

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

**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITOR'S REPORT**

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**YEARS ENDED SEPTEMBER 30, 2023 and 2022**

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

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**BURGER · COMER · & ASSOCIATES**  
**CERTIFIED PUBLIC ACCOUNTANTS**

**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, 2023 and 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, 2023 and 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 March 17, 2025 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.

*Bryan Comer & Associates*

March 17, 2025

Tamuning, Guam

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

Management's Discussion and Analysis  
Years Ended September 30, 2023, and 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 years ended September 30, 2023, and 2022. Please read it in conjunction with the Authority's financial statements, which follows this section.

**FINANCIAL HIGHLIGHTS**

- For the fiscal year ending September 30, 2023, the Authority net operating revenues increased by \$230,762 or 144% from prior year's increase in net operating revenue, rising by \$230,762 from the previous year. Net operating revenue increased from \$160,581 in 2022 to \$391,343 in 2023, a development primarily driven by the adoption of the loan loss policy on March 01, 2023, by the Authority. The net effect of this change reduced the estimated bad debt allowance thereby realizing a gain to the Authority.
- Throughout the year, the Authority achieved a reduction in total expenses amounting to \$17,146, signifying a 9% decrease from the previous year's total expense of \$190,607.
- In the fiscal year 2023, the Authority collected a total of \$226,327 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.

**POHNPEI STATE HOUSING AUTHORITY**  
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Management's Discussion and Analysis  
Years Ended September 30, 2023, and 2022

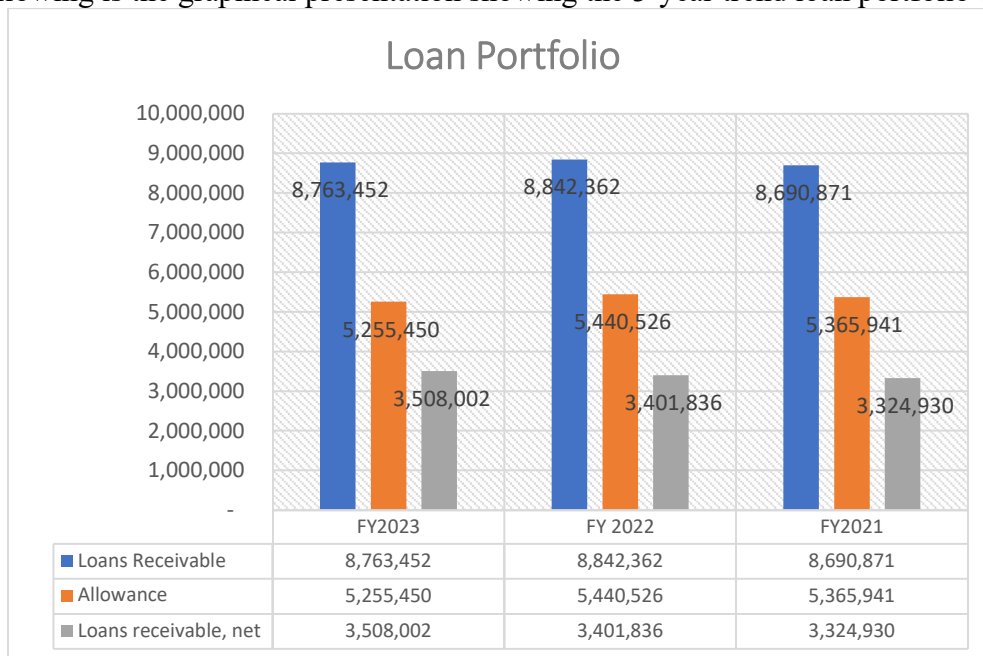
The following table summarizes the Statement of Net Position for FY 2023, FY 2022, and FY 2021:

	<b>Net Position</b>		
	2023	2022	2021
Other assets	\$ 4,145,155	\$ 3,700,397	\$ 3,549,082
Capital assets, net	34,464	28,204	36,859
<b>Total assets</b>	<b>\$ 4,179,619</b>	<b>\$ 3,728,601</b>	<b>\$ 3,585,941</b>
Liabilities	\$ 174,110	\$ 132,348	\$ 125,652
Net position:			
Net investment in capital assets	34,464	28,204	36,859
Restricted	3,971,045	3,568,049	3,423,430
Total net position	4,005,509	3,596,253	3,460,289
<b>Total liabilities and net position</b>	<b>\$ 4,179,619</b>	<b>\$ 3,728,601</b>	<b>\$ 3,585,941</b>

The total net position rose by \$409,149, representing an 11% increase in fiscal year 2023. Additionally, significant changes in other accounts compared to the previous year include a \$444,651 or 12% rise in other assets, driven by new loans and assumption of risks on farmer's home loans that were transferred to the Authority when 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:



**POHNPEI STATE HOUSING AUTHORITY**  
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Management's Discussion and Analysis  
Years Ended September 30, 2023, and 2022

**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 revenues earned 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, 2023, 2022, and 2021:

	<b>Changes in Net Position</b>		
	<u>2023</u>	<u>2022</u>	<u>2021</u>
Operating revenues:			
Interest and fees on loans	\$ 226,327	\$ 254,969	\$ 245,970
Other	<u>14,264</u>	<u>10,604</u>	<u>11,104</u>
Total operating revenues	240,591	265,573	257,074
Recovery from (provisions for) loan losses	<u>150,752</u>	<u>(104,992)</u>	<u>3,715</u>
Net operating revenues	<u>391,343</u>	<u>160,581</u>	<u>260,789</u>
Operating expenses:			
Salaries	132,806	144,122	138,529
Office supplies	8,688	5,484	9,661
Utilities	8,257	8,320	7,811
Depreciation	7,771	9,400	10,901
Communications	4,093	4,064	4,168
Travel and transportation	4,043	625	1,008
Repairs and maintenance	1,210	2,001	1,084
Training	-	8,500	4,000
Miscellaneous	<u>6,593</u>	<u>8,091</u>	<u>11,908</u>
Total operating expenses	<u>173,461</u>	<u>190,607</u>	<u>189,070</u>
Operating income (loss)	<u>217,882</u>	<u>(30,026)</u>	<u>71,719</u>
Non-operating revenues:			
Operating subsidy from PSG	191,374	165,990	150,295
Other (losses)/recovery	<u>-</u>	<u>-</u>	<u>21,470</u>
Change in net position	<u>\$ 409,256</u>	<u>\$ 135,964</u>	<u>\$ 243,484</u>



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Management's Discussion and Analysis  
Years Ended September 30, 2023, and 2022

**Changes in Net Position (P&L)**

The trend in net position is consistently improving, rising from \$135,964 in 2022 to \$409,256 in 2023, 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 clean housing for the residents of Pohnpei. To decrease the delinquency rate and enhance customer service and lending in the fiscal year 2024, the Authority will persistently engage in rigorous collection efforts and come up with strategies that will improve collection. These strategies will include restructuring delinquent loans with extended terms, negotiating repayment agreements with the deceased borrower's estate, and, if necessary, initiate legal action to recover collateral tied to these loans.

The Management's Discussion and Analysis for the year ended September 30, 2023, is set forth in the Authority's report on the audit of financial statements, which is dated March 17, 2025. That Discussion and Analysis explains the major factors impacting the 2023 financial statements and can be viewed at the office of the Public Auditor's website at [www.fsmopa.fm](http://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 its 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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Statements of Net Position  
September 30, 2023 and 2022

	<u>ASSETS</u>	<u>2023</u>	<u>2022</u>
Assets:			
Cash		\$ 552,556	\$ 271,197
Loans receivable, net		3,508,002	3,401,836
Interest receivable		18,526	15,955
Prepaid expenses		8,205	130
Property and equipment, net		34,464	28,204
Due from the primary government		<u>57,866</u>	<u>11,279</u>
Total assets		<u>\$ 4,179,619</u>	<u>\$ 3,728,601</u>
 <u>LIABILITIES AND NET POSITION</u> 			
Liabilities:			
Accrued liabilities		\$ 39,543	\$ 8,299
Due to states and primary government		<u>134,567</u>	<u>124,049</u>
Total liabilities		<u>174,110</u>	<u>132,348</u>
Commitments and contingencies			
Net position:			
Net investment in capital assets		34,464	28,204
Restricted		<u>3,971,045</u>	<u>3,568,049</u>
Total net position		<u>4,005,509</u>	<u>3,596,253</u>
Total liabilities and net position		<u>\$ 4,179,619</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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Statements of Revenues, Expenses, and Changes in Net Position  
Years Ended September 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Operating revenues:		
Interest and fees on loans	\$ 226,327	\$ 254,969
Other	<u>14,264</u>	<u>10,604</u>
Total operating revenues	240,591	265,573
Recovery from (provisions for) loan losses	<u>150,752</u>	<u>(104,992)</u>
Net operating revenues	<u>391,343</u>	<u>160,581</u>
Operating expenses:		
Salaries	132,806	144,122
Supplies and materials	8,688	5,484
Utilities	8,257	8,320
Depreciation	7,771	9,400
Communications	4,093	4,064
Travel and transportation	4,043	625
Repairs and maintenance	1,210	2,001
Training	-	8,500
Miscellaneous	<u>6,593</u>	<u>8,091</u>
Total operating expenses	<u>173,461</u>	<u>190,607</u>
Operating income (loss)	217,882	(30,026)
Nonoperating revenues:		
Operating subsidy from primary government	<u>191,374</u>	<u>165,990</u>
Change in net position	409,256	135,964
Net position at beginning of year	<u>3,596,253</u>	<u>3,460,289</u>
Net position at end of year	<u><u>\$ 4,005,509</u></u>	<u><u>\$ 3,596,253</u></u>

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

**POHNPEI STATE HOUSING AUTHORITY**  
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Statements of Cash Flows  
Years Ended September 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities:		
Cash received from customers	\$ 226,583	\$ 252,936
Cash paid to suppliers for goods and services	<u>(32,884)</u>	<u>(37,942)</u>
Net cash provided by operating activities	<u>193,699</u>	<u>214,994</u>
Cash flows from noncapital financing activities:		
Increase in due to states and primary government	<u>10,518</u>	<u>18,142</u>
Cash flows from capital and related financing activities:		
Acquisition of fixed assets	<u>(14,030)</u>	<u>(745)</u>
Cash flows from investing activities:		
Loan originations and principal collections, net	<u>91,172</u>	<u>(181,898)</u>
Net change in cash	281,359	50,493
Cash at beginning of year	<u>271,197</u>	<u>220,704</u>
Cash at end of year	<u><u>\$ 552,556</u></u>	<u><u>\$ 271,197</u></u>
Reconcillation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	\$ 217,882	\$ (30,026)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	7,771	9,400
Provision (recovery) for loan losses	(150,752)	104,992
Non-cash contribution from primary government	144,787	165,990
(Increase) in interest receivable	(2,571)	(12,637)
(Increase) in prepaid expenses	(8,075)	-
Increase (decrease) in accrued liabilities	31,244	(11,446)
(Increase) in due from primary Government	<u>(46,587)</u>	<u>(11,279)</u>
Net cash provided by operating activities	<u><u>\$ 193,699</u></u>	<u><u>\$ 214,994</u></u>

Supplemental disclosure of noncash operating and noncapital financing activities:

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.

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, 2023 and 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, 2023 and 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, 2023 and 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, 2023 and 2022, cash carrying value was \$552,556 and \$271,197, respectively, with corresponding bank balances of \$559,526 and \$278,495, respectively, 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.

**POHNPEI STATE HOUSING AUTHORITY**  
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Notes to Financial Statements  
September 30, 2023 and 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. The Authority did not recognize any loss on impairment related to its long-lived assets for the periods September 30, 2023 and 2022.

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, 2023 and 2022, the Authority implemented the following pronouncements:

- 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.
- 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.



**POHNPEI STATE HOUSING AUTHORITY  
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Notes to Financial Statements  
September 30, 2023 and 2022

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

New Accounting Standards, continued

- In April 2022, the GASB issued Statement No. 99, *Omnibus 2022*. This Statement contains guidance that clarifies the provisions of various GASB statements previously issued. Certain provisions of Statement No. 99 are applicable to future periods, guidance applicable to the current period relate to:
  - 1) Clarification on provisions in GASB Statement No. 87 related to the determination of lease terms, classification of a lease as a short-term lease, recognition and measurement of a lease liability and a lease asset, and identification of lease incentives.
  - 2) Clarification on the provisions in GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, related to (a) the determination of the public-private and public-public partnership (PPP) term and (b) recognition and measurement of installment payments and the transfer of the underlying PPP asset.
  - 3) Clarification on the provisions in GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, related to the subscription-based information technology arrangement (SBITA) term, classification of a SBITA as a short-term SBITA, and recognition and measurement of a subscription liability.
  - 4) Modifications to the accounting and reporting guidance in GASB Statement No. 53 *Accounting and Financial Reporting for Derivative Instruments*, relating to the termination of hedges.

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

As mentioned above certain provisions of GASB Statement No. 99, *Omnibus 2022*, are applicable to future periods. Provisions from the Statement applicable to future periods relate to:

- 1) Modifications to the guidance in GASB Statement 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, to bring all guarantees under the same financial reporting and disclosure requirements. These provisions of Statement No. 99 will be effective for the fiscal year ending September 30, 2024.
- 2) Guidance on the classification and reporting of derivative instruments within the scope of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. These provisions of Statement No. 99 will be effective for the fiscal year ending September 30, 2024.

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

Notes to Financial Statements  
September 30, 2023 and 2022

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

New Accounting Standards, continued

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.

In December 2023, the GASB issued Statement No. 102, *Certain Risk Disclosures*, 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.

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

Notes to Financial Statements  
September 30, 2023 and 2022

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

New Accounting Standards, continued

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.

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 accumulation of the unobligated portion of the State of Pohnpei (the State) appropriations. As of September 30, 2023 and 2022, the Authority had \$57,866 and \$11,279, 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.

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

Notes to Financial Statements  
September 30, 2023 and 2022

**(3) Loans Receivable, continued**

- 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 \$1,319,694 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, 2023 and 2022, cumulative unremitted collections due to PSG were \$134,567 and \$124,049, respectively.

A summary of loans receivable as of September 30, 2023 and 2022, is presented below:

	<u>2023</u>	<u>2022</u>
Pohnpei State Housing Authority Loans	\$ 6,951,736	\$ 7,022,044
HPG Loans	327,022	416,731
Small Loans	165,000	45,000
USDA RD Loans	<u>1,319,694</u>	<u>1,358,587</u>
	8,763,452	8,842,362
Less allowance for loan losses	<u>(5,255,450)</u>	<u>(5,440,526)</u>
Loans receivable, net	<u>\$ 3,508,002</u>	<u>\$ 3,401,836</u>

Recovery from (provision for) loan losses of \$150,752 and (\$104,992) for the years ended September 30, 2023 and 2022, represent changes in the assessed requirements of the allowance for loan losses. During the years ended September 30, 2023 and 2022, no new loans were charged off. During the years ended September 30, 2023 and 2022, net reinstatements of previously charged off loans amounted to \$0 and \$7,844, respectively.

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 offer's 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.

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

Notes to Financial Statements  
September 30, 2023 and 2022

**(4) Property and Equipment**

Capital asset activities for the years ended September 30, 2023 and 2022, is as follows:

	Estimated	Balance at	Additions	Deletions	Balance at
	Useful Life	October	and	and	September
Depreciable:		<u>1, 2022</u>	<u>Transfers</u>	<u>Transfers</u>	<u>30, 2023</u>
Building	10 years	\$ 126,408	\$ 14,030	\$ -	\$ 140,438
Machinery and equipment	3-5 years	38,733	-	-	38,733
Vehicle	3-5 years	16,328	-	-	16,328
Improvements	10 years	<u>36,113</u>	<u>-</u>	<u>-</u>	<u>36,113</u>
		217,582	14,030	-	231,612
Less accumulated depreciation		<u>(189,378)</u>	<u>(7,770)</u>	<u>-</u>	<u>(197,148)</u>
		<u>\$ 28,204</u>	<u>\$ 6,260</u>	<u>\$ -</u>	<u>\$ 34,464</u>

	Estimated	Balance at	Additions	Deletions	Balance at
	Useful	October	and	and	September
Depreciable:		<u>1, 2021</u>	<u>Transfers</u>	<u>Transfers</u>	<u>30, 2022</u>
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	<u>36,113</u>	<u>-</u>	<u>-</u>	<u>36,113</u>
		216,837	745	-	217,582
Less accumulated depreciation		<u>(179,978)</u>	<u>(9,400)</u>	<u>-</u>	<u>(189,378)</u>
		<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 \$393,225 and \$520,998 as of September 30, 2023 and 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, 2023 and 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.

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

Notes to Financial Statements  
September 30, 2023 and 2022

**(5) Commitments and Contingencies, continued**

Risk Management

The Authority is essentially self-insured for potential losses. Management is of the opinion that no material losses during the past three years have resulted from this practice and that is not exposed to any future loss.

**(6) Related Parties**

Included in loans receivable, net of \$3,508,002 are loans receivable from employees totaling \$262,200 and \$324,832 as of September 30, 2023 and 2022. Additionally, outstanding advances to former and current employees totaling \$40,993 at September 30, 2023 and 2022, are fully provided with an allowance.

**(7) Date of Management's Review**

The Authority has evaluated subsequent events through March 17, 2025. It is also the date that the financial statements were available to be issued.

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

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**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***

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**Years Ended September 30, 2023 and 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 statements of net position as of September 30, 2023 and 2022, and the related statements of revenues, expenses and changes in net position and of cash flows for the year then ended and the related notes to the financial statements, and have issued our report thereon dated March 17, 2025.

**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. 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 2023-001 and 2023-002 that we consider to be significant deficiencies.

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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 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.

*Bruce Comer & Associates*

March 17, 2025  
Tamuning, Guam

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

Schedule of Findings and Responses  
Years ended September 30, 2023 and 2022

**Finding No.: 2023-001**

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, 2023, a significant portion of the Authority's loan portfolio represents delinquent loans. Specifically, of the Authority's total housing, HPG, and small loans of approximately \$8.7 million, \$3.0 million relate to loans that have no transactions (payments or disbursements) during the year. Additionally, approximately \$ 0.46 million of the remaining loans are over six months past due.

Cause: There appears to be a lack of adequate controls over the monitoring of loan collections and appropriate loan origination controls to eligible and qualified borrowers in the past years which contributed to loan defaults.

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

Recommendation: The Authority should establish and implement internal control monitoring procedures to review past-due loan collections and implement measures and strategies, including policies over loan write-offs to ensure timely repayment. Additionally, the Authority should strengthen its procedures over maintenance of the loan portfolio.

Identification as a Repeat Finding: Finding 2022-001

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

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

Proposed Completion Date: Ongoing

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

Schedule of Findings and Responses  
Years ended September 30, 2023 and 2022

**Finding No.: 2023-002**

**Loans Application**

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

**Conditions:** The following matters were noted in tests of loans:

- A. Ten (10) of twenty-one (21) new loan accounts or 48% of the new loans tested (loan nos. 2063, 2078, 2079, 2081, 2084, 2087, 2090, 2107, 2114, and 2115), 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 (Loan nos. 2078, 2081, 2084, 2090, and 2114);
  - Property site pictures or a property inspection (Loan no. 2079);
  - Property map (Loan no. 2087);
  - Mortgage agreement (Loan no. 2063);
  - Board minutes evidencing approval (Loan nos. 2107 and 2115);
- B. In Fiscal year 2022, we noted that the Authority could not locate the loan file for Loan no. 2005. This loan was supplemented during Fiscal year 2023 and thereafter was codified as Loan no. 2084. We verified that the current year loan supplement documentation was adequately retained. The Authority, however, is still unable to locate the original loan underlying documentation from first origination in July 2021 up to before the latest supplement executed in April 2023.
- C. For Loan no. 2080, originated on April 4, 2023, we noted a separate contract fact sheet dated September 09, 2023 implying that an additional \$2,382 loan supplement was executed before the end of the fiscal year. In that borrower's loan file however, there was no documentation supporting the new loan supplement inclusive of amended: loan agreement, promissory note, mortgage agreement, updated loan application for loan supplement, or loan input form.
- D. For Loan no. 2070, the Authority was not able to locate the loan file and furnish it to us for testing. Consequently, we were not able to determine whether all documentation required by the Authority's rules and regulations were properly executed and retained.
- E. For Loan no. 2055, it appears the loan originated at an amount in excess of the Authority's rules and regulations. Based on our review of the borrower's loan file, the annual income of the applicant and co-applicant would have been insufficient to exceed \$16,000. The lending limitation per the Authority's rules and regulations would have been capped at \$25,000; however, \$34,000 was disbursed as the loan amount.

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

Schedule of Findings and Responses  
Years ended September 30, 2023 and 2022

**Finding No.: 2023-002, Continued**

- F. For Loan no. 2056, it appears the loan originated at an amount in excess of the Authority's rules and regulations. Based on our review of the borrower's loan file, the annual income of the applicant and co-applicant would have been insufficient to exceed \$30,001. The lending limitation per the Authority's rules and regulations would have been capped at \$35,000; however, \$36,789 was disbursed as the loan amount.
- G. For five (5) out of twenty-one (21) or 24% of the new loans tested (loan nos. 2052, 2056, 2073, 2081, and 2089), the total loan disbursements per the loan journal exceeded the approved origin amount.
- H. For six (6) out of forty-eight (48) or 13% of the prior year originated loans tested (loan nos. 1293, 1975, 1983, 1984, 1916, and 2015), the total loan disbursements per the loan journal exceeded the approved origin amount.

Cause: For finding 2023-002 sub-conditions (A) through (F) – the cause of the above conditions is ineffective loan package monitoring and a lack of internal control procedures for document retention.

For finding 2023-002 sub-conditions (G) through (H) – there appears to be a lack of controls over: (1) monitoring loan base posting; and (2) a lack of independent review over the loan journal by the Loan Department to ensure all loans are properly documented for the correct amount.

Effect: The Authority is not in compliance with its Rules and Regulations.

Recommendation: For conditions (A) through (F), the Authority should continue to take reasonable steps to enhance its system of internal control over document compliance with loan application rules and regulations.

For conditions (G) and (H), the Authority should establish and implement internal control monitoring procedures over the review of the accuracy and completeness of the loan journal, limiting access rights to the loan base, and performing year-end reviews to identify discrepancies or deficiencies requiring correction prior to submission to its auditors.

Identification as a Repeat Finding: Finding 2022-002

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

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

Proposed Completion Date: Ongoing



**POHNPEI STATE HOUSING AUTHORITY**

P. O. Box 1109

Kolonia, Pohnpei. FSM 96941

Phone: (691) 320-2582/4225

Date: March 25, 2025

**MEMORANDUM**

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

**From:** Executive Director

**Subject:** 2023 PSHA-MD&A

Dear Mr. Karvin Flynn,

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

Moving forward, we are in the stage of updating our loan system to a more current and reliable system as we encounter some hiccups/system crash several weeks ago. Its just a matter of time we will be updated with our loan system.

Our staff plays a significant role in our daily operations and we are aiming to implement trainings required for our key staff for each division.

Again, we are grateful for your sound reports that makes us re-look at our agency's financial well-being.

Respectfully,

  
Henry Jr. Saimon  
Executive Director  
Pohnpei State Housing Authority

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

Unresolved Prior Year Findings  
Years Ended September 30, 2023 and 2022

Summary Schedule of Prior Year Findings

<u>Finding Number</u>	<u>Finding Title</u>	<u>Status</u>
2022-001	Loans Receivable	Not Corrected or Resolved
2022-002	Loan Applications	Not Corrected or Resolved