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

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2024 and 2023

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

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Years Ended September 30, 2024 and 2023

INDEPENDENT AUDITORS' REPORT

Board of Directors
Pohnpei State Housing Authority:

Report on the Audit of the Financial Statements

Opinion

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, 2024 and 2023, the 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, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Authority as of September 30, 2024 and 2023, and the changes in its financial position and its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error. In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit 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 Authority's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 7 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 July 31, 2026 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's 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 Authority's internal control over financial reporting and compliance.

Burger Comer & Associates

July 31, 2026
Tamuning, Guam

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

Management’s Discussion and Analysis
Years Ended September 30, 2024, and 2023

Our discussion and analysis of the Pohnpei Housing Authority’s (the “Authority”) financial performance provides an overview of the Authority’s financial activities for the fiscal years ended September 30, 2024, and 2023. Please read it in conjunction with the Authority’s financial statements, which follows this section.

FINANCIAL HIGHLIGHTS

- For the fiscal year ending September 30, 2024, the Authority experienced a 13% increase in net operating revenue, rising by $49,879 from the previous year. Net operating revenue increased from $391,343 in 2023 to $441,222 in 2024, a development primarily driven by the adoption of the loan loss policy on March 1, 2023, by the Authority. The net effect of this change reduced the estimated bad debt allowance thereby realizing a gain to the Authority.

- In the fiscal year 2024, the Authority levied a total of $232,975 in interest and fees.

Overview of the Financial Statements

The financial statements provided here encompass all activities of the Authority detailed in this report, including the statement of net position and the statement of revenues, expenses, and changes in net position. These statements offer a comprehensive financial overview of the Authority, primarily applying the accrual basis of accounting within the economic measurement focus. The Authority functions under an annual budget appropriated by the Legislature, managed by the Pohnpei State Department of Treasury.

Financial Analysis

Net Position

The statement of net position outlines the financial status of the Authority by summarizing the assets and liabilities, with the net position representing the difference between them. This financial document also conveys the Authority's lending capacity based on receivable turnover. Changes in net position over time can typically indicate whether the Authority's financial condition is improving or deteriorating.

The following table summarizes the Statement of Net Position for FY 2024, FY 2023, and FY 2022:

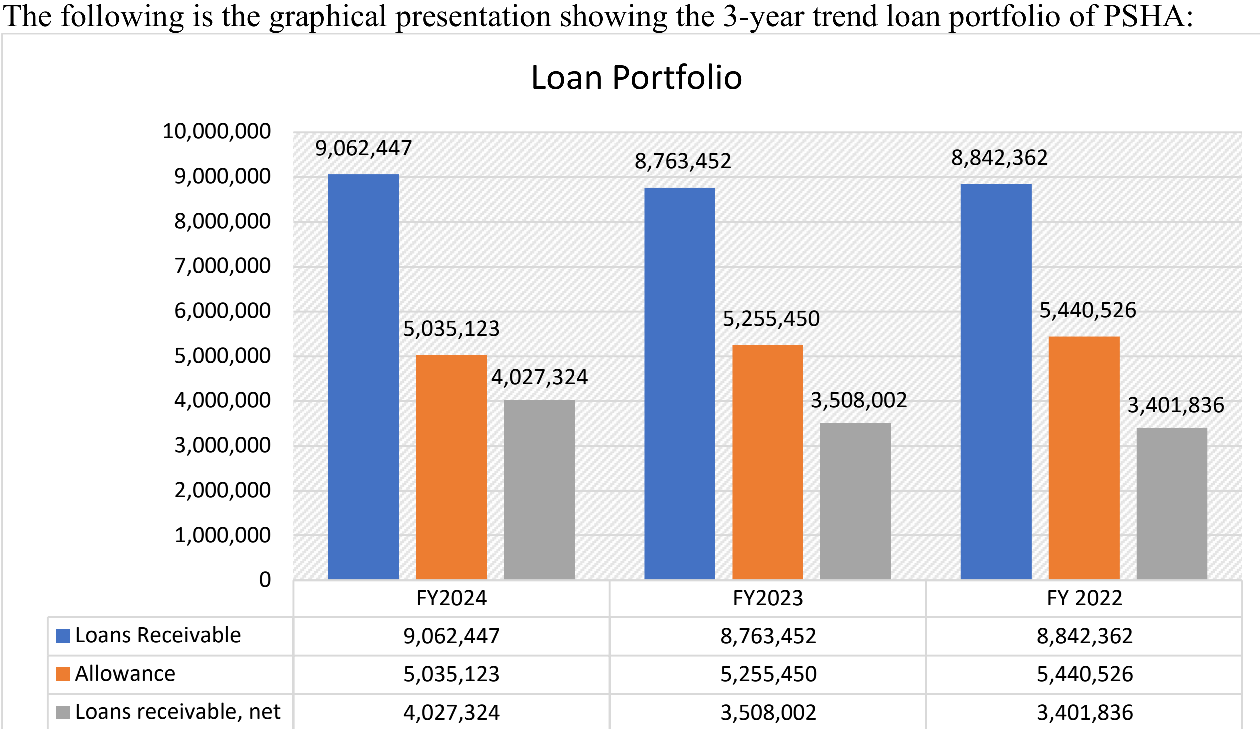
Net Position

	2024	2023	2022
Other assets	$ 4,525,739	$ 4,145,155	$ 3,700,397
Capital assets, net	41,312	34,464	28,204
Total assets	$ 4,567,051	$ 4,179,619	$ 3,728,601
Liabilities	$ 147,430	$ 174,110	$ 132,348
Net position:			
Net investment in capital assets	41,312	34,464	28,204
Restricted	4,378,309	3,971,045	3,568,049
Total net position	4,419,621	4,005,509	3,596,253
Total liabilities and net position	$ 4,567,051	$ 4,179,619	$ 3,728,601

The total net position rose by $414,112, representing a 10% increase in fiscal year 2024. Additionally, significant changes in other accounts compared to the previous year include a $380,584 or 10% rise in other assets, driven by new loans and assumption of farmer's home loans that were delinquent.

For further details on capital assets, please consult Note 4 in the financial statements.

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



OVERVIEW OF THE FINANCIAL STATEMENTS

Changes in Net Position

The statement of revenues, expenses, and changes in net position details the operational outcomes of the Authority. It presents the earned revenues and incurred expenses, highlighting their impact on the Authority's net position.

The table below shows the changes in net position for the years ended September 30, 2024, 2023, and 2022:

Changes in Net Position

	2024	2023	2022
Operating revenues:			
Interest and fees on loans	$ 232,975	$ 226,327	$ 254,969
Other	16,632	14,264	10,604
Total operating revenues	249,607	240,591	265,573
Recovery from (provisions for) loan losses	191,615	150,752	(104,992)
Net operating revenues	441,222	391,343	160,581
Operating expenses:			
Salaries	203,934	132,806	144,122
Office supplies	11,831	8,688	5,484
Travel and transportation	11,721	4,043	625
Depreciation	8,834	7,771	9,400
Repairs and maintenance	4,761	1,210	2,001
Communications	4,054	4,093	4,064
Utilities	2,517	8,257	8,320
Training	-	-	8,500
Miscellaneous	15,555	6,593	8,091
Total operating expenses	263,207	173,461	190,607
Operating income (loss)	178,015	217,882	(30,026)
Non-operating revenues:			
Operating subsidy from PSG	235,272	191,374	165,990
Gain on sale of fixed assets	825	-	-
Change in net position	$ 414,112	$ 409,256	$ 135,964

Changes in Net Position (P&L)

The trend in net position is consistently improving, rising from $409,256 in 2023 to $414,112 in 2024, while operating expenses have stayed relatively constant throughout the three-year period.

Outlook

The Authority's objective and mission is to offer affordable, safe, and hygienic housing for the residents of Pohnpei. To decrease the delinquency rate and enhance customer service and lending in the fiscal year 2025, the Authority will persistently engage in rigorous collection efforts, including initiating legal proceedings for delinquent accounts to reclaim its collateral.

The Authority intends to implement a new Express-O lending system to replace its legacy system in the first quarter of 2026. The upgraded system will enable the Authority to unify its lending, collection, and accounting processes into a single platform, enhancing both accounting and collection capabilities and ultimately strengthening the Authority's financial position.

Management's Discussion and Analysis for the year ended September 30, 2024, is set forth in the Authority's report on the audit of financial statements, which is dated July 31, 2026. That Discussion and Analysis explains the major factors impacting the 2024 financial statements and can be viewed at the office of the Public Auditor's website at www.fsmopa.fm.

This Management's Discussion and Analysis is designed to provide our citizens, taxpayers, customers, creditors, and other interested parties, with a general overview of the Pohnpei State Housing Authority's finances and to demonstrate the Authority's accountability and transparency for the appropriations it receives. Questions concerning any of the information provided in this discussion and analysis or request 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, 2024 and 2023

ASSETS	2024	2023
Assets:		
Cash	$ 439,014	$ 552,556
Loans receivable, net	4,027,324	3,508,002
Interest receivable	24,539	18,526
Prepaid expenses	130	8,205
Capital assets, net	41,312	34,464
Due from the primary government	34,732	57,866
Total assets	$ 4,567,051	$ 4,179,619
LIABILITIES AND NET POSITION		
Liabilities:		
Accrued liabilities	$ 38,429	$ 39,543
Due to states and primary government	109,001	134,567
Total liabilities	147,430	174,110
Commitments and contingencies		
Net position:		
Net investment in capital assets	41,312	34,464
Restricted	4,378,309	3,971,045
Total net position	4,419,621	4,005,509
Total liabilities and net position	$ 4,567,051	$ 4,179,619

The accompanying notes are an integral part of these 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, 2024 and 2023

	2024	2023
Operating revenues:		
Interest and fees on loans	$ 232,975	$ 226,327
Other	16,632	14,264
Total operating revenues	249,607	240,591
Recovery from loan losses	191,615	150,752
Net operating revenues	441,222	391,343
Operating expenses:		
Salaries	203,934	132,806
Supplies and materials	11,831	8,688
Travel and transportation	11,721	4,043
Depreciation	8,834	7,771
Repairs and maintenance	4,761	1,210
Communications	4,054	4,093
Utilities	2,517	8,257
Miscellaneous	15,555	6,593
Total operating expenses	263,207	173,461
Operating income	178,015	217,882
Nonoperating revenues:		
Operating subsidy from primary government	235,272	191,374
Gain on sale of fixed asset	825	-
Change in net position	414,112	409,256
Net position at beginning of year	4,005,509	3,596,253
Net position at end of year	$ 4,419,621	$ 4,005,509

The accompanying notes are an integral part of these financial statements.

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

Statements of Cash Flows
Years Ended September 30, 2024 and 2023

	2024	2023
Cash flows from operating activities:		
Cash received from customers	$ 265,903	$ 226,583
Cash paid to suppliers for goods and services	(35,592)	(32,884)
Net cash provided by operating activities	230,311	193,699
Cash flows from noncapital financing activities:		
Increase (decrease) due to states and primary government	(25,566)	10,518
Cash flows from capital and related financing activities:		
Acquisition of fixed assets	(14,471)	(14,030)
Proceeds from sale of fixed assets	825	-
Net cash used in capital and related financing activities	(13,646)	(14,030)
Cash flows from investing activities:		
Loan originations	(1,154,449)	(626,330)
Principal collections	849,808	717,502
Net cash provided by (used in) investing activities	(304,641)	91,172
Net change in cash	(113,542)	281,359
Cash at beginning of year	552,556	271,197
Cash at end of year	$ 439,014	$ 552,556
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 178,015	$ 217,882
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	8,834	7,771
Recovery for loan losses	(191,615)	(150,752)
Non-cash contribution from primary Government	211,820	144,787
Gain on sale of fixed assets	(825)	-
Decrease (increase) in assets:		
Interest receivable	(6,013)	(2,571)
Prepaid expenses	8,075	(8,075)
Due from primary Government	23,134	(46,587)
Increase (decrease) accrued liabilities	(1,114)	31,244
Net cash provided by operating activities	$ 230,311	$ 193,699

Supplemental disclosure of noncash operating and noncapital financing activities:

During the year ended September 30, 2024, operating subsidy direct payments to employees of $203,934 and other operating expenses of $7,886 were paid for by the primary government.

During the year ended September 30, 2023, operating subsidy direct payments to employees of $132,806 and other operating expenses of $11,981 were paid for by the primary government.

The accompanying notes are an integral part of these financial statements.

(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 the Housing Preservation Grant (HPG) loan funds extended by the United States Department of Agriculture (USDA) 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 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.

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

Net Position

Net position represents the residual interest in the Authority's assets after liabilities are deducted and consists of three components: net investment in capital assets, restricted net position, and unrestricted net position. 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. Net position is reported as restricted when constraints are imposed externally by third parties or law. At September 30, 2024 and 2023, all of the Authority's restricted assets are expendable, and are restricted for loan programs.

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.

Accounting 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, 2024 and 2023, cash carrying value were $439,014 and $552,556, respectively, with corresponding bank balances of $502,149 and $559,526, respectively, maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. The amount by which bank balances exceeded the $250,000 FDIC-insured limits was $224,304 and $283,373, respectively. The Authority has not historically experienced any losses in such accounts and management believes it is not exposed to any significant credit risk on its deposits.

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

Loans and Allowance for Loan Losses

Loans receivable are stated at unpaid principal balance less the allowance for loan losses.

Management maintains the allowance for loan losses at a level adequate to absorb probable losses. Management determines the adequacy of the allowance based upon reviews of individual loans, recent loss experience, current economic conditions, the risk characteristics of the various categories of loans and other pertinent factors. Loans deemed uncollectible are written off and charged to the allowance. Provisions for losses and recoveries on loans previously charged off are added to the allowance.

Interest on loans is accrued and credited to income based on the principal amount outstanding. The accrual of interest on loans is discontinued when, in the opinion of management, there is an indication that the borrower may be unable to meet payments as they become due. Upon such discontinuance, all unpaid accrued interest is reversed.

Capital Assets and Depreciation

The Authority capitalizes all fixed assets, irrespective of value, that have estimated useful lives of more than one year. Capital assets, whether purchased or constructed, are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. Depreciation of property and equipment is calculated using the straight-line method over the estimated useful lives of the respective assets. The estimated service lives of property and equipment are as follows:

	Estimated Useful Life
Building	10 years
Machinery and equipment	3 – 5 years
Vehicle	3 – 5 years
Improvements	10 years

Upon retirement or other disposition of capital assets recorded, the cost and related accumulated depreciation are removed from the respective program or fund accounts and any gain or loss is included in current operations.

The Authority evaluates events or changes in circumstances affecting long-lived assets, including intangible and capital assets, to determine whether an impairment of its assets has occurred. If the Authority determines that a long-lived asset is impaired, and that the impairment is significant and other-than temporary, then an impairment loss will be recorded in the Authority's financial statements. The Authority did not recognize any loss on impairment related to its long-lived assets for the years ended September 30, 2024 and 2023.

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

Compensated Absences

Vested or accumulated vacation leave is recorded as an expense and liability as the benefit accrues to employees. No liability is recorded for nonvesting accumulating rights to receive sick leave pay benefits. The related sick leave pay expense is recorded when the benefit is actually taken.

New Accounting Standards

During the year ended September 30, 2024 and 2023, the Authority implemented the following pronouncements:

- In April 2022, the GASB issued Statement No. 99, *Omnibus 2022*. The effective guidance from statement clarifies provisions of previously issued GASB Statements, specifically: GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees,* and GASB Statement No. 53, *Accounting and Financial Reporting for Derivative* Instruments.

- In April 2022, the GASB issued Statement No. 100, *Accounting Changes and Error Corrections*, the primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. This Statement requires disclosure in notes to financial statements of descriptive information about accounting changes and error corrections, such as their nature. In addition, information about the quantitative effects on beginning balances of each accounting change and error correction should be disclosed by reporting unit in a tabular format to reconcile beginning balances as previously reported to beginning balances as restated. Furthermore, this Statement addresses how information that is affected by a change in accounting principle or error correction should be presented in required supplementary information (RSI) and supplementary information (SI). For periods that are earlier than those included in the basic financial statements, information presented in RSI or SI should be restated for error corrections, if practicable, but not for changes in accounting principles.

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

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

New Accounting Standards, continued

In June 2022, the GASB issued Statement No. 101, *Compensated Absences*, the objective of this Statement is to address the information needs of users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. This Statement requires that a liability for certain types of compensated absences—including parental leave, military leave, and jury duty leave—not be recognized until the leave commences. This Statement also requires that a liability for specific types of compensated absences not be recognized until the leave is used. This Statement amends the existing requirement to disclose the gross increases and decreases in a liability for compensated absences to allow governments to disclose only the net change in the liability (as long as they identify it as a net change). In addition, governments are no longer required to disclose which governmental funds typically have been used to liquidate the liability for compensated absences. GASB Statement No. 101 will be effective for fiscal year ending September 30, 2025.

In December 2023, the GASB issued Statement No. 102, *Certain Risk Disclosures*, the objective of this Statement is to provide users of government financial statements with essential information about risks related to certain concentrations or constraints. The Statement defines a *concentration* as a lack of diversity related to an aspect of a significant inflow or outflow of resources. A *constraint* is a limitation imposed on a government by an external party or by formal action of the government highest level of decision-making authority. Concentrations and constraints may limit a government's ability to acquire resources or control spending. This Statement requires a government to assess whether a concentration or constraint makes the primary government reporting unit or other reporting units that report a liability for revenue debt vulnerable to the risk of a substantial impact. Additionally, this Statement requires a government to assess whether an event or events associated with a concentration or constraint that could cause the substantial impact have occurred, or have begun to occur, or are more likely than not to occur with 12 months of the date the financial statements are issued. If a government determines that the criteria's have been met for disclosure of a concentration or constraint, it should disclose information in the notes to the financial statements in sufficient detail to enable users of the financial statement to understand the nature of the circumstances disclosed and the governments vulnerability to the risk of a substantial impact. The provisions of Statement No. 102 will be effective for fiscal year ending September 30, 2025.

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

New Accounting Standards, continued

In April 2024, the GASB issued Statement No. 103, *Financial Reporting Model Improvements*, The objective of this Statement is to improve key components of the financial reporting model, including management's discussion and analysis (MD&A), proprietary fund financial statements, and budgetary comparison information. The Statement also enhances clarity regarding unusual or infrequent items and refines presentation requirements to improve consistency and decision usefulness. The provisions of Statement No. 103 will be effective for fiscal year ending September 30, 2026.

In September 2024, the GASB issued Statement No. 104, *Disclosures About Capital Assets*, the objective of this Statement is to address the information needs of users and requires enhanced note disclosures related to capital assets, including disaggregated information by major asset class and more detailed explanations of additions, disposals, and depreciation. The statement is intended to improve transparency and provide financial statement users with more decision-useful information about capital asset activities and conditions. The provisions of Statement No. 104 will be effective for fiscal year ending September 30, 2026.

In December 2025, the GASB issued Statement No. 105, *Subsequent Events*, the objective of this Statement is to improve the financial reporting requirements for subsequent events to enhance consistency in their application and better meet the information needs of financial statement users. This statement defines subsequent events, clarifies a two point description for the date on which the financial statements are available to be issued, modifies the subsequent events time frame throughout the GASB literature, requires the date through which subsequent events have been evaluated to be disclosed, clarifies the distinction between recognized and nonrecognized events, and establishes specific note disclosures for nonrecognized events. The provisions of Statement No. 105 will be effective for fiscal year ending September 30, 2027.

The Authority is evaluating the effects that the above upcoming pronouncements may have on the financial statements.

(2) Due From (To) Primary Government

The amount due from the primary government represents the accumulated unobligated balance of the Authority's appropriations due from the State of Pohnpei (the State). As of September 30, 2024 and 2023, the Authority had $34,732 and $57,866, respectively, of unobligated appropriations due from the primary government.

Due to primary government represents loans provided to the Authority by the State as a result of loan guarantees issued by the State to USDA (Note 3).

(3) Loans Receivable

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

- The PSHA loans are derived from the capital contributions of the 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.

- The USDA loans are from a grant extended from the USDA to the Pohnpei State Government (PSG). During the years ended September 30, 2009 and 2010, the PSG transferred to the Authority defaulted USDA RD loans, which the State had guaranteed. The Authority bears responsibility for collection and returning the collections to Pohnpei State Government (PSG) for approximately $1,280,779 of the balance. The Authority is not responsible for the ultimate recovery of these balances and as such, no liability beyond what has been collected has been recorded in the accompanying financial statements. At September 30, 2024 and 2023, cumulative unremitted collections due to PSG were $109,001 and $134,567, respectively.

Loans in the primary loan portfolio are collateralized by land or assignments of interest if the land is leased. All loans, other than the USDA RD loans, bear a fixed interest rate substantially at 4.5% with terms ranging from 3 to 25 years. The USDA RD loans are non-interest bearing. The Authority also offers small loan financing arrangements funded from the PSHA loan fund. These additional financings do require collateral but do not require that the collateral be secured with land. Origination amounts are capped at $3,000, 4.5% interest rates, and fixed at 2-year terms. The purpose of the program is to provide citizens with accessible financing for general home improvements.

A summary of loans receivable as of September 30, 2024 and 2023, is presented below:

	2024	2023
Pohnpei State Housing Authority Loans	$ 7,280,068	$ 6,951,736
HPG Loans	228,600	327,022
Small Loans	273,000	165,000
USDA RD Loans	1,280,779	1,319,694
	9,062,447	8,763,452
Less allowance for loan losses	(5,035,123)	(5,255,450)
Loan receivable, net	$ 4,027,324	$ 3,508,002

(3) Loans Receivable, continued

A summary of changes in the allowance for loan losses as of September 30, 2024 and 2023, is presented below:

	2024	2023
Allowance, beginning of year	$ 5,255,450	$ 5,440,526
Provision (recovery) of loan loss	(191,615)	(150,752)
Collections on charged-off loans	(28,712)	(34,324)
Allowance, end of year	$ 5,035,123	$ 5,255,450

Recovery from loan losses of $191,615 and $150,752 for the years ended September 30, 2024 and 2023, represent changes in the assessed requirements of the allowance for loan losses. During the years ended September 30, 2024 and 2023, no new loans were charged off. During the years ended September 30, 2024 and 2023, there were no net reinstatements of previously charged off loans.

(4) Capital Assets

Capital asset activities for the years ended September 30, 2024 and 2023, are as follows:

Depreciable:	Balance at October 1, 2023	Additions and Transfers	Deletions and Transfers	Balance at September 30, 2024
Building	$ 140,438	$ -	$ -	$ 140,438
Machinery and equipment	38,733	2,970	-	41,703
Vehicle	16,328	8,075	-	24,403
Improvements	36,113	4,636	(13,400)	27,349
	231,612	15,681	(13,400)	233,893
Less accumulated depreciation	(197,148)	(8,833)	13,400	(192,581)
	$ 34,464	$ 6,848	$ -	$ 41,312

Depreciable:	Balance at October 1, 2022	Additions and Transfers	Deletions and Transfers	Balance at September 30, 2023
Building	$ 126,408	$ 14,030	$ -	$ 140,438
Machinery and equipment	38,733	-	-	38,733
Vehicle	16,328	-	-	16,328
Improvements	36,113	-	-	36,113
	217,582	14,030	-	231,612
Less accumulated depreciation	(189,378)	(7,770)	-	(197,148)
	$ 28,204	$ 6,260	$ -	$ 34,464

Depreciation expense charged to operations for the years ended September 30, 2024 and 2023 totaled $8,834 and $7,771, respectively.

(5) Commitments and Contingencies

Loan Commitments

The Authority has loan commitments aggregating $534,034 and $393,225 as of September 30, 2024 and 2023. These loan commitments represent undisbursed balances of approved loans for housing projects.

Litigation

The Authority is party to a legal proceeding. The Attorney General of the Pohnpei State Government is of the opinion that the probable outcome of such case existing at September 30, 2024 and 2023, 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.

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 and that it is not exposed to any material future loss.

(6) Related Parties

Included in loans receivable, net of $4,027,324 are loans receivable from employees totaling $255,075 and $262,200 as of September 30, 2024 and 2023. Additionally, outstanding advances to former and current employees totaling $40,993 at September 30, 2024 and 2023, are fully provided with an allowance.

(7) Date of Management's Review

The Authority has considered subsequent events through July 31, 2026, the date upon which the financial statements were available to be issued. There were no other material subsequent events that would require recognition or disclosure in the financial statements for the year ended September 30, 2024.

POHNPEI STATE HOUSING AUTHORITY
(A Component Unit of the State of Pohnpei)

INDEPENDENT AUDITOR'S 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*

Year Ended September 30, 2024

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*

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 Pohnpei State Housing Authority (the "Authority"), which comprise the statement of net position as of September 30, 2024, and the related statement 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 July 31, 2026.

Report on 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be significant deficiencies. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as items 2024-001 and 2024-002 that we consider to be material weaknesses.

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Report on 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*.

The Authority's Response to Findings

The Authority's responses to findings identified in our audit are described in the accompanying Corrective Action Plan. The Authority's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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.

Burger Comer & Associates

July 31, 2026
Tamuning, Guam

Finding No. 2024-001
Loan Receivable Monitoring and Collection

Criteria: Management is responsible for establishing and maintaining effective internal controls over the monitoring, collection, and maintenance of the Authority's loan portfolio to ensure loans are collectible, delinquent accounts are timely identified and addressed, and receivable balances are properly stated in the financial statements.

Condition: As of September 30, 2024, a significant portion of the Authority's loan portfolio consisted of delinquent or inactive loans. Specifically, of the Authority's housing, HPG, and small loan portfolio totaling approximately $9.0 million:

- Approximately $3.1 million, representing 253 loans, had no principal activity during the fiscal year;
- Of this amount, approximately $2.4 million related to 213 loans with no payment or disbursement activity during the year; and
- Approximately $480,000 of the remaining active loan balances related to 49 loans that were six months or more past due.

Cause: The condition appears to result from inadequate internal controls over monitoring delinquent loans, collection follow-up procedures, and periodic evaluation of loan collectability. In addition, prior loan origination practices may not have consistently ensured compliance with borrower qualification requirements.

Effect: Failure to adequately monitor and collect delinquent loans increases the risk of:

- Uncollectible receivables and misstatement of loans receivable and related allowance accounts;
- Reduced cash flows available for Authority operations and lending activities; and
- Noncompliance with established lending policies and procedures.

Recommendation: The Authority should strengthen internal controls over loan portfolio monitoring and collection activities by:

- Establishing formal procedures for monitoring delinquent accounts;
- Performing periodic assessments of loan collectability;
- Developing and implementing formal write-off policies for uncollectible loans;
- Enhancing collection efforts and documentation of follow-up activities; and
- Strengthening loan origination and underwriting procedures to ensure compliance with borrower eligibility and repayment requirements.

Identification as a Repeat Finding: This finding is substantially similar to prior year Finding 2023-001.

Views of Responsible Officials: The Authority's response and planned corrective actions are included in the corrective action plan.

Name of Contact Person: Henry Saimon Jr., Executive Director

Proposed Completion Date: Ongoing.

Finding No. 2024-002
Loan Origination, Documentation, and Loan System Controls

Criteria:
The Authority should maintain effective internal controls to ensure loan originations, approvals, disbursements, and servicing activities comply with the Authority's Rules and Regulations. Loan files should contain complete supporting documentation, and loan system records should accurately reflect approved loan terms and disbursement amounts.

Condition:
During testing of loan files and related transactions, we noted the following deficiencies:

A. Incomplete Loan Documentation
Twenty-six (26) of forty (40) or 65% of new loan files tested did not contain one or more required documents, including:

- Property inspection reports or site photographs;
- Property maps consistent with title documentation;
- Construction or material cost estimates;
- Housing plans, designs, or specifications;
- Executed loan origination agreements;
- Board approvals supporting loan terms; or
- Documentation supporting differences between approved terms and executed agreements.

B. Noncompliance with Loan Terms and Lending Requirements
The following exceptions were identified:

1. Two loans were granted repayment terms exceeding the allowable term based on borrower income classifications under the Authority's rules and regulations;
2. One loan exceeded the maximum lending limitation allowable based on borrower income documentation;
3. One supplemental loan modification did not appropriately revise repayment terms after the loan balance increased into a higher lending tier classification.

C. Loan Disbursement Exceptions
Seven (7) of forty (40) or 17% of new loans tested had cumulative disbursements recorded in the loan journal that exceeded approved loan origination amounts.

D. Loan Payment Allocation Differences
Twenty (20) of forty (40) or 50% of cash receipts tested contained classification differences between the loan system and the cash receipts journal involving allocations among principal, accrued interest receivable, and interest income. Although individually and collectively immaterial, these exceptions indicate weaknesses in reconciliation and review procedures.

Finding No. 2024-002, Continued
Loan Origination, Documentation, and Loan System Controls

E. Prior-Year Loan Disbursement Exceptions
Three (3) of fourteen (14) or 21% of prior-year originated loans tested also had cumulative disbursements exceeding approved loan amounts.

Cause: The conditions identified above appear to result from:
- Ineffective monitoring of loan file documentation and document retention controls;
- Lack of supervisory review over loan origination and disbursement activities;
- Inadequate controls over modifications to loan system data;
- Lack of independent reconciliation procedures between the loan system and accounting records; and
- Insufficient periodic review of loan activity for compliance with approved lending terms.

Effect: The deficiencies noted increase the risk of:
- Noncompliance with the Authority's rules and regulations;
- Unauthorized or unsupported loan disbursements;
- Inaccurate loan balances and payment allocations;
- Misstatements in the accounting records and financial statements; and
- Increased risk of fraud, error, or misuse of Authority resources.

Recommendation: The Authority should strengthen internal controls over loan origination, servicing, and accounting processes by:
- Implementing standardized loan file review procedures to ensure all required documentation is obtained and retained prior to loan approval and disbursement;
- Establishing supervisory review controls over loan terms, borrower eligibility calculations, and loan modifications;
- Restricting and monitoring access to the loan system to prevent unauthorized changes;
- Performing periodic reconciliations between the loan system, loan journals, and accounting records;
- Reviewing cumulative loan disbursements to ensure disbursements do not exceed approved amounts; and
- Performing periodic compliance reviews to ensure adherence to the Authority's Rules and Regulations.
- Review loan base at the time of payment receipts to determine any differences between payment distributions on cash receipt tickets versus the payment data as it is reported in customer loan statements.

Identification as a Repeat Finding: This finding is substantially similar to prior year Finding 2023-002.

Views of Responsible Officials: The Authority's response and planned corrective actions are included in the corrective action plan.

Name of Contact Person: Henry Saimon Jr., Executive Director

Proposed Completion Date: Ongoing

POHNPEI STATE HOUSING AUTHORITY
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Date: August 18, 2026

MEMORANDUM

To: Mr. Karvin Flynn
Burger Corner Associates, LLC
South Marine Corps Drive
Tamuning, GU 96913

From: Henry Saimon Jr., Executive Director

Subject: Management Corrective Action Plan

Dear Mr. Flynn,

Pohnpei State Housing Authority is remitting this letter to confirm that we are in receipt of your audit draft report (s). We concur to your findings and are in the progress of implementing your recommendations here at PSHA.

To enhance the quality and timeliness of our management corrective action plans in future audits, we propose adopting a more structured and comprehensive approach. Specifically, we intend to clearly delineate each audit finding, assign specific corrective actions to responsible personnel, establish realistic timelines for completion, and define measurable criteria for success. We believe this framework will facilitate more effective tracking and timely resolution of audit findings.

Moreover, we recognize the importance of submitting a finalized and formally signed corrective action plan to prevent any delays in the audit closure process.

Thank you for your continued support and collaboration.

Respectfully,

Henry Saimon Jr.

Unresolved Prior Year Findings
Years Ended September 30, 2024 and 2023

Summary Schedule of Prior Year Findings

Finding Number	Finding Title	Status
2023-001	Loans Receivable	Not Corrected or Resolved
2023-002	Loan Applications	Not Corrected or Resolved