

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

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

YEAR ENDED SEPTEMBER 30, 2022

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

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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 statement of net position as of September 30, 2022, 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, 2022, 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 February 16, 2024 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.

Bryce Comas & Associates

February 16, 2024
Tamuning, Guam

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

Management's Discussion and Analysis
Year Ended September 30, 2022

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 year ended September 30, 2022. Please read it in conjunction with the Authority's financial statements, which follows this section.

FINANCIAL HIGHLIGHTS

- For fiscal year ended September 30, 2022 the Authority's net operating revenue decreased by (\$100,208) or 38% from prior year. Net operation revenues were \$260,789 in 2021 and were \$160,581 in 2022. The decrease in net operating revenues was mainly attributed to an increase in the provision for loan loss of \$104,992 on the loan receivables estimated by the Authority to be uncollectible.
- During the year, the Authority's total expenses increased by \$1,430 or 1% of total expense of \$189,070 from prior year.
- For fiscal year 2022, the Authority charged \$254,969 in interest and fees on loans.

Overview of the Financial Statements

The financial statements presented herein include all of the activities of the Authority included in this report are the statement of net position and the statement of revenues, expenses, 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 operated 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. The financial statement communicates the lending ability of the Authority through the turnover of its receivable. The passage of time and/or increase or the decrease in the net position may serve as a usual indicator whether the financial position of the Authority is improving or deteriorating.

**POHNPEI STATE HOUSING AUTHORITY
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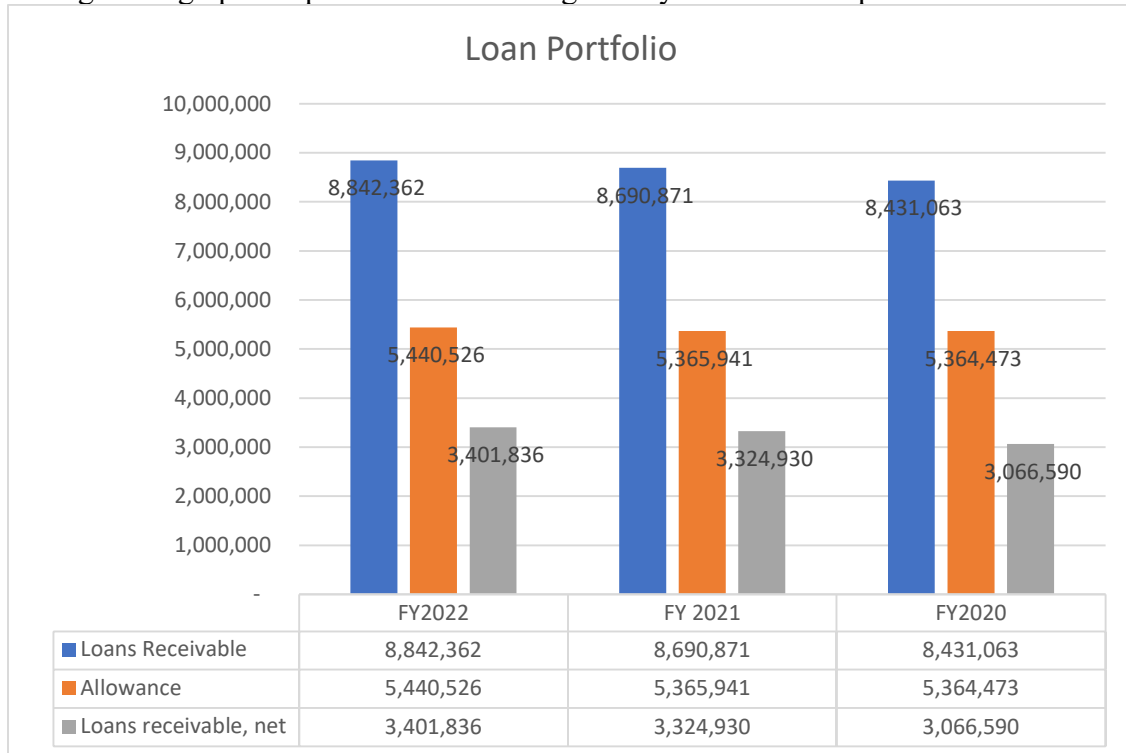
Management's Discussion and Analysis
Year Ended September 30, 2022

The following table summarizes the Statement of Net Position for years ended September 30, 2022, 2021, and 2020:

	Net Position		
	2022	2021	2020
Other assets	\$ 3,700,397	\$ 3,549,082	\$ 3,290,306
Capital assets, net	28,204	36,859	26,447
Total assets	<u>\$ 3,728,601</u>	<u>\$ 3,585,941</u>	<u>\$ 3,316,753</u>
Liabilities	\$ 132,348	\$ 125,652	\$ 99,948
Net position:			
Net investment in capital assets	28,204	36,859	26,447
Restricted	<u>3,568,049</u>	<u>3,423,430</u>	<u>3,190,358</u>
Total net position	<u>3,596,253</u>	<u>3,460,289</u>	<u>3,216,805</u>
Total liabilities and net position	<u>\$ 3,728,601</u>	<u>\$ 3,585,941</u>	<u>\$ 3,316,753</u>

Total net position increased by \$135,964 or 4% during fiscal year 2022. In addition, other major account changes compared to the prior year were as follows: Other assets increased by \$151,315 or 4% due to increases in loans receivable. For additional information concerning capital assets, please refer to Note 4 to the financial statements.

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



**POHNPEI STATE HOUSING AUTHORITY
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Management's Discussion and Analysis
Year Ended September 30, 2022

OVERVIEW OF THE FINANCIAL STATEMENTS

Changes in Net Position

The statement of revenues, expenses and changes in net position shows the results of operations 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, 2022, 2021, and 2020:

	Changes in Net Position		
	2022	2021	2020
Operating revenues:			
Interest and fees on loans	\$ 254,969	\$ 245,970	\$ 226,729
Other	10,604	11,104	7,467
Total operating revenues	265,573	257,074	234,196
Recovery from (provisions for) loan losses	(104,992)	3,715	(184,102)
Net operating revenues	160,581	260,789	50,094
Operating expenses:			
Salaries	144,122	138,529	132,301
Depreciation	9,400	10,901	15,259
Training	8,500	4,000	3,310
Utilities	8,320	7,811	6,052
Office supplies	5,484	9,661	6,797
Communications	4,064	4,168	4,169
Repairs and maintenance	2,001	1,084	1,781
Travel and transportation	625	1,008	10,418
Miscellaneous	8,091	11,908	12,297
Total operating expenses	190,607	189,070	192,384
Operating income (loss)	(30,026)	71,719	(142,290)
Non-operating revenues:			
Operating subsidy from PSG	165,990	150,295	137,751
Other (losses)/recovery	-	21,470	(50,916)
Change in net position	\$ 135,964	\$ 243,484	\$ (55,455)

**POHNPEI STATE HOUSING AUTHORITY
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Management's Discussion and Analysis
Year Ended September 30, 2022

Changes in Net Position (P&L)

The trend of the operating revenue continues to improve; however, the bad debt on poor collections restricted the Authority from profitability.

The operating expenses over the three-year period remains relatively the same.

Outlook

It is the Authority's goal and mission to provide safe, decent and sanitary housing at low cost for the people of Pohnpei. To reduce the delinquency rate and improve customer servicing and lending in FY 2022, the Authority shall continuously pursue aggressive collection which includes filing in court of delinquent accounts to foreclose on collateral.

Management's Discussion and Analysis for the year ended September 30, 2022, is set forth in the Authority's report on the audit of financial statements, which is dated February 16, 2024. That Discussion and Analysis explains the major factors impacting the 2022 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 PSHA'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 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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Statement of Net Position
September 30, 2022

ASSETS

Assets:

Cash	\$ 271,197
Employee advances, net of an allowance for doubtful accounts of \$40,993	-
Loans receivable, net	3,401,836
Interest receivable	15,955
Prepaid expenses	130
Property and equipment, net	28,204
Due from the primary government	<u>11,279</u>
	<u>\$ 3,728,601</u>

LIABILITIES AND NET POSITION

Liabilities:

Accrued liabilities	\$ 8,299
Due to states and primary government	<u>124,049</u>
Total liabilities	<u>132,348</u>

Commitments and contingencies

Net position:

Net investment in capital assets	28,204
Restricted	<u>3,568,049</u>
Total net position	<u>3,596,253</u>
	<u>\$ 3,728,601</u>

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

POHNPEI STATE HOUSING AUTHORITY
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Statement of Revenues, Expenses, and Changes in Net Position
Year Ended September 30, 2022

Operating revenues:	
Interest and fees on loans	\$ 254,969
Other	<u>10,604</u>
Total operating revenues	265,573
Recovery from (provisions for) loan losses	<u>(104,992)</u>
Net operating revenues	<u>160,581</u>
Operating expenses:	
Salaries	144,122
Depreciation	9,400
Training	8,500
Utilities	8,320
Supplies and materials	5,484
Communications	4,064
Repairs and maintenance	2,001
Travel and transportation	625
Miscellaneous	<u>8,091</u>
Total operating expenses	<u>190,607</u>
Operating loss	(30,026)
Nonoperating revenues:	
Operating subsidy from primary government	<u>165,990</u>
Change in net position	135,964
Net position at beginning of year	<u>3,460,289</u>
Net position at end of year	<u>\$ 3,596,253</u>

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

POHNPEI STATE HOUSING AUTHORITY
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Statement of Cash Flows
Year Ended Septemeber 30, 2022

Cash flows from operating activities:	
Cash received from customers	\$ 252,936
Cash paid to suppliers for goods and services	<u>(37,942)</u>
Net cash provided by operating activities	<u>214,994</u>
Cash flows from noncapital financing activities:	
Increase in due to states and primary government	<u>18,142</u>
Cash flows from capital and related financing activities:	
Acquisition of fixed assets	<u>(745)</u>
Cash flows from investing activities:	
Loan originations and principal collections, net	<u>(181,898)</u>
Net change in cash	50,493
Cash at beginning of year	<u>220,704</u>
Cash at end of year	<u><u>\$ 271,197</u></u>
Reconcillation of operating loss to net cash provided by operating activities:	
Operating loss	\$ (30,026)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	9,400
Provisions for loan losses	104,992
Non-cash contribution from primary government	165,990
Increase (decrease) in interest receivable	(12,637)
Decrease in accrued liabilities	(11,446)
Decrease in due from primary Government	<u>(11,279)</u>
Net cash provided by operating activities	<u><u>\$ 214,994</u></u>

Supplemental disclosure of noncash operating and noncapital financing activities:

During the year ended September 30, 2022, operating subsidy direct payments to employees of \$144,122 and other operating expenses of \$10,589 were paid for by the primary government.

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

**POHNPEI STATE HOUSING AUTHORITY
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Notes to Financial Statements
September 30, 2022

(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.

**POHNPEI STATE HOUSING AUTHORITY
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Notes to Financial Statements
September 30, 2022

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

Net Position

Net position represents the residual interest in the Authority's assets and deferred outflows of resources after liabilities and deferred inflows of resources are deducted and consists of the following three categories:

- Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt that are attributed to the acquisition, construction or improvement of those assets. Deferred outflows of resources that are attributable to related debt are also included in this component.
- Restricted net position results when constraints placed on net position use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law.
- Unrestricted net position consists of net position, which does not meet the definition of the two preceding categories. Net position that is not subject to externally imposed stipulations is considered unrestricted. Unrestricted net position may be designated for specific purposes by action by management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

Budget

The Authority operates on an annual budget appropriated by the Legislature which is accounted for by the Pohnpei State Department of Treasury. Appropriation Acts require that funds be administered in accordance with the provisions of the Financial Management Act. The enabling legislation does provide the Authority the power to expend revenues generated by projects maintained by the Authority. Such expenditures must, however, be in accordance with the provisions of the Financial Management Act and other applicable laws and regulations.

Management Estimates

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

**POHNPEI STATE HOUSING AUTHORITY
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Notes to Financial Statements
September 30, 2022

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

Cash

Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name. The Authority does not have a deposit policy for custodial credit risk.

For the purposes of the statements of net position and cash flows, cash is defined as cash in checking accounts, savings accounts and cash on hand. As of September 30, 2022, cash carrying value was \$271,197, with corresponding bank balances of \$278,495, maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. The Authority has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk on its deposits.

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

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, 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.

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Notes to Financial Statements
September 30, 2022

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

Capital Assets and Depreciation, continued

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. In 2022, the Authority did not recognize any loss on impairment related to its long-lived assets.

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

In 2020, GASB issued Statement No. 95 *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postponed the effective dates of GASB Statement No. 84, 89, 90, 91, 92 and 93 by one year and GASB Statement No. 87 by 18 months; however, earlier application of the provisions addressed in GASB Statement No. 95 is encouraged and is permitted to the extent specified in each pronouncement as originally issued.

During the year ended September 30, 2022, the Authority implemented the following pronouncements:

- GASB Statement No. 87, *Leases*, which increases the usefulness of financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. Limited exceptions to the single approach guidance are provided for short-term leases, financed purchases, leases of assets that are classified as investments, and certain regulated leases.

POHNPEI STATE HOUSING AUTHORITY
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Notes to Financial Statements
September 30, 2022

(1) Summary of Significant Accounting Policies, continued

New Accounting Standards, continued

- GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The primary objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.
- GASB Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures.
- GASB Statement No. 92, *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the effective date of Statement No. 87, *Leases*, and implementation Guide No. 2019-3, *Leases*, for interim financial reports, the terminology used to refer to derivative instruments and the applicability of certain requirements of Statement No. 84, *Fiduciary Activities*, to postemployment benefits. The requirements related to the effective date of GASB Statement No. 87 and implementation Guide 2019-3, reissuance recoveries and terminology used to refer to derivative instruments are effective upon issuance.
- GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*- an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for IRC Section 457 deferred compensation plans that meet the definition of a pension plan and for benefits provided through those plans.

POHNPEI STATE HOUSING AUTHORITY
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Notes to Financial Statements
September 30, 2022

(1) Summary of Significant Accounting Policies, continued

New Accounting Standards, continued

- GASB Statement No. 98, *The Annual Comprehensive Financial Report*. This Statement establishes the term annual comprehensive financial report and its acronym ACFR. The new term and acronym replace instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments.

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

In March 2020, the GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements. This statement also provides guidance for accounting and financial reporting for availability payment arrangements. GASB Statement No. 94 will be effective for fiscal year ending September 30, 2023.

In May 2020, the GASB issued Statement No. 96, *Subscription – Based Information Technology Arrangements*. The primary objective of this Statement is to provide guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This statement (1) defines a SBITA; (2) establishes that SBITA's result in a right-to-use subscription asset – an intangible asset – and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. GASB Statement No. 96 will be effective for fiscal year ending September 30, 2023.

In April 2022, the GASB issued Statement No. 99, *Omnibus 2022*. The primary objective of this Statement is to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. Requirements in the Statement relating to the extension of the use of London Interbank Offered Rate (LIBOR), accounting for Supplemental Nutrition Assistance program (SNAP) distributions, disclosures of nonmonetary transactions, pledges of future revenue by pledging governments, clarification of certain provisions of GASB Statement 34, as amended, and terminology updates related to GASB Statements 53 and 63 are effective upon issuance. The requirements related to leases, public-private partnerships (PPP)s, and subscription-based information technology arrangements (SBITAs) are effective for fiscal years beginning after June 15, 2022.

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

Notes to Financial Statements
September 30, 2022

(1) Summary of Significant Accounting Policies, continued

New Accounting Standards, continued

The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of GASB statement 53 are effective for fiscal years beginning after June 15, 2023.

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 requirements of this Statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Earlier application is encouraged. GASB Statement No. 100 will be effective for fiscal year ending September 30, 2024.

In June 2022, the GASB issued Statement No. 101, *Compensated Absences*, to better meet the information needs of financial statement 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.

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

POHNPEI STATE HOUSING AUTHORITY
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Notes to Financial Statements
September 30, 2022

(2) Due From (To) Primary Government

The amount due from the primary government represents the accumulation of the unobligated portion of the State of Pohnpei (the State) appropriations. As of September 30, 2022, the Authority had \$11,279 of unobligated appropriations due from the primary government.

Due to primary government represents collections on 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 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.

During the years ended September 30, 2009 and 2010, the State of Pohnpei 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 \$969,079 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, 2022, cumulative unremitted collections due to PSG were \$124,049.

A summary of loans receivable as of September 30, 2022, is presented below:

Pohnpei State Housing Authority Loans	\$ 7,022,044
HPG Loans	461,731
USDA RD Loans	<u>1,358,587</u>
	8,842,362
Less allowance for loan losses	<u>(5,440,526)</u>
Loan receivable, net	<u>\$ 3,401,836</u>

Recovery from (provision for) loan losses of (\$104,992) for the year ended September 30, 2022, represent a change in assessed requirements of the allowance for loan losses. During the year ended September 30, 2022, no new loans were charged off. During the year ended September 30, 2022, net reinstatements of previously charged off loans amounted to \$7,844.

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.

**POHNPEI STATE HOUSING AUTHORITY
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Notes to Financial Statements
September 30, 2022

(4) Property and Equipment

Capital asset activities for the year ended September 30, 2022, is as follows:

	Estimated Useful	Balance at October 1, 2021	Additions and Transfers	Deletions and Transfers	Balance at September 30, 2022
Depreciable:					
Building	10 years	\$ 126,408	\$ -	\$ -	\$ 126,408
Machinery and equipment	3-5 years	37,988	745	-	38,733
Vehicle	3-5 years	16,328	-	-	16,328
Improvements	10 years	36,113	-	-	36,113
		216,837	745	-	217,582
Less accumulated depreciation		(179,978)	(9,400)	-	(189,378)
		<u>\$ 36,859</u>	<u>\$ (8,655)</u>	<u>\$ -</u>	<u>\$ 28,204</u>

(5) Commitments and Contingencies

Loan Commitments

The Authority has loan commitments aggregating \$520,998 as of September 30, 2022. 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, 2022, 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 is not exposed to any future loss.

(6) Related Parties

Included in loans receivable, net of \$3,401,836 are loans receivable from employees totaling \$324,832 as of September 30, 2022. Additionally, outstanding advances to former and current employees totaling \$40,993 at September 30, 2022, are fully provided with an allowance.

**POHNPEI STATE HOUSING AUTHORITY
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Notes to Financial Statements
September 30, 2022

(7) Coronavirus Pandemic

In December 2019, an outbreak of a novel strain of coronavirus (COVID-19) originated in Wuhan, China and has since spread to other countries, including the U.S. and throughout Micronesia. On March 11, 2020, the World Health Organization (WHO) characterized COVID-19 as a pandemic. In addition, multiple jurisdictions in the U.S. have declared a state of emergency. On May 5, 2023, the WHO declared that the public health emergency ended. It is anticipated that these impacts will continue for some time. As a result of the spread of the coronavirus pandemic, economic uncertainties have arisen which are likely to impact the day-to-day administration of the Authority. While this matter is expected to negatively impact the Authority's results of operations and financial position, the related financial impact cannot be reasonably estimated at this time.

(8) Date of Management's Review

The Authority has evaluated subsequent events through February 16, 2024, the date upon which the financial statements were available to be issued. There were no material subsequent events that would require recognition or disclosure in the financial statements for the year-ended September 30, 2022.

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, 2022



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, 2022, 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 February 16, 2024.

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. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as items 2022-001 and 2022-002 that we consider to be significant deficiencies.

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 Schedule of Findings and Responses. 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.

Bryce Conner & Associates

February 16, 2024
Tamuning, Guam

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

Schedule of Findings and Responses
September 30, 2022

Finding No.: 2022-001

Loans Receivable

Criteria: Measures and actions should be strengthened to improve the collection of delinquent loans and maintenance of the loan portfolio.

Condition: At September 30, 2022, a significant portion of the Authority's loan portfolio includes delinquent loans. Specifically, of the Authority's total housing and HPG loans of approximately \$7.48 million, \$2.83 million relate to loans that had no transaction activity (payments or disbursements) during the year. Additionally, \$0.51 million of the remaining loans are six months or over past due.

Cause: The cause of the above condition appears to be the lack of adequate controls over loan collections and the lack of appropriate loan origination controls to eligible and qualified borrowers in the past years which contributed to loan defaults.

Effect: The effect of the above condition is the accumulation of uncollectible receivables and a possible misstatement of loans receivable.

Recommendation: The Authority should perform a review of existing collection measures and strategies, including policies over loan write-offs. Additionally, the Authority should strengthen its procedures over maintenance of the loan portfolio.

Identification as a Repeat Finding: This was reported in the previous year as Finding 2021-001

Views of Responsible Officials: The Authority describes its response to the finding and related corrective action in its corrective action plan.

Views of Auditee and Corrective Action Plan: We agree with the finding and acknowledge that it is a repeated finding. We propose to continue the corrective action plans we made for the previous audit which include writing off all the bad loans that have no transaction in FY 2021 audit. The write off policy had just been approved by the Board in the fourth quarter of FY 2023. We will also continue contacting borrowers and delivering their statements.

Name of Contact Person: Onlino Lawrence, Executive Director.

Proposed Completion Date: Ongoing.

**POHNPEI STATE HOUSING AUTHORITY
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Schedule of Findings and Responses
September 30, 2022

Finding No.: 2022-002

Loan Applications

Criteria: All loan applications and disbursements should adhere to the Authority's Rules and Regulations.

Conditions: The following matters were noted in tests of loans: five (5) of nineteen (19) new loan accounts (loan nos. 1973, 1977, 2000, 2018, and 2028) or 26% tested, did not have one or more of the following documents on file as required by the Authority's Rules and Regulations:

- Updated loan application for loan supplement;
- Property inspection;
- Property map; or
- Power of attorney.

The Authority could not locate the loan file for one (1) of the new loan accounts selected for testing (Loan no. 2005). As a result, we were not able to determine whether all documentation required by the Authority's Rules and Regulations was acquired and retained.

For five of the one hundred and twenty-nine prior year originated loans tested (loan nos. 1580, 1838, 1710, 1726, and 2018), total loan disbursements per the disbursements journal exceeded the approved loan amount. The Authority was not able to provide a reconciliation of the differences.

Cause: The cause of the above conditions is ineffective loan package monitoring and document retention procedures and systems.

Effect: The effect of the above conditions is potential noncompliance with the Authority's Rules and Regulations, which may contribute to insufficient loan documentation to support future loan collection efforts.

Recommendation: The Authority should continue to take reasonable steps to document compliance with loan application rules and regulations.

Identification as a Repeat Finding: This was reported in the previous year as Finding 2021-002

Views of Responsible Officials: The Authority describes its response to the finding and related corrective action in its corrective action plan.

Views of Auditee and Planned Corrective Actions: We cannot deny that our monitoring and file retention are poor. Our Loan Packager is hereby assigned the responsibility of making sure that all loan files include the following: Loan application, Power of Attorney, Promissory Note, Property Inspection Report, Property Map, Scope of Work, Contractor Agreements, Mortgage Agreement or Land Certificate of Title. Note that Development Plan had been deleted because its contents are included in the other documents.

Name of Contact Person: Onlino Lawrence, Executive Director.

Proposed Completion Date: Ongoing.

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

Unresolved Prior Year Findings
Year Ended September 30, 2022

Summary Schedule of Prior Year Findings

<u>Finding Number</u>	<u>Finding Title</u>	<u>Status</u>
2021-001	Loans Receivable	Not Corrected or Resolved
2021-002	Loan Applications	Not Corrected or Resolved