</u>	Balance at September <u>30, 2013</u>
Depreciable:					
Building	10 years	\$ 126,408	\$ -	\$ -	126,408
Machinery and equipment	3-5 years	184,447	893	-	185,340
Other equipment	2 years	12,409	-	-	12,409
Improvements	10 years	<u>9,447</u>	<u>-</u>	<u>-</u>	<u>9,447</u>
		332,711	893	-	333,604
Less accumulated depreciation		<u>(225,828)</u>	<u>(16,123)</u>	<u>-</u>	<u>(241,951)</u>
		\$ <u>106,883</u>	\$ <u>(15,230)</u>	\$ <u>-</u>	\$ <u>91,653</u>

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

Notes to Financial Statements  
September 30, 2013 and 2012

(4) Property and Equipment, Continued

Depreciable:	<u>Estimated Useful Life</u>	Balance at October <u>1, 2011</u>	Additions and <u>Transfers</u>	Deletions and <u>Transfers</u>	Balance at September <u>30, 2012</u>
Building	10 years	\$ 126,408	\$ -	\$ -\$	126,408
Machinery and equipment	3-5 years	184,447	-	-	184,447
Other equipment	2 years	10,186	2,223	-	12,409
Improvements	10 years	<u>9,447</u>	<u>-</u>	<u>-</u>	<u>9,447</u>
		330,488	2,223	-	332,711
Less accumulated depreciation		<u>(208,422)</u>	<u>(17,406)</u>	<u>-</u>	<u>(225,828)</u>
		\$ <u>122,066</u>	\$ <u>(15,183)</u>	\$ <u>-</u>	\$ <u>106,883</u>

(5) Commitments and Contingencies

Loan Commitments

The Authority has loan commitments aggregating \$206,506 as of September 30, 2013. These loan commitments represent undisbursed 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, 2013, 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.

USDA Rural Development Loans

During the year ended September 30, 2010, defaulted loans of \$550,428 were turned over to the Authority. Of \$10,749,895 in outstanding loans as of September 30, 2013, \$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.

Risk Management

The Authority is essentially self-insured for potential losses. Management is of the opinion that no material losses during the past three years have resulted from this practice.



**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, in accordance with the 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, the financial statements of the Pohnpei State Housing Authority (the "Authority"), which comprise the statements of net assets as September 30, 2013, and the related statements of revenues, expenses and changes in net assets and of cash flows for the year then ended and the related notes to the financial statements, and have issued our report thereon dated June 26, 2014.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

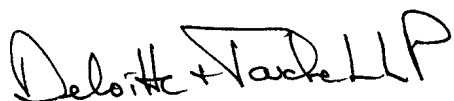
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from 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*.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

June 26, 2014

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

Summary Schedule of Prior Audit Findings  
Year Ended September 30, 2013

There are no prior year findings unresolved as of September 30, 2013.