

**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, 2015 AND 2014**

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

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Years Ended September 30, 2015 and 2014

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## **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, 2015 and 2014, 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, 2015 and 2014, 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.

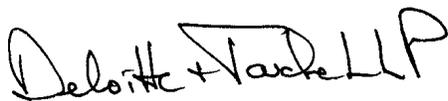
## **Other Matters**

### *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 22, 2016, 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.

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

June 22, 2016

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

Management's Discussion and Analysis  
September 30, 2015 and 2014

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, 2015 and 2014. Please read it in conjunction with the Authority's financial statements, which follows this section.

Financial Highlights

- For fiscal year ended September 30, 2015, the Authority's total operating revenues decreased by \$8,132 or 4% to \$185,084 from prior year.
- During the year, the Authority's total expenses increased by \$10,074 or 6% to \$179,698 from prior year.
- For fiscal year 2015, the Authority collected an aggregate amount of \$176,905 representing the 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 Housing 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.

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 FY2015, FY2014 and FY2013:

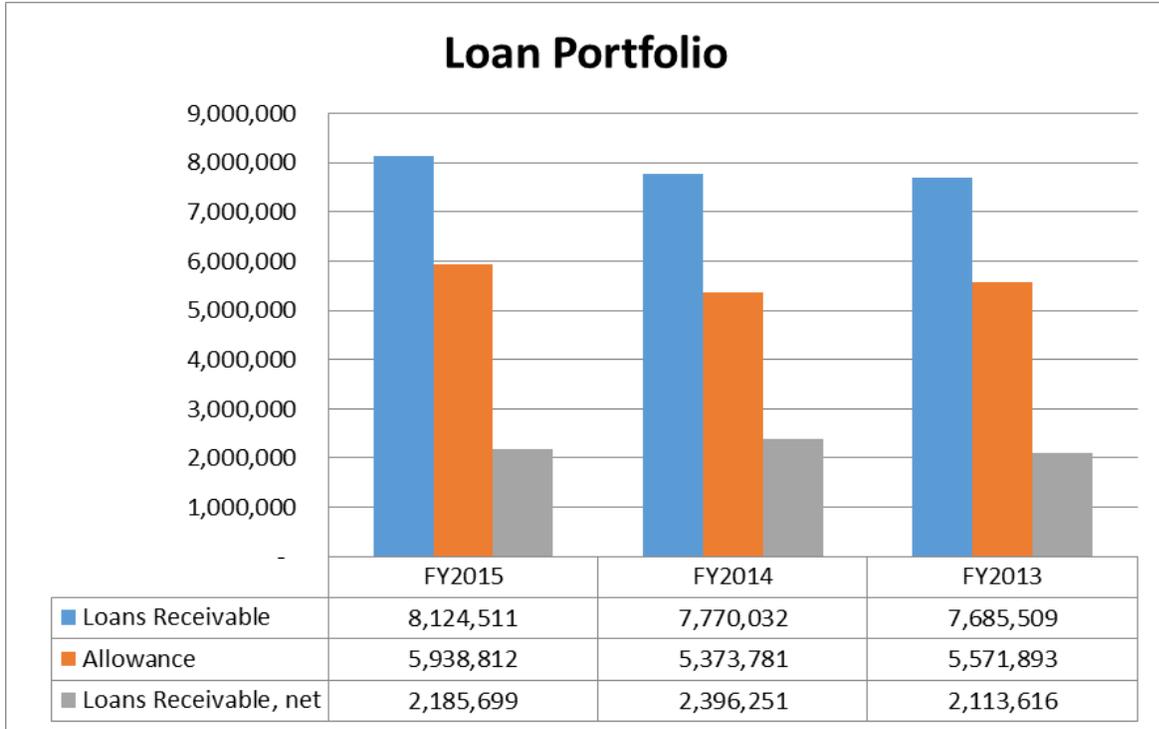
	<u>2015</u>	<u>2014</u>	<u>2013</u>
Current assets	\$ 2,709,955	\$ 2,974,847	\$ 2,687,250
Capital assets, net	<u>77,371</u>	<u>77,728</u>	<u>91,653</u>
Total assets	<u>\$ 2,787,326</u>	<u>\$ 3,052,575</u>	<u>\$ 2,778,903</u>
Liabilities	\$ 51,121	\$ 591,864	\$ 457,671
Net position:			
Net investment in capital assets	77,371	77,728	91,653
Restricted	<u>2,658,834</u>	<u>2,382,983</u>	<u>2,229,579</u>
	<u>2,736,205</u>	<u>2,460,711</u>	<u>2,321,232</u>
Total liabilities and net position	<u>\$ 2,787,326</u>	<u>\$ 3,052,575</u>	<u>\$ 2,778,903</u>

**POHNPEI STATE HOUSING AUTHORITY  
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Management's Discussion and Analysis  
September 30, 2015 and 2014

Total net position increased by \$275,494 or 11% during fiscal year 2015 compared from prior year. In addition, other major account changes compared from prior year were as follows: Current assets decreased by \$264,892 or 9% due to lower net loan balances and a small change in net capital asset. For additional information concerning capital assets, please refer to Note 4 to the financial statements.

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 the revenues earned and expenses incurred and it indicates the effect on the net position of the Authority.

The table below shows the changes in net position for the years ended September 30, 2015, 2014 and 2013.

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Operating revenues:			
Interest and fees on loans	\$ 176,905	\$ 181,719	\$ 177,165
Other	<u>8,179</u>	<u>11,497</u>	<u>27,410</u>
Total operating revenues	<u>185,084</u>	<u>193,216</u>	<u>204,575</u>

**POHNPEI STATE HOUSING AUTHORITY  
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Management's Discussion and Analysis  
September 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Operating expenses:			
Salaries	101,370	98,566	84,116
Depreciation	17,572	16,005	16,123
Travel and transportation	13,296	28,756	-
Contractual services	6,552	1,050	2,012
Utilities	5,650	5,753	6,090
Communication	4,831	5,353	4,336
Supplies and materials	3,538	5,817	2,276
Repairs and maintenance	2,657	1,731	219
Miscellaneous and others	<u>24,232</u>	<u>5,593</u>	<u>6,867</u>
Total operating expenses	<u>179,698</u>	<u>168,624</u>	<u>122,039</u>
Operating income	<u>5,386</u>	<u>24,592</u>	<u>82,536</u>
Non-operating revenues:			
Operating subsidy from PSG	<u>270,108</u>	<u>114,887</u>	<u>87,398</u>
Change in net position	<u>\$ 275,494</u>	<u>\$ 139,479</u>	<u>\$ 169,934</u>

**Outlook**

As in previous years, it is the Authority's goal to ensure that major drop in delinquent accounts in FY2016. The Authority shall continuously pursue aggressive collection to reduce delinquent accounts to an acceptable level although some cases were already filed in court to foreclose related collateral. In addition, we are also in talks with a few borrowers so they could restructure their loans to make them current.

Management's Discussion and Analysis for the year ended September 30, 2014 is set forth in the Authority's report on the audit of financial statements, which is dated June 17, 2015. That Discussion and Analysis explains the major factors impacting the 2014 financial statements and can be viewed at the Office of the Public Auditor's website at [www.fsmopa.fm](http://www.fsmopa.fm).

**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 PSHA's 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  
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Statements of Net Position  
September 30, 2015 and 2014

ASSETS

	2015	2014
Assets:		
Cash	\$ 502,325	\$ 551,544
Employee advances, net of an allowance for doubtful accounts of \$155,229 in 2015 and 2014	-	-
Due from primary government	4,748	4,246
Loans receivable, net	2,185,699	2,396,251
Interest receivable	16,135	21,758
Prepaid expense	1,048	1,048
Property and equipment, net	77,371	77,728
	\$ 2,787,326	\$ 3,052,575

LIABILITIES AND NET POSITION

Liabilities:		
Accrued liabilities	\$ 17,820	\$ 17,988
Due to USDA Rural Development	-	186,829
Due to primary government	33,301	387,047
Total liabilities	51,121	591,864
Commitments and contingencies		
Net position:		
Net investment in capital assets	77,371	77,728
Restricted	2,658,834	2,382,983
Total net position	2,736,205	2,460,711
	\$ 2,787,326	\$ 3,052,575

See accompanying notes to financial statements.

**POHNPEI STATE HOUSING AUTHORITY**  
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Statements of Revenues, Expenses and Changes in Net Position  
Years Ended September 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Operating revenues:		
Interest and fees on loans	\$ 176,905	\$ 181,719
Other	<u>8,179</u>	<u>11,497</u>
Total operating revenues	<u>185,084</u>	<u>193,216</u>
Operating expenses:		
Salaries	101,370	98,566
Depreciation	17,572	16,005
Travel and transportation	13,296	28,756
Contractual services	6,552	1,050
Utilities	5,650	5,753
Communication	4,831	5,353
Supplies and materials	3,538	5,817
Repairs and maintenance	2,657	1,731
Miscellaneous and others	<u>24,232</u>	<u>5,593</u>
Total operating expenses	<u>179,698</u>	<u>168,624</u>
Operating income	5,386	24,592
Nonoperating revenues:		
Operating subsidy from primary government	<u>270,108</u>	<u>114,887</u>
Change in net position	275,494	139,479
Net position at beginning of year	<u>2,460,711</u>	<u>2,321,232</u>
Net position at end of year	<u>\$ 2,736,205</u>	<u>\$ 2,460,711</u>

See accompanying notes to financial statements.

**POHNPEI STATE HOUSING AUTHORITY  
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Statements of Cash Flows  
Years Ended September 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Cash received from customers	\$ 185,084	\$ 193,216
Cash paid to suppliers for goods and services	(60,924)	(54,683)
Cash paid to employees	(101,370)	(98,566)
Net cash provided by operating activities	<u>22,790</u>	<u>39,967</u>
Cash flows from noncapital financing activities:		
Operating subsidy received from primary government	114,883	137,981
Repayment to primary government	-	(52,691)
Net cash provided by noncapital financing activities	<u>114,883</u>	<u>85,290</u>
Cash flows from capital and related financing activities:		
Acquisition of fixed assets	(17,215)	(2,080)
Cash flows from investing activities:		
Loan originations and principal collections, net	(169,677)	(95,806)
Net change in cash	(49,219)	27,371
Cash at beginning of year	551,544	524,173
Cash at end of year	<u>\$ 502,325</u>	<u>\$ 551,544</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 5,386	\$ 24,592
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	17,572	16,005
(Increase) in prepaid expense	-	(685)
(Decrease) increase in accrued liabilities	(168)	55
Net cash provided by operating activities	<u>\$ 22,790</u>	<u>\$ 39,967</u>
Supplemental information on a noncash activity:		
Noncash increase in loan receivable - USDA RD	\$ -	\$ 186,829
Noncash increase in due to USDA RD	-	(186,829)
	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to financial statements.

**POHNPEI STATE HOUSING AUTHORITY  
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Notes to Financial Statements  
September 30, 2015 and 2014

(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 position. Proprietary fund operating statements present increases and decreases in net position. 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 net investment in capital assets, 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  
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Notes to Financial Statements  
September 30, 2015 and 2014

(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 position and cash flows, cash is defined as cash in checking accounts, savings accounts and cash on hand. As of September 30, 2015 and 2014, cash was \$502,325 and \$551,544, respectively, which approximated the corresponding bank balances maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2015 and 2014, \$287,612 and \$367,721, 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  
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Notes to Financial Statements  
September 30, 2015 and 2014

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

New Accounting Standards

During the year ended September 30, 2015, PSHA implemented the following pronouncements:

- GASB *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 implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB *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 implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB *Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, which addresses an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The implementation of this statement did not have a material effect on the accompanying financial statements.

In February 2015, GASB issued *Statement No. 72, Fair Value Measurement and Application*, which addresses accounting and financial reporting issues related to fair value measurements and requires entities to expand their fair value disclosures by determining major categories of debt and equity securities within the fair value hierarchy on the basis of the nature and risk of the investment. The provisions in Statement No. 72 are effective for fiscal years beginning after June 15, 2015. Management believes that the implementation of this statement only requires additional disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques and will not have a material effect on the Authority's financial statements.

In June 2015, GASB issued *Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements No. 67 and No. 68 with the reporting requirements in Statement No. 68. The provisions in Statement No. 73 are effective for fiscal years beginning after June 15, 2015, with the exception of the provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement No. 68, which are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the Authority's financial statements.

**POHNPEI STATE HOUSING AUTHORITY  
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Notes to Financial Statements  
September 30, 2015 and 2014

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

New Accounting Standards, Continued

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and addresses financial reporting requirements for governments whose employees are provided with postemployment benefits other than pensions (other postemployment benefits or OPEB). The provisions in Statement No. 74 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the Authority's financial statements.

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. The provisions in Statement No. 75 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the Authority's financial statements.

In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which eliminates two of the four categories of authoritative GAAP that exist under the existing hierarchy prescribed by Statement 55. The two categories that will remain under the new standard are (1) GASB Statements and (2) GASB technical bulletins and implementation guides in addition to AICPA guidance that the GASB clears. The provisions in Statement No. 76 are effective for fiscal years beginning after June 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the Authority's financial statements.

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements. The provisions in Statement No. 77 are effective for fiscal years beginning after December 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the Authority's financial statements.

(2) Due From (To) Primary Government and to USDA Rural Development (USDA)

Due from primary government represents the accumulation of the unobligated portion of State appropriations 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. Due to primary government represents loans provided the Authority by the State as a result of loan guarantees issued by the State to USDA.

**POHNPEI STATE HOUSING AUTHORITY  
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Notes to Financial Statements  
September 30, 2015 and 2014

**(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.

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, 2015 and 2014, is presented below:

	<u>2015</u>	<u>2014</u>
Pohnpei State Housing Authority loans	\$ 6,555,590	\$ 6,359,875
HPG loans	416,687	305,147
USDA Rural Development loans	<u>1,152,234</u>	<u>1,105,010</u>
	8,124,511	7,770,032
Less allowance for loan losses	<u>(5,938,812)</u>	<u>(5,373,781)</u>
Loans receivable, net	<u>\$ 2,185,699</u>	<u>\$ 2,396,251</u>

There were no loan recoveries recorded during the years ended September 30, 2015 and 2014. During the years ended September 30, 2015 and 2014, total loans written off amounted to \$0 and \$198,112, respectively.

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.

**POHNPEI STATE HOUSING AUTHORITY  
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Notes to Financial Statements  
September 30, 2015 and 2014

**(4) Property and Equipment**

Capital asset activity for the years ended September 30, 2015 and 2014, is as follows:

Depreciable:	Estimated Useful Life	Balance at October 1, 2014	Additions and Transfers	Deletions and Transfers	Balance at September 30, 2015
Building	10 years	\$ 126,408	\$ -	\$ -	\$ 126,408
Machinery and equipment	3-5 years	187,420	17,215	-	204,635
Other equipment	2 years	12,409	-	-	12,409
Improvements	10 years	<u>9,447</u>	<u>-</u>	<u>-</u>	<u>9,447</u>
		335,684	17,215	-	352,899
Less accumulated depreciation		<u>(257,956)</u>	<u>(17,572)</u>	<u>-</u>	<u>(275,528)</u>
		<u>\$ 77,728</u>	<u>\$ (357)</u>	<u>\$ -</u>	<u>\$ 77,371</u>
Depreciable:	Estimated Useful Life	Balance at October 1, 2013	Additions and Transfers	Deletions and Transfers	Balance at September 30, 2014
Building	10 years	\$ 126,408	\$ -	\$ -	\$ 126,408
Machinery and equipment	3-5 years	185,340	2,080	-	187,420
Other equipment	2 years	12,409	-	-	12,409
Improvements	10 years	<u>9,447</u>	<u>-</u>	<u>-</u>	<u>9,447</u>
		333,604	2,080	-	335,684
Less accumulated depreciation		<u>(241,951)</u>	<u>(16,005)</u>	<u>-</u>	<u>(257,956)</u>
		<u>\$ 91,653</u>	<u>\$ (13,925)</u>	<u>\$ -</u>	<u>\$ 77,728</u>

**(5) Commitments and Contingencies**

**Loan Commitments**

The Authority has loan commitments aggregating \$206,506 as of September 30, 2015. 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, 2015, 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, 2015, \$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 with the exception of the \$0 and \$186,829 which the Authority agreed to assume responsibility for in 2015 and 2014. Therefore, such other loans and related liabilities are not recorded by the Authority in the accompanying financial statements.

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

Notes to Financial Statements  
September 30, 2015 and 2014

(5) Commitments and Contingencies, Continued

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.

(6) Related Parties

As of September 30, 2015, the Authority has \$115,080 receivable from employees.

**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 position as September 30, 2015, and the related statements of revenues, expenses and changes in net position 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 22, 2016.

### **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.

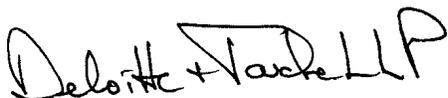
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not 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 22, 2016

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

Summary Schedule of Prior Year Audit Findings  
Year Ended September 30, 2015

There are no prior year findings unresolved as of September 30, 2015.