

PALAU HOUSING AUTHORITY
(A Component Unit of the Republic of Palau)

**INDEPENDENT AUDITORS' REPORT
AND
FINANCIAL STATEMENTS**

Years Ended September 30, 2018 and 2017

PALAU HOUSING AUTHORITY
(A Component Unit of the Republic of Palau)

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SEPTEMBER 30, 2018

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Palau Housing Authority

Report on the Financial Statements

We have audited the accompanying combined financial statements of Palau Housing Authority (the Authority), a component unit of the Republic of Palau as of September 30, 2018, and for the years then ended and the related notes to the financial statements, which collectively comprise the financial statements as listed in the table of contents. The prior year summarized comparative information has been derived from the Authority's 2017 financial statements and, in our report dated April 18, 2018, we expressed an unmodified opinion on those financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Palau Housing Authority. as of September 30, 2018, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 16, the Budgetary Comparison Information on page 49, the Schedule of the Authority's Proportional Share of the Net Pension Liability on page 50, and the Schedule of Pension Contributions on page 51 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Financial Information

Our audit was conducted for the purpose of forming an opinion on the Authority's basic financial statements as a whole. The schedule of investments as of September 30, 2018 on page 52 and the statistical section on pages 49 through 52 is presented for purposes of additional analysis and is not a required part of the financial statements. The schedule of investments and statistical section are the responsibility of management. The schedule of investments and the statistical section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

The schedule of investments and the statistical section are the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the statistical section is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 24, 2019 on our consideration of the Palau Housing Authority's internal control over financial reporting and our tests of its compliance with certain provision of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.



Koror, Republic of Palau
April 24, 2019

PALAU HOUSING AUTHORITY
(A Component Unit of the Republic of Palau)

Management's Discussion and Analysis
September 30, 2018

As management of the Palau Housing Authority (the Authority), a component unit of the Republic of Palau (ROP), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended September 30, 2018. We encourage readers to consider the information presented in conjunction with the Authority's financial statements and accompanying notes to the financial statements on pages 17 through 48.

Financial Highlights

- The assets of the Authority exceeded its liabilities at September 30, 2018 and 2017 by \$2,835,477 and \$2,646,183, respectively. The Authority's net position (assets less liabilities) increased by \$189,264 from the previous year. The increase in net assets is a result of excess of revenues earned over expenses.
- The Authority's cash and cash equivalents at September 30, 2018 and 2017 was \$1,464,575 and \$2,389,073, respectively, representing a decrease of \$924,498 which used primarily to fund new loans approximating \$735,631 and \$128,810 for the construction in progress for the new commercial building.
- The Authority had operating revenues of \$184,090 and \$176,169 and operating expenses of \$268,204 and \$417,345 for the years ended September 30, 2018 and 2017, respectively. Operating expenses decreased by \$149,141 primarily due to the decrease in repair and maintenance costs incurred for the demolition of the old Airai Elementary School which occurred during 2017.

Overview of the Financial Statements

The Management Discussion and Analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements are comprised of two components: 1) authority-wide financial statements; and 2) notes to the financial statements.

For the year ended September 30, 2018, the Authority implemented the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. GASB Statement Nos. 68 and 71 establish standards for measuring and recognizing net pension liabilities, deferred outflows of resources, deferred inflows of resources, and expenses related to pension benefits provided through defined pension plans. In addition, Statement No. 68 requires disclosure of information related to pension benefits.

PALAU HOUSING AUTHORITY
(A Component Unit of the Republic of Palau)

Management's Discussion and Analysis
September 30, 2018

Overview of the Financial Statements, Continued

AUTHORITY-WIDE FINANCIAL STATEMENTS, Continued

The authority-wide financial statements are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business.

The *Combined Statement of Net Position* presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The *Combined Statement of Revenues, Expenses and Changes in Net Position* presents information showing how the Authority's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this Statement for some items that will only result in cash flows in future fiscal periods (e.g., depreciation and earned but unused vacation leave).

The *Combined Statement of Cash Flows* provides information about the Authority's cash receipts and cash payments during the reporting period. This Statement reports cash receipts, cash payments, and net changes in cash resulting from operating, investing, and financing activities.

The authority-wide financial statements report on the function of the Authority that is principally supported by intergovernmental revenues. The Authority's function is to develop and administer low-cost housing projects and to assist in correcting housing conditions endangering the health, safety, and welfare of the people residing in the Republic of Palau, which is funded primarily with grant revenue received from the U.S. Department of Housing and Urban Development.

The authority-wide financial statements can be found on pages 17 through 21 of this report.

NOTES TO THE FINANCIAL STATEMENTS

The notes to the financial statements provide additional information that is essential for a full understanding of the data provided in the authority-wide financial statements. The notes to the financial statements can be found on pages 22 through 48 of this report.

PALAU HOUSING AUTHORITY
(A Component Unit of the Republic of Palau)

Management's Discussion and Analysis
September 30, 2018

Overview of the Financial Statements, Continued

FUND FINANCIAL STATEMENTS

Traditional users of governmental financial statements will find the Fund Financial Statements presentation more familiar. The focus is now on Major Funds rather than fund types. The Authority consists of exclusively enterprise funds. Enterprise funds utilize the full accrual basis of accounting. The enterprise method of accounting is similar to accounting utilized for the private sector accounting.

Funds maintained by the Authority are segregated to enhance accountability and control.

Authority-Wide Financial Analysis

Fiscal year 2018 is the sixteenth year of implementation of Governmental Accounting Standards Board (GASB) Statement No. 34. The financial statement focuses on the Authority as a whole. The Authority's financial statements are designed to emulate corporate presentation models whereby all Authority activities are combined into one total. The focus of the Statement of Net Assets is designed to be similar to bottom line results for the Authority. This Statement combines current financial resources (short-term spendable resources) with capital assets. The Statement of Revenues, Expenses, and Changes in Net Assets focuses on both the gross costs and the net costs of the Authority's activities which are supported mainly by appropriations from Palau National Congress (Olbiil Era Kelulau or OEK) and by other revenues. This approach is intended to summarize and simplify the user's analysis of cost of the Authority's services to the general public of the ROP.

PALAU HOUSING AUTHORITY
(A Component Unit of the Republic of Palau)

Management's Discussion and Analysis
September 30, 2018

Authority-Wide Financial Analysis, Continued

Statements of Net Position
September 30, 2018, 2017, 2016

	2018	2017	2016
Assets and Deferred Outflows of Resources			
Current assets:			
Cash and cash equivalents	\$ 1,464,575	\$ 2,389,073	\$ 3,193,179
Investments	3,520,430	3,259,896	-
	4,985,005	5,648,969	3,193,179
Notes receivable, current portion	204,284	204,284	191,334
Allowance for doubtful accounts	(87,994)	(87,994)	(87,994)
	116,290	116,290	103,340
Receivable from Republic of Palau	-	-	2,500,000
Other receivables	226,904	15,726	497
Total current assets	5,328,199	5,780,985	5,797,016
Notes receivable, net of current portion	2,959,565	2,223,934	2,148,655
Capital assets, net	147,776	25,153	11,787
Total assets	8,435,540	8,030,072	7,957,458
Deferred outflows of resources related to pension	78,656	60,897	41,886
Total Assets and Deferred Outflows of Resources	\$ 8,514,196	\$ 8,090,969	\$ 7,999,344

PALAU HOUSING AUTHORITY
(A Component Unit of the Republic of Palau)

Management's Discussion and Analysis
September 30, 2018

Authority-Wide Financial Analysis, Continued

Statements of Net Position
September 30, 2018, 2017, 2016

	2018	2017	2016
Liabilities, Deferred Inflows of Resources and Net Position			
Current Liabilities:			
Accrued expenses	\$ 31,695	\$ 33,421	\$ 6,751
Due to other fund	207,908	-	-
Total current liabilities	239,603	33,421	6,751
Notes payable	5,000,000	5,000,000	5,000,000
Net pension liability	360,660	360,301	333,670
Total liabilities	5,600,263	5,393,722	5,340,421
Deferred inflows of resources related to pension	78,486	51,064	37,254
Total liabilities and deferred inflows of resources	5,678,749	5,444,786	5,377,675
Net Position			
Invested in capital assets	8,437	10,112	11,787
Restricted	3,163,848	2,428,218	2,339,989
Unrestricted	(336,838)	207,853	269,893
Total net position	2,835,447	2,646,183	2,621,669
Total Liabilities, Deferred Inflows of Resources and Net Position	\$ 8,514,196	\$ 8,090,969	\$ 7,999,344

This schedule is prepared from the Authority's Statement of Net Position, which is presented on an accrual basis of accounting whereby liabilities and expenses are recorded when incurred, whether paid or not, and revenue is recorded when earned, whether received or not.

PALAU HOUSING AUTHORITY
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Management's Discussion and Analysis
September 30, 2018

Authority-Wide Financial Analysis, Continued

Total assets and deferred outflows of resources totaled \$8.5 million at September 30, 2018. This balance is relatively the same as compared to 2017; however, it reflects \$423,227 increase associated with an increase \$128,810 for the construction costs incurred for the Authority's new commercial office building and \$747,272 increase in notes receivable and offset by a decrease in cash of \$924,498 used to fund new loans, operations and construction activity. The receivable amount of \$2.5 million was received during 2017. The Authority through the Republic of Palau obtained a \$5 million loan from Mega International Commercial Bank Co. Ltd. The loan is to be used to finance housing which includes displaced Palauan residents.

During the fiscal year ending September 30, 2018, the Authority approved twelve (12) loans approved totaling \$258,350 for renovation; ten (10) loans approved for new construction totaling \$400,000 and seven loans approved totaling \$34,966 sourced from the HIRAP Loan Program.

As noted earlier, net position may serve over time as a useful indicator of an entity's financial position. In the case of the Authority, assets exceeded liabilities by \$2,835,447 as of September 30, 2018.

**Operating Revenues for the Years Ended
September 30, 2018, 2017 and 2016**

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Operating revenues:			
Republic of Palau appropriations	\$ 70,000	\$ 70,000	\$ 70,000
Interest on loans	112,008	93,606	88,863
Other	<u>2,082</u>	<u>12,563</u>	<u>11,832</u>
 Total operating revenues	 <u>\$ 184,090</u>	 <u>\$ 176,169</u>	 <u>\$ 170,695</u>

The above schedule indicates total revenues realized by the Authority in FY 2018 totaling \$184,090. The OEK contributed \$70,000 through cost reimbursement grants during FY 2018. The Authority's intergovernmental revenues and charges for services were sufficient to cover all expenses excluding depreciation and interest expense incurred during the year.

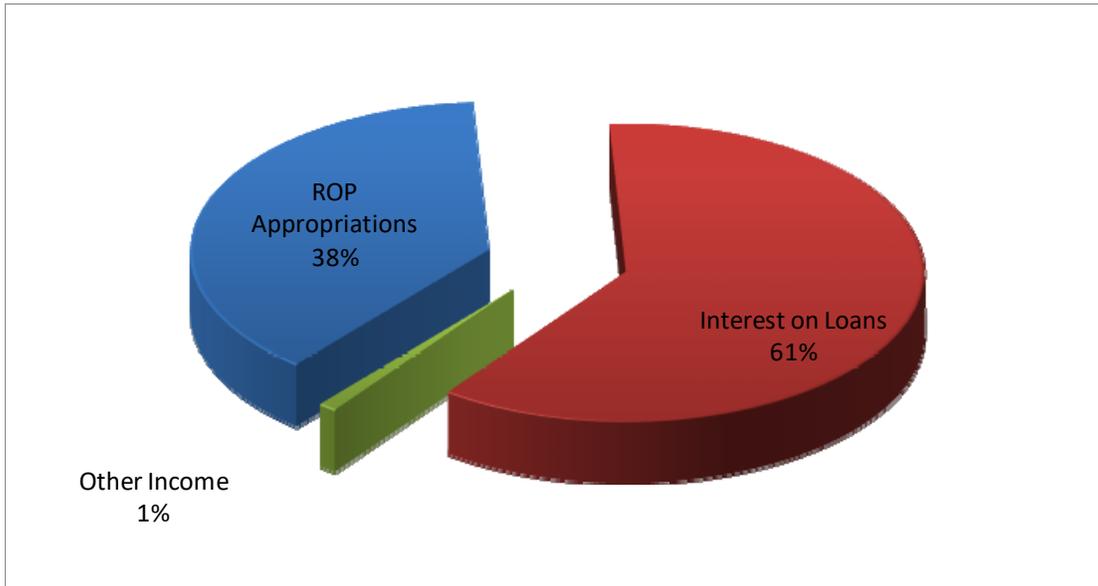
PALAU HOUSING AUTHORITY
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Management's Discussion and Analysis
September 30, 2018

Authority-Wide Financial Analysis, Continued

The following chart exhibits the breakdown of revenues for Palau Housing Authority in FY 2018.

Operating Revenues Breakdown



PALAU HOUSING AUTHORITY
(A Component Unit of the Republic of Palau)

Management's Discussion and Analysis
September 30, 2018

Authority-Wide Financial Analysis, Continued

**Operating Expenses for the Years Ended
September 30, 2018, 2017 and 2016**

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Operating expenses:			
Interest expense	\$ 125,120	\$ 105,918	\$ -
Salaries and wages	75,642	77,970	75,456
Labor and materials	-	-	29,814
Rent expense	9,000	9,000	12,681
Employee benefits	21,557	34,728	12,262
Communication	3,794	4,057	4,836
Travel	9,252	8,524	5,481
Utilities	2,470	2,289	2,834
Depreciation	6,187	4,329	2,576
Professional fees	-	390	-
Repairs and maintenance	4,890	154,326	5,640
Insurance	1,064	1,077	1,039
Miscellaneous	<u>9,228</u>	<u>14,737</u>	<u>14,208</u>
Total operating expenses	<u>\$ 268,204</u>	<u>\$ 417,345</u>	<u>\$ 166,827</u>

The above schedule shows total operating expenses of \$268,204 in FY 2018.

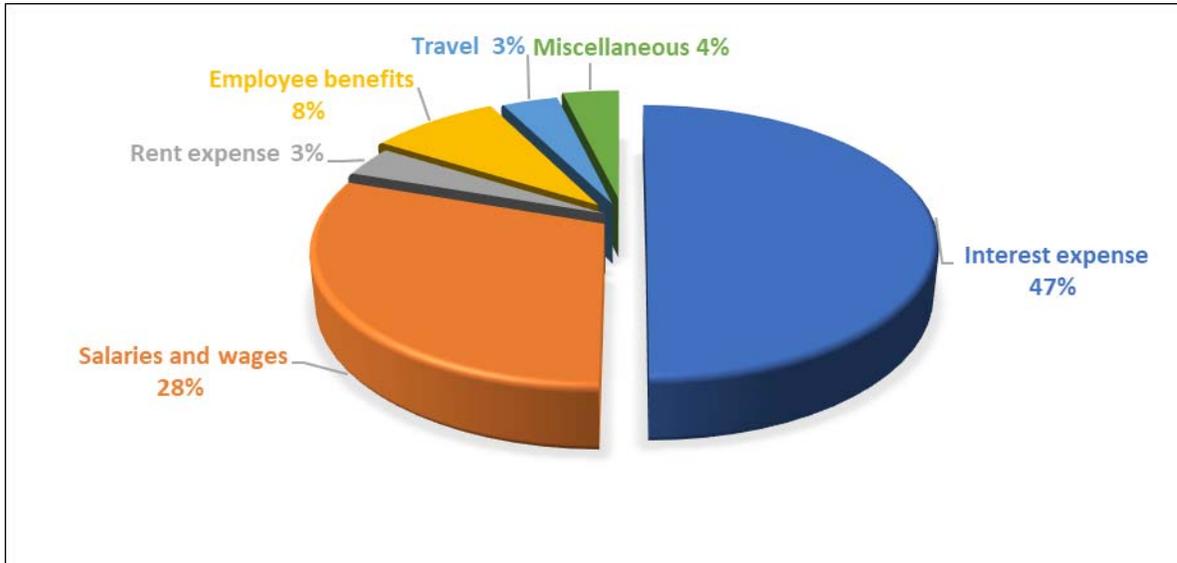
The Authority's operating expenses decreased by \$149,141 in FY 2018 primarily due to decrease in repair and maintenance costs incurred during FY 17 under the Home Rehabilitation Loan Program for the demolition of the old Airai Elementary School.

PALAU HOUSING AUTHORITY
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Management's Discussion and Analysis
September 30, 2018

Authority-Wide Financial Analysis, Continued

Expense Breakdown
For Year Ended September 30, 2017



The two largest expenditures in FY 2018 were for interest expense and employee salaries and wages totaling \$125,120 and \$75,642, respectively. Expenses representing 2% or less were not presented in the above table. For comparison purposes, the FY 2017 interest expense totaled \$105,918 and salaries and wages totaled \$77,970. In addition, repairs and maintenance decreased from \$154,326 in 2017 to \$4,890 in 2018 or \$149,436.

PALAU HOUSING AUTHORITY
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Management's Discussion and Analysis
September 30, 2018

Authority-Wide Financial Analysis, Continued

CAPITAL ASSETS

As of September 30, 2018, 2017 and 2016, the Authority's investment in capital assets (net of accumulated depreciation) for its business-type activities is as reflected in the following schedule:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Furniture, fixtures, and equipment	\$ 21,240	\$ 21,240	\$ 21,240
Vehicles	62,962	62,962	45,267
Construction in-progress	<u>128,810</u>	<u>-</u>	<u>-</u>
	213,012	84,202	66,507
Accumulated depreciation	<u>(65,236)</u>	<u>(59,049)</u>	<u>(54,720)</u>
	<u>\$ 147,776</u>	<u>\$ 25,153</u>	<u>\$ 11,787</u>

Additional information on the Authority's capital assets can be found in Notes 1 and 5 of the accompanying Notes to Combined Financial Statements.

FUND BALANCE

Fund balance is an analysis of balances and transactions of individual funds, including the reasons for significant changes in fund balances or fund net assets and whether restrictions, commitments, or other limitations significantly affect the availability of fund resources for future use.

As of September 30, 2018, 2017 and 2016, the Authority's fund balance is as reflected in the following schedule:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Net investment in capital assets	\$ 147,775	\$ 25,153	\$ 11,787
Restricted	3,075,855	2,340,224	2,251,995
Unrestricted	<u>(388,183)</u>	<u>280,806</u>	<u>357,887</u>
Total net position	<u>\$ 2,835,447</u>	<u>\$ 2,646,183</u>	<u>\$ 2,621,669</u>

PALAU HOUSING AUTHORITY
(A Component Unit of the Republic of Palau)

Management's Discussion and Analysis
September 30, 2018

Authority-Wide Financial Analysis, Continued

BUDGETARY INFORMATION

Budgetary financial statements is an analysis of significant variations between original and final budget amounts and between final budget amounts and actual budget results, including reasons for those variations that are expected to have a significant effect on future services or liquidity.

	Budgeted Amounts		Actual Amounts	(Unfavorable)
	Original	Final		Variance
Operating revenues	\$ -	\$ -	\$ 184,090	\$ 184,090
Operating expenses	<u>(159,100)</u>	<u>(159,100)</u>	<u>(268,204)</u>	<u>(109,104)</u>
Operating income	(159,100)	(159,100)	(84,114)	74,986
Investment income earned	-	-	266,506	266,506
Other income	<u>-</u>	<u>-</u>	<u>6,872</u>	<u>6,872</u>
Increase in net assets	<u>\$ (159,100)</u>	<u>\$ (159,100)</u>	<u>\$ 189,264</u>	<u>\$ 348,364</u>

Palau Housing Authority has no authority to impose taxes to generate revenue. The Authority, as an autonomous agency of the Republic of Palau, receives annual appropriation from the legislative branch, the Olbiil Era Kelulau (Palau National Congress). The Palau National Congress legislative budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. An annual appropriated budget is adopted by the Legislature for Palau Housing Authority through an Annual Appropriations Act.

PALAU HOUSING AUTHORITY
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Management's Discussion and Analysis
September 30, 2018

Economic Factors and Next Year's Budget and Rates

The following factors were considered in preparing the Authority's budget for the 2019 fiscal year:

- An increase in the collections of loan payments.
- The number of loans to be disbursed will be increased due to funding availability.
- An increase in interest income, due to loan disbursed from previous year.
- Appropriation from the Palau National Government applicable to administrative and operation expenditures.
- Interest and principal payment of the Mega Bank loan and other fees and charges.
- PHA permanent Office Building

Future Events that will Financially Impact the Authority

- The Authority will be able continue and expand its housing loan programs.
- Public Housing Program - Rental
- Subdivision - Relocation to Babeldaob
- \$5 million loan - Mega Bank interest and principal payment
- Employee - Capacity building
- Housing Development Loan Project

2019 - 2020 Economic Outlook

Construction boom in Palau is seen as drawing economic growth for 2019, despite a tourism slump in 2018, and is expected to be favorable projecting an economic growth of 3%.

PALAU HOUSING AUTHORITY
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Management's Discussion and Analysis
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2019 - 2020 Economic Outlook, Continued

The Palau Housing Authority continued to show strong performance carried forward from previous year due to the availability of loan funding from Mega Bank. The total loans approved in 2017 were 29 loans \$744,000.00 compared to 30 loans \$733,000 in 2018 and will see this increase to \$1 million in 2019. However, is currently challenged with high cost of funds (Libor rate plus 1%).

As the Palau Housing Authority transitions to a new permanent office building in July 2019, we anticipate a savings of \$8,700 annually. We also plan to rent the office space upstairs which can generate an additional income \$14,400 annually, which will be used towards the repayment of the building. With the new office space, we look to expand and build up on our personnel capacity.

Land Development Project

The Palau Housing Authority currently is negotiating with a private landowner who is willing to donate a parcel of land (100,000 square meters), to PHA to develop into a housing subdivision. This will require substantial funding and especially for infrastructure which we will work with other stakeholders to share in the cost.

ROP Housing Development Loan Project

House Joint Resolution No. 10-43-10S, SD1 -_authorizing the Republic of Palau, by and through the President of the Republic of Palau to borrow \$15 million from Mega International Commercial Bank Co., Ltd., for housing development.

There is a House Bill pending regarding the implementation and administration which PHA has been mentioned to be one of the administrators. PHA management has responded to this proposed Bill as it mandates the rate of interest charged on loans for this project and other details that are not in the best interest of PHA. If this Bill passes as is, it will adversely impact the PHA's long-term sustainability.

Contacting the Authority's Financial Management

The Management Discussion and Analysis is intended to provide information concerning known facts and conditions affecting the Authority's operations. This financial report is designed to provide a general overview of the Authority's finances and demonstrate its ability to manage its resources.

For additional information concerning this report, please contact the Executive Director of the Palau Housing Authority, PO Box 197, Koror, Republic of Palau, 96940, or call (680) 488-6207.

PALAU HOUSING AUTHORITY
(A Component Unit of the Republic of Palau)

Combined Statements of Net Position
September 30, 2018

(With comparative totals as of September 30, 2017)

	Major Enterprise Funds				Non-Major Enterprise Fund	Total 2018	Total 2017
	Operation Fund	Home Rehabilitation Loan Program	Low-Cost Housing Program	Emergency Housing Loan Revolving Program			
Assets and Deferred Outflows of Resources							
Current assets:							
Cash and cash equivalents (Notes 1 and 2)	\$ 166,762	\$ 1,005,597	\$ 56,458	\$ 143,797	\$ 91,961	\$ 1,464,575	\$ 2,389,073
Investments	-	3,520,430	-	-	-	3,520,430	3,259,896
Notes receivable, current portion (Notes 1 and 3)	-	150,123	26,196	27,965	-	204,284	204,284
Allowance for loan losses (Notes 1 and 3)	-	(69,442)	(18,552)	-	-	(87,994)	(87,994)
	-	80,681	7,644	27,965	-	116,290	116,290
Accounts receivable, net	157	-	-	-	-	157	157
Due from grantor agency	-	-	-	-	-	-	-
Interest receivable	-	7,790	1,798	-	-	9,588	9,589
Other receivables	-	4,943	-	-	-	4,943	129
Due from other fund (Note 4)	-	212,125	91	-	-	212,216	4,351
Total current assets	166,919	4,831,566	65,991	171,762	91,961	5,328,199	5,780,985
Noncurrent assets:							
Notes receivable, net of current portion (Note 1 and 3)	-	2,709,914	120,689	128,962	-	2,959,565	2,223,934
Capital assets, net (Notes 1 and 5)	128,810	10,529	-	-	8,437	147,776	25,153
Total noncurrent assets	128,810	2,720,443	120,689	128,962	8,437	3,107,341	2,249,087
Deferred outflows of resources related to pension	78,656	-	-	-	-	78,656	60,897
Total Assets and Deferred Outflows of Resources	\$ 374,385	\$ 7,552,009	\$ 186,680	\$ 300,724	\$ 100,398	\$ 8,514,196	\$ 8,090,969

See accompanying notes to the basic financial statements.

PALAU HOUSING AUTHORITY
(A Component Unit of the Republic of Palau)

Combined Statements of Net Position, Continued
September 30, 2018

(With comparative totals as of September 30, 2017)

	Major Enterprise Funds				Non-Major Enterprise Fund	Total 2018	Total 2017
	Operation Fund	Home Rehabilitation Loan Program	Low-Cost Housing Program	Emergency Housing Loan Revolving Program			
Liabilities, Deferred Inflows of Resources and Net Position							
Current liabilities:							
Accounts payable and accrued expenses (Note 1)	\$ 18,718	\$ 12,977	\$ -	\$ -	\$ -	\$ 31,695	\$ 33,421
Due to other funds	204,532	-	-	-	3,376	207,908	-
Total current liabilities	<u>223,250</u>	<u>12,977</u>	<u>-</u>	<u>-</u>	<u>3,376</u>	<u>239,603</u>	<u>33,421</u>
Long-term liabilities:							
Note payable (Notes 6 and 7)	-	5,000,000	-	-	-	5,000,000	5,000,000
Net pension liability (Notes 6 and 8)	360,660	-	-	-	-	360,660	360,301
Total long-term liabilities	<u>360,660</u>	<u>5,000,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,360,660</u>	<u>5,360,301</u>
Total liabilities	<u>583,910</u>	<u>5,012,977</u>	<u>-</u>	<u>-</u>	<u>3,376</u>	<u>5,600,263</u>	<u>5,393,722</u>
Deferred inflows of resources related to pension	78,486	-	-	-	-	78,486	51,064
Net position (Note 1)							
Invested in capital assets	128,810	10,528	-	-	8,437	147,775	10,112
Restricted	-	2,790,595	128,333	156,927	-	3,075,855	2,428,218
Unrestricted	(416,821)	(262,091)	58,347	143,797	88,585	(388,183)	207,853
Total net position	<u>(288,011)</u>	<u>2,539,032</u>	<u>186,680</u>	<u>300,724</u>	<u>97,022</u>	<u>2,835,447</u>	<u>2,646,183</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 374,385</u>	<u>\$ 7,552,009</u>	<u>\$ 186,680</u>	<u>\$ 300,724</u>	<u>\$ 100,398</u>	<u>\$ 8,514,196</u>	<u>\$ 8,090,969</u>

See accompanying notes to the basic financial statements.

PALAU HOUSING AUTHORITY
(A Component Unit of the Republic of Palau)

Combined Statements of Revenues, Expenses and Changes in Net Position
Year Ended September 30, 2018

(With comparative totals as of September 30, 2017)

	Major Enterprise Funds					Total 2018	Total 2017
	Operation Fund	Home Rehabilitation Loan Program	Low-Cost Housing Program	Emergency Housing Loan Revolving Program	Non-Major Enterprise Fund		
Operating revenues:							
Interest on loans	\$ -	\$ 104,100	\$ 3,660	\$ 4,248	\$ -	\$ 112,008	\$ 93,606
Republic of Palau appropriation	70,000	-	-	-	-	70,000	70,000
Other	13	2,069	-	-	-	2,082	12,563
Total operating revenues	70,013	106,169	3,660	4,248	-	184,090	176,169
Net operating revenues	70,013	106,169	3,660	4,248	-	184,090	176,169
Operating expenses:							
Interest expense on borrowing	-	125,120	-	-	-	125,120	105,918
Salaries and wages	48,760	26,882	-	-	-	75,642	77,970
Rent expense	6,000	3,000	-	-	-	9,000	9,000
Employee benefits	17,239	4,318	-	-	-	21,557	34,728
Repairs and maintenance	166	4,724	-	-	-	4,890	154,326
Travel	3,298	5,954	-	-	-	9,252	8,524
Office supplies	3,058	1,685	-	-	-	4,743	-
Communication	2,492	1,302	-	-	-	3,794	4,057
Utilities	1,570	900	-	-	-	2,470	2,289
Depreciation	-	4,512	-	-	1,675	6,187	4,329
Insurance	-	1,064	-	-	-	1,064	1,077
Professional fees	-	-	-	-	-	-	390
Miscellaneous	1,667	2,753	65	-	-	4,485	14,737
Total operating expenses	84,250	182,214	65	-	1,675	268,204	417,345
Operating income (loss)	(14,237)	(76,045)	3,595	4,248	(1,675)	(84,114)	(241,176)
Non-operating revenue (expense)							
Interest income	140	5,424	90	182	136	5,972	5,429
Net (decrease) increase in fair value of investments	-	260,534	-	-	-	260,534	259,896
Other income	-	6,412	343	117	-	6,872	365
Total non-operating revenue	140	272,370	433	299	136	273,378	265,690
Change in net assets	(14,097)	196,325	4,028	4,547	(1,539)	189,264	24,514
Total net assets at beginning of year	(273,914)	2,342,707	182,652	296,177	98,561	2,646,183	2,621,669
Total net assets at end of year	\$ (288,011)	\$ 2,539,032	\$ 186,680	\$ 300,724	\$ 97,022	\$ 2,835,447	\$ 2,646,183

See accompanying notes to the basic financial statements.

PALAU HOUSING AUTHORITY
(A Component Unit of the Republic of Palau)

Combined Statements of Cash Flows
September 30, 2018

(With comparative totals as of September 30, 2017)

	Major Enterprise Funds				Non-Major Enterprise Fund	Total 2018	Total 2017
	Operation Fund	Home Rehabilitation Loan Program	Low-Cost Housing Program	Emergency Housing Loan Revolving Program			
Cash flows from operating activities							
Receipts from customers, net	\$ 11,980	\$ 106,169	\$ 71	\$ 19,496	\$ 1,706	\$ 139,422	\$ 140,529
Receipts from ROP appropriation	70,000	-	-	-	-	70,000	70,000
Payments to suppliers	(35,490)	(25,700)	(65)	-	-	(61,255)	(329,129)
Payments to employees and customer	(38,738)	(914,610)	-	-	-	(953,348)	(77,970)
Net cash provided by (used in) operating activities	7,752	(834,141)	6	19,496	1,706	(805,181)	(196,570)
Cash flows from investing activities							
Acquisition of capital assets	(128,810)	-	-	-	-	(128,810)	(17,695)
Purchase of investments	-	-	-	-	-	-	(3,000,000)
Interest and dividends	-	-	90	182	136	408	5,420
Other income	140	11,836	343	117	-	12,436	2,035
Net cash provided by (used in) investing activities	(128,670)	11,836	433	299	136	(115,966)	(3,010,240)
Cash flows from financing activities							
Proceeds from note payable	-	-	-	-	-	-	2,500,000
Increase (decrease) in due from fund:	204,532	(207,883)	-	-	-	(3,351)	(97,296)
Net cash provided by (used in) financing activities	204,532	(207,883)	-	-	-	(3,351)	2,402,704
Net increase (decrease) in cash and cash equivalents	83,614	(1,030,188)	439	19,795	1,842	(924,498)	(804,106)
Cash and cash equivalents at beginning of year	83,148	2,035,785	56,019	124,002	90,119	2,389,073	3,193,179
Cash and cash equivalents at end of year	\$ 166,762	\$ 1,005,597	\$ 56,458	\$ 143,797	\$ 91,961	\$ 1,464,575	\$ 2,389,073

See accompanying notes to the basic financial statements.

PALAU HOUSING AUTHORITY
(A Component Unit of the Republic of Palau)

Combined Statements of Cash Flows, Continued
September 30, 2018

(With comparative totals as of September 30, 2017)

	Major Enterprise Funds					Total 2018	Total 2017
	Operation Fund	Home Rehabilitation Loan Program	Low-Cost Housing Program	Emergency Housing Loan Revolving Program	Non-Major Enterprise Fund		
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:							
Operating income (loss)	\$ (14,237)	\$ (76,045)	\$ 3,595	\$ 4,248	\$ (1,675)	\$ (84,114)	\$ (135,258)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities							
Depreciation	-	4,512	-	-	1,675	6,187	4,329
Pension recovery	10,022	-	-	-	-	10,022	-
(Increase) decrease in assets:							
Accounts receivable	-	-	-	-	-	-	(1,289)
Notes receivable	-	(747,272)	(3,607)	15,248	-	(735,631)	9,913
Interest receivable	-	(3,314)	-	-	-	(3,314)	(9,589)
Due from other funds	-	-	18	-	-	18	-
Deferred outflows	-	-	-	-	-	-	(19,011)
Increase (decrease) in liabilities:							
Accrued expenses	11,967	(12,022)	-	-	(1,670)	(1,725)	(81,873)
Net pension liability	-	-	-	-	-	-	26,631
Deferred inflows	-	-	-	-	-	-	13,810
Due to other funds	-	-	-	-	3,376	3,376	(4,233)
 Net cash provided by (used in) operating activities	 <u>\$ 7,752</u>	 <u>\$ (834,141)</u>	 <u>\$ 6</u>	 <u>\$ 19,496</u>	 <u>\$ 1,706</u>	 <u>\$ (805,181)</u>	 <u>\$ (196,570)</u>

See accompanying notes to the basic financial statements.

PALAU HOUSING AUTHORITY
(A Component Unit of the Republic of Palau)

Notes to Combined Financial Statements
September 30, 2018 and 2017

(1) Summary of Significant Accounting Policies

Reporting Entity

The Palau Housing Authority (the Authority), a component unit of the Republic of Palau (ROP), was established by Public Law 4-5-5 (June 20, 1970) of the Palau District Legislature (of the Trust Territory of the Pacific Islands). Its purpose is to develop and administer low cost housing and urban renewal projects and to assist in correcting housing conditions endangering the health, safety, and welfare of the people of the ROP. The Authority was reorganized by Trust Territory Public Law 5-37 (April 5, 1973). Upon emergence of the Republic of Palau Constitutional Government (January 1, 1981), the Authority was transferred to the Republic of Palau. The Authority is a public corporation administered by a five-member Board of Directors appointed by the President of the Republic of Palau with the advice and consent of the Olbiil Era Kelulau (OEK – Palau National Congress).

For the year ended September 30, 2015, the Authority implemented the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. GASB Statement Nos. 68 and 71 establish standards for measuring and recognizing net pension liabilities, deferred outflows of resources, deferred inflows of resources, and expenses related to pension benefits provided through defined pension plans. In addition, Statement No. 68 requires disclosure of information related to pension benefits.

The Authority's primary operations are comprised of a number of housing and grant programs as follows:

Major Enterprise Funds

Home Rehabilitation Loan Program

The Home Rehabilitation Loan Program provides long-term financing to low income and moderate-income families to rehabilitate existing dwellings or construct new single-family housing units. This Program is made possible through the initial funding from the U.S. Department of Housing and Urban Development (HUD). The maximum amount that can be borrowed for a new single-family dwelling is \$40,000 at 4.5% interest per annum with a 30-year term. The maximum loan amount to rehabilitate an existing dwelling unit is \$25,000 with a 20-year term at 4.5% interest rate per annum.

PALAU HOUSING AUTHORITY
(A Component Unit of the Republic of Palau)

Notes to Combined Financial Statements
September 30, 2018 and 2017

(1) Summary of Significant Accounting Policies, Continued

Major Enterprise Funds, Continued

Low-Cost Housing Program

The U.S. Department of Housing and Urban Development (HUD) was the primary source of funds for the Loan Fund Housing Program. This program initially provided funding for loans to low-income families for up to \$12,000, payable over a period of 30 years, at an interest rate of 3 percent per annum to rehabilitate/construct family homes.

Currently, under this loan program and with the initial funding from HUD and U.S. Department of Agriculture (USDA), the Home Improvement and Repair Assistance Program was established specifically to provide low cost and long-term loans to low income and very low-income senior citizens, 60 years old and over, to rehabilitate their homes. Under this program, the borrower can obtain a maximum loan of \$5,000 with interest rate of 3 percent per annum payable over a 10-year period.

Emergency Housing Revolving Loan Program

The Emergency Housing Revolving Loan Program was established as an emergency loan program for citizens of the Republic of Palau for whose homes were destroyed by natural disaster or fire. The Program was funded by a \$500,000 appropriation from the Republic of Palau. Pursuant to Republic of Palau Public Law 6-26, §4, the Program was initially established to provide loans to private homeowners whose homes were destroyed or made uninhabitable because of damage done by storm Utor. Loans are available from a minimum of \$500 to a maximum amount of \$30,000, with repayment terms ranging from 3-to 30 years at an interest rate of 3 percent per annum. During the fiscal year ending September 30, 2002, the Authority remitted \$250,000 of the initial funding back to the Republic of Palau National Government. On June 25, 2014, pursuant to RPPL No. 9-29, loans are available from a minimum of \$500 to maximum of \$40,000, with repayment terms ranging from 3-to 30 years at an interest rate of 1% per annum.

PALAU HOUSING AUTHORITY
(A Component Unit of the Republic of Palau)

Notes to Combined Financial Statements
September 30, 2018 and 2017

(1) Summary of Significant Accounting Policies, Continued

Non-Major Enterprise Funds

The following funds was determined to be non-major enterprise funds for the fiscal year ended September 30, 2018:

Section 8 Housing Assistance Program

This program provides temporary housing for rental to assist low-income families who lack sufficient income to obtain safe, decent, and sanitary housing. The program was originally funded through the U.S. Department of Housing and Urban Development (HUD), until it was phased-out in December 2004. The program continued until 2011, when it was finally phased out due to lack of funding.

Transitional/Emergency Shelter Program

This Program provides short-term temporary housing to individuals or families who become victims of domestic violence or abuse and whose homes are destroyed due to fire or natural disaster. The Program was originally funded through the HUD.

Local Funds

Local funds consist of appropriations from Republic of Palau for general operations of the Authority.

Measurement Focus, Basis of Accounting, and Basis of Presentation

The accounts of the Authority are organized and operated on the basis of funds and grant programs. A fund is an independent fiscal year and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements.

The Authority has elected to use proprietary fund types as its principal reporting. Proprietary funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. The accounting objectives of its measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position and cash flows.

PALAU HOUSING AUTHORITY
(A Component Unit of the Republic of Palau)

Notes to Combined Financial Statements
September 30, 2018 and 2017

(1) Summary of Significant Accounting Policies, Continued

Measurement Focus, Basis of Accounting, and Basis of Presentation, Continued

All assets, deferred outflows of resources, liabilities deferred inflows or resources (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net position. Under this method, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. The Authority's proprietary funds are enterprise funds used to account for those operations that are financed and operated in a manner similar to private business or where the Authority has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability. All assets and liabilities that are associated with the operation of the Authority are included in the statement of net position.

The financial statements include certain prior-year summarized comparative information in total but not by fund. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Authority's audited financial statements for the year ended September 30, 2015, from which the summarized information was derived.

Deferred Outflows of Resources

In addition to assets, the statements of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (deduction of net position) until then. The Authority determined the differences between expected and actual experience with regard to economic or demographic factors in the measurement of the total pension liability, pension contributions made subsequent to the measurement date and changes in proportion and difference between the Authority's pension contributions and proportionate share of contributions qualify for reporting in this category.

Deferred Inflows of Resources

In additions to liabilities, the statements of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources represent acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (additions to net position) until then. The Authority has determined the difference between projected and actual earnings on pension plan investments qualify for reporting in this category.

PALAU HOUSING AUTHORITY
(A Component Unit of the Republic of Palau)

Notes to Combined Financial Statements
September 30, 2018 and 2017

(1) Summary of Significant Accounting Policies, Continued

Measurement Focus, Basis of Accounting, and Basis of Presentation, Continued

Pensions

Pensions are required to be recognized and disclosed using the accrual basis of accounting. The Authority recognizes a net pension liability for the defined benefit pension plan in which it participates, which represents the Authority's proportional share of excess total pension liability over the pension plan assets – actuarially calculated – of a defined benefit, cost sharing multi-employer plan. Changes in the net pension liability during the period are recorded as pension expense, or as deferred inflows of resources or deferred outflows of resources, depending on the nature of the change, in the period incurred.

Those changes in net pension liability that are recorded as deferred inflows of resources or as deferred outflows of resources, that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience, are amortized over the weighted-average remaining service life of all participants in the qualified pension plan and recorded as a component of pension expense beginning with the period in which they are incurred. Projected earnings on qualified pension plan investments are recognized as a component of pension expense. Differences between projected and actual investment earnings are reported as deferred inflows of resources or deferred outflows of resources and amortized as a component of pension expense on a closed basis over a five-year period beginning with the period in which the difference occurred.

Recently Adopted Accounting Pronouncements

During the year ended September 30, 2018, the Authority implemented the following GASB pronouncements:

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, effective for periods beginning after June 15, 2016. This Statement replaces Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement No. 43, and Statement No. 50, *Pension Disclosures*.

PALAU HOUSING AUTHORITY
(A Component Unit of the Republic of Palau)

Notes to Combined Financial Statements
September 30, 2018 and 2017

(1) Summary of Significant Accounting Policies, Continued

Measurement Focus, Basis of Accounting, and Basis of Presentation, Continued

New Accounting Standards, Continued

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

In December 2015, GASB issued Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*. This Statement addresses an issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. GASB Statement No. 78 was effective for fiscal year ending September 30, 2017. The implementation of this statement did not have a material impact on the Authority's financial statements.

In December 2015, GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants*. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. GASB Statement No. 79 was effective for fiscal year ending September 30, 2017. The implementation of this statement did not have a material impact on the Authority's financial statements.

In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units*. The Statement is intended to provide clarity about how certain component units incorporated as not-for-profit corporations should be presented in the financial statements of the primary state or local government. GASB Statement No. 80 was effective for fiscal year ending September 30, 2017. The implementation of this statement did not have a material impact on the Authority's financial statements.

In June 2015, GASB issued statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, effective for periods beginning after June 15, 2017. This Statement replaces the requirement of Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefit Plans Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans. GASB Statement No. 75 was effective for the Authority for fiscal year ending September 30, 2018.

PALAU HOUSING AUTHORITY
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Notes to Combined Financial Statements
September 30, 2018 and 2017

(1) Summary of Significant Accounting Policies, Continued

Measurement Focus, Basis of Accounting, and Basis of Presentation, Continued

New Accounting Standards, Continued

In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. This Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. GASB Statement No. 81 was effective for the fiscal year ending September 30, 2018. The implementation of this Statement did not have a material impact on the Authority's financial statements.

In March 2016, GASB issued Statement No. 82, *Pension Issues*. This Statement addresses certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. This Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. GASB Statement No. 82 was effective for the fiscal year ending September 30, 2018. The implementation of this Statement did not have a material impact on the Authority's financial statements.

In March 2017, GASB issued Statement No. 85, *Omnibus 2017*. This Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). GASB Statement No. 85 was effective for the fiscal year ending September 30, 2018. The implementation of this Statement did not have a material impact on the Authority's financial statements.

PALAU HOUSING AUTHORITY
(A Component Unit of the Republic of Palau)

Notes to Combined Financial Statements
September 30, 2018 and 2017

(1) Summary of Significant Accounting Policies, Continued

Measurement Focus, Basis of Accounting, and Basis of Presentation, Continued

New Accounting Standards, Continued

In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. GASB Statement No. 86 was effective for the fiscal year ending September 30, 2018. The implementation of this Statement did not have a material impact on the Authority's financial statements.

Upcoming Accounting Pronouncements

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations. GASB Statement No. 83 will be effective for the fiscal year ending September 30, 2019. Management has not evaluated the impact that the implementation of this Statement will have on the Authority's financial statements.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. This Statement improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. GASB Statement No. 84 will be effective for reporting periods after December 15, 2018. Management has not evaluated the impact that the implementation of this Statement will have on the Authority's financial statements.

In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' 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. GASB Statement No. 87 will be effective for the fiscal year ending September 30, 2021.

PALAU HOUSING AUTHORITY
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Notes to Combined Financial Statements
September 30, 2018 and 2017

(1) Summary of Significant Accounting Policies, Continued

Measurement Focus, Basis of Accounting, and Basis of Presentation, Continued

Upcoming Pronouncement, Continued

In March 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The Statement's objective is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. The objective of the 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. This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

PALAU HOUSING AUTHORITY
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Notes to Combined Financial Statements
September 30, 2018 and 2017

(1) Summary of Significant Accounting Policies, Continued

Measurement Focus, Basis of Accounting, and Basis of Presentation, Continued

New Accounting Standards, Continued

In August 2018, GASB issued Statement No. 90, *Majority Equity Interest*. The primary objective of this Statement is to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if the government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.

The Authority is currently evaluating whether or not the new GASB pronouncements listed above will have a significant impact on the Authority's financial statements.

Budgets

Budgets are prepared on an annual basis for each major operating program and are used as a management tool throughout the accounting cycle. Budgets, however are not legally adopted or legally required for financial statement presentation.

The Authority's governing body, the Board of Directors, adopts budgets on a program or fund level basis. These budgets are submitted by the Authority's Executive Director, and approved by resolutions of the Board of Directors. The Authority's Board of Directors may authorize revisions to the budget based on the availability of financial resources. Formal budget revisions are authorized in the same manner as original budget submissions.

Annual budgets are adopted for all Enterprise Funds. Throughout the fiscal year, the Authority monitors and evaluates expenditures rates and patterns. However, timely notice is not given to executive management regarding forthcoming changes in objectives or other conditions that may cause significant variations from approved budget-defined plans.

PALAU HOUSING AUTHORITY
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(1) Summary of Significant Accounting Policies, Continued

Measurement Focus, Basis of Accounting, and Basis of Presentation, Continued

Management's Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 expenditures during the reporting period. Actual results could differ from those estimates.

Lending Policy

The Authority extends loans to qualifying residents of the Republic of Palau for rehabilitating existing dwellings or for constructing approved low-cost housing. The loans have terms from five to thirty years at an interest rate of 3% and 4.5%. Loans are restricted to a maximum ninety percent (90%) debt (aggregate of all debts associated with the property) to the appraised value of the property ratio or ninety percent (90%) of the estimated replacement cost, whichever is lower. The loans are collateralized by the property being rehabilitated.

Cash and Cash Equivalents

For the purposes of the Statement of Net Assets and Statement of Cash Flows, the Authority considers cash and cash equivalents to be cash on hand, cash in checking and savings accounts, and time certificates of deposit of less than ninety-day maturities. All of the Authority's cash are with a federally insured bank, \$250,000 of which is subject to coverage by federal insurance as of September 30, 2018 and 2017, respectively, with the remaining balance exceeding insurable limits. The Authority's cash equivalents, on the other hand, are with a financial institution that is not covered by the Federal Deposit Insurance Corporation (FDIC). The Authority does not require collateralization of its bank accounts and, therefore, amounts in excess of insurable limits are uncollateralized. Deposits in excess of federal depository insurance are considered uncollateralized by GASB Statement No. 40. Custodial credit risk for deposits is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Authority's cash and cash equivalents exceeding FDIC insurable limits is \$1,456,557 and \$1,378,328 as of September 30, 2018 and 2017, respectively.

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Notes to Combined Financial Statements
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(1) Summary of Significant Accounting Policies, Continued

Measurement Focus, Basis of Accounting, and Basis of Presentation, Continued

Investments

Marketable securities held for investment purposes are stated at fair value, which is primarily based on quoted market prices. Fixed income securities are reported at amortized cost with discounts or premiums amortized using the effective interest method subject to adjustment for market declines judged to be other than temporary. The Authority's investments are held by a bank-administered trust fund.

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. GASB Statement No. 40 requires disclosure by issuer and amount of investments that represents five percent (5%) or more of total investments of the Authority. As of September 30, 2018 and 2017, the following fixed income securities and exchange-traded and closed-end funds constituted more than 5% of the Authority's total investments:

	2018	2017
Exchange-traded and Closed-in Funds:		
Mutual funds:		
Ishares TR Core S&P 500 ETF	42%	39%
Ishares TR Core MNSCI EAFE	8%	9%
Ishares Inc Core MSCI EMKT	7%	8%
Ishares TR Core S&P MCP ETF	7%	6%
Morgan Stanley INSTL FD TRUS	5%	6%
Goldman Sachs ERMG Markerts	5%	5%
Equities:		
DBX ETF Trust X-Trackers MSC	8%	9%

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(1) Summary of Significant Accounting Policies, Continued

Measurement Focus, Basis of Accounting, and Basis of Presentation, Continued

Investments, continued

The following investment policy governs the investment of assets of the Authority.

General:

1. Any pertinent restrictions existing under the laws of ROP with respect to the Authority, that may exist now or in the future, will be the governing restriction.
2. U.S. and non-U.S. equities, ADRs (American Depository Receipts), convertible bonds, preferred stocks, fixed-income securities, mutual funds and short-term securities are permissible investments.
3. No individual security of any issuer, other than that of the United States Government, shall constitute more than 10% (at cost) of Investment Manager's portfolio.
4. Holdings of any issuer shall constitute no more than 5% of the outstanding securities of such issuer.
5. Investments in a registered mutual fund managed by the Investment Manager are subject to the prior approval of the Board of Directors.
6. The following securities and transactions are not authorized without prior written Board of Director's approval: letter stock and other unregistered securities; non-negotiable securities; commodities or other commodity contracts; options; futures; short sale; and margin transactions.

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(1) Summary of Significant Accounting Policies, Continued

Measurement Focus, Basis of Accounting, and Basis of Presentation, Continued

Investments, continued

Investments may be made in:

A. Equity Investments

1. Consistent with the desire to maintain broad diversification, allocations to any economic or industry sector should not be excessive relative to the economic or industry sector allocations of the individual index benchmarks set for each Investment Manager.
2. Equity holdings shall be restricted to readily marketable securities of corporations that are actively traded on the major exchanges and over the counter.
3. The investment Managers shall have the discretion to invest a portion of the assets in cash reserves when they deem appropriate. However, the Investment Managers will be evaluated against their peers on the performance of the total funds under their direct management.
4. Common stock and preferred stock of any institution or entity created or existing under the laws of the United States or any other country are permissible.

B. Fixed Income Investments

1. The role of fixed income investments in the Authority's portfolio is to offer a highly predictable and dependable source of current cash income and to reduce the volatility of the entire portfolio.
2. All fixed income securities held in the portfolio shall have a Moody's, Standard & Poor's and/or a Fitch's credit quality rating of no less than "BBB". U.S. Treasury and U.S. Government agencies, which are unrated securities, are qualified for inclusion in the portfolio and will be considered to be of the highest rating.
3. No more than 20% of the market value of the portfolio shall be rated less than single "A" quality, unless the Investment Manager has specific prior written authorization from the Board of Commissioners.

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(1) Summary of Significant Accounting Policies, Continued

Measurement Focus, Basis of Accounting, and Basis of Presentation, Continued

Investments, continued

4. Total portfolio quality (capitalization weighted) shall maintain an “A” rating.

The Authority’s fixed income investments will emphasize U.S. issues but will not exclude exposure to non-US dollar denominated securities.

C. Cash and Cash Equivalents

1. Cash equivalent reserves shall consist of cash instruments having a quality rating of A-1, P-1 or their equivalent. U.S. Treasury and agency securities, bankers’ acceptances, certificates of deposit, and collateralized repurchase agreements are also acceptable investment vehicles. Custodial sweep accounts must be, in the judgment of the Investment Managers, of credit quality equal or superior to the standards described above.
2. In the case of certificates of deposit, they must be issued by FDIC insured institutions. Deposits in institutions with less than \$10,000,000 in assets may not be made in excess of \$100,000 (or prevailing FDIC insurance limit), unless the deposit is fully collateralized by U.S. Treasury securities.
3. No single issue shall have a maturity of greater than two (2) years.
4. Custodial sweep accounts or similar money market portfolios are permitted and must have an average maturity of less than one (1) year.

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, the Authority will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The Authority’s investments are held and administered by trustees in accordance with negotiated trust and custody agreements. Based on these agreements, all of these investments were held in the Authority’s name by the Authority’s custodial financial institutions at September 30, 2018 and 2017.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of debt instruments.

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(1) Summary of Significant Accounting Policies, Continued

Measurement Focus, Basis of Accounting, and Basis of Presentation, Continued

Investments, continued

The Authority values its investments at fair value in accordance with GASB Statement 31. The Authority's investments as of September 30, 2018 and 2017 are as follows:

<u>Investment Type</u>	<u>Fair Value</u>	
	<u>2018</u>	<u>2017</u>
Cash and money market funds	\$ 64,942	\$ 14,467
Mutual funds	2,703,847	2,654,430
Equities	<u>751,641</u>	<u>590,999</u>
	<u>\$ 3,520,430</u>	<u>\$ 3,259,896</u>

GASB Statement No. 40 requires entities to provide information about the credit risk associated with their investments by disclosing the credit quality ratings. All fixed income securities have a credit rating of AAA based on Moody's credit quality rating and mature within one to five years.

Fair Value Measurement of the Investments

Investments and related investment earnings are reported at fair value using quoted market prices. Fair value is the price that would be received to sell an asset or paid to transfer a liability (i.e., the exit price) in an orderly transaction between market participants at the date as of which the fair value of an asset or liability is determined.

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(1) Summary of Significant Accounting Policies, Continued

Measurement Focus, Basis of Accounting, and Basis of Presentation, Continued

Fair Value Measurement of the Investments, Continued

The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The Authority has the following fair value measurements:

	Fair Value Measurement Using			
	2018	Level 1	Level 2	Level 3
Investments by fair value level				
Exchange traded funds and closed-end funds:				
Mutual funds	\$ 2,703,847	\$ 2,703,847	\$ -	\$ -
Equities	<u>751,641</u>	<u>751,641</u>	<u>-</u>	<u>-</u>
Total investments by fair fair value level	<u>\$ 3,455,488</u>	<u>\$ 3,455,488</u>	<u>\$ -</u>	<u>\$ -</u>
Investments measured at cost based measure				
Cash and cash equivalents	<u>\$ 64,942</u>			

	Fair Value Measurement Using			
	2017	Level 1	Level 2	Level 3
Investments by fair value level				
Exchange traded funds and closed-end funds:				
Mutual funds	\$ 2,654,430	\$ 2,654,430	\$ -	\$ -
Equities	<u>590,999</u>	<u>590,999</u>	<u>-</u>	<u>-</u>
Total investments by fair fair value level	<u>\$ 3,245,429</u>	<u>\$ 3,245,429</u>	<u>\$ -</u>	<u>\$ -</u>
Investments measured at cost based measure				
Cash and cash equivalents	<u>\$ 14,467</u>			

PALAU HOUSING AUTHORITY
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(1) Summary of Significant Accounting Policies, Continued

Measurement Focus, Basis of Accounting, and Basis of Presentation, Continued

Custodial credit risk

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, the Authority will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The Authority's investments are held and administered by trustees in accordance with negotiated trust and custody agreements. Based on those agreements, all of these investments were held in the Authority's name by the custodial financial institutions at September 30, 2018 and 2017.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit.

Foreign currency is comprised of international investment proceeds and income to be repatriated into U.S. dollars and funds available to purchase international securities. Foreign currency is not held as a form of investment. Foreign currency is held for less than 30 days in foreign accounts until it can be repatriated or expended. For the years ended September 30, 2018 and 2017, the Center did not have investments in foreign currency.

Investment income

Investment income is composed of interest, dividends, and net changes in the fair value of applicable investments.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect an investment's value. The Authority does not have a formal policy regarding interest rate risk. At September 30, 2018 and 2017, the Authority did not have any investments in debt securities.

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(1) Summary of Significant Accounting Policies, Continued

Measurement Focus, Basis of Accounting, and Basis of Presentation, Continued

Loans and Allowance for Loan Losses

Loans are stated at the amount of unpaid principal, reduced by an allowance for loan losses. Interest on loans is calculated by using the simple interest method on daily balances of the principal amount outstanding. The allowance for loan losses is established through a provision for loan losses charged to expense. Loans are charged against the allowance for loan losses when management believes that the collection of the principal is unlikely. The allowance is an amount that management believes will be adequate to absorb possible losses on existing loans that may be uncollectible, based on evaluation of the collectability of loans and prior loan loss experience. The evaluation takes into consideration such factors as specific problem loans and current economic conditions that may affect the borrowers' ability to pay. The Authority recognizes bad debts using the allowance method and is only written-off after approval by management and subsequent reporting to the Board of Directors.

Capital Assets

All capital assets with a value greater than \$500 and a useful life over one year are capitalized.

The cost of repairs and maintenance is charged to operations as incurred and improvements are capitalized. Depreciation of capital assets is computed using the straight-line method over the estimated useful lives of the assets. Assets are depreciated using the following depreciation guidelines:

<u>Category</u>	<u>Useful Life – Years</u>
Residential units	28
Furniture, fixtures and equipment	5
Vehicles	5

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

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(1) Summary of Significant Accounting Policies, Continued

Measurement Focus, Basis of Accounting, and Basis of Presentation, Continued

Compensated Absences

Compensated absences are those absences for which employees will be paid, such as vacation and sick leave. Employees are credited 104, 156 or 208 hours per fiscal year, based on their lengths of service. The accumulation of vacation leave credits is limited to 360 at fiscal year-end while that of sick leave credits is unlimited. Both are convertible to pay upon termination of employment. The Authority recognizes as a liability all vested vacation and sick leave benefits accrued by its employees. When the employees use vacation and sick leave benefits, the liability account is reduced accordingly. At September 30, 2018 and 2017, compensated absences payable to employees were \$6,751 in each year and are recorded as a component of accrued expenses in the accompanying Combined Statement of Net Position. At September 30, 2018 and 2017, all compensated absences are current.

Income Tax

Based on 34 PNC 7006, the Authority is exempt from all national and state non-payroll taxes or fees.

Net Position

Net position represents the residual interest in the Authority's assets after liabilities are deducted and consist of three components: net investment in capital assets, restricted and unrestricted.

The net investment in capital assets component consist of capital assets net of related accumulated depreciation and reduced by outstanding debt, notes or other borrowings that are attributable to the acquisition, construction and improvements of those assets.

Restricted component of net position is reported when constraints are imposed by third parties, grantors or enabling legislation. At September 30, 2018 and 2017, the Authority's restricted net position includes grants from HUD, USDA, and contributions received from the Trust Territory of the Pacific Islands for the establishment of the Home Rehabilitation Revolving Loan Program and the Low-Cost Housing Revolving Loan Program, respectively. It also includes contributions received from the Republic of Palau National Government for the establishment of Emergency Loan Program to assist victims of typhoon, earthquakes and other natural disasters.

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(1) Summary of Significant Accounting Policies, Continued

Measurement Focus, Basis of Accounting, and Basis of Presentation, Continued

Net Assets, continued

The Authority's restricted component of net position is expendable which is subject to externally imposed stipulations that can be fulfilled by actions of the Authority pursuant to those stipulations or that expire with the passage of time. At September 30, 2018 and 2017, the Authority had no expendable net position.

All of the remaining net position that does not meet the definition of the other components is unrestricted.

Classification of Revenues

The Authority has classified its revenues as either operating or non-operating according to the following criteria:

Operating Revenues – Operating revenues include activities that have the characteristics of exchange transactions, such as federal, state and local grants and contracts and federal appropriations.

Non-operating Revenues – Non-operating revenues include activities that have the characteristics of nonexchange transactions, such as interest income, and other revenue sources that are defined as non-operating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that Use Proprietary Fund Accounting*.

Advertising

For the fiscal years ending September 30, 2018 and 2017, the Authority incurred advertising costs totaling \$751 and \$486, respectively and is included as a component of miscellaneous expense in the accompanying statements of revenues, expenses and changes in net position. These costs primarily relate to construction bids and related procurement solicitation costs.

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Notes to Combined Financial Statements
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(2) Cash and cash equivalents

Cash and cash equivalents at September 30, 2018 and 2017 consist of the following:

	<u>2018</u>	<u>2017</u>
Cash	\$ 1,450,761	\$ 2,375,266
Time certificates of deposit	<u>13,814</u>	<u>13,807</u>
	<u>\$ 1,464,575</u>	<u>\$ 2,389,073</u>

(3) Notes Receivable

A summary of notes receivable at September 30, 2018 and 2017 consists of the following:

	<u>2018</u>	<u>2017</u>
Home Rehabilitation loans	\$ 2,860,037	\$ 2,112,765
Emergency Loan Revolving Fund loans	156,927	172,175
Low-Cost Housing Loans	<u>146,885</u>	<u>143,278</u>
	3,163,849	2,428,218
Current portion	<u>(204,284)</u>	<u>(204,284)</u>
Long-term notes receivable, net of current portion	<u>\$ 3,368,133</u>	<u>\$ 2,632,502</u>

A summary of the activity in the allowance for loan losses is as follows:

	<u>2018</u>	<u>2017</u>
Balance at beginning of year	\$87,994	\$87,994
Additions to provisions for loan loss	-	-
Loan charged-off	-	-
Recoveries of loans charged-off	<u>-</u>	<u>-</u>
	<u>\$ 87,994</u>	<u>\$ 87,994</u>

PALAU HOUSING AUTHORITY
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(4) Interfunds

The Authority maintains interfund receivable and payable accounts for all housing projects and funds that it administers and reports interfund transfers between many of its funds. The outstanding balances between funds result mainly from time lags between the date that (1) interfund goods and services are provided or reimbursable expenditures occur; (2) transactions are recorded in the accounting system; and (3) payments between funds are made.

(5) Capital Assets

A schedule of changes in capital assets for the fiscal years ended September 30, 2018 and 2017 is shown below:

	Balance 9/30/2017	Additions	Transfers Disposals	Balance 09/30/2018
Furniture, fixtures and equipment	\$ 21,240	\$ -	\$ -	\$ 21,240
Vehicles	62,962	-	-	62,962
	84,202	-	-	84,202
Accumulated depreciation	(59,049)	(6,187)	-	(65,236)
Net depreciable assets	25,153	(6,187)	-	18,966
Construction in-progress	-	128,810	-	128,810
Net capital assets	<u>\$ 25,153</u>	<u>\$ 122,623</u>	<u>-</u>	<u>\$ 147,776</u>
	Balance 9/30/2016	Additions	Transfers Disposals	Balance 09/30/2017
Furniture, fixtures and equipment	\$ 21,240	\$ -	\$ -	\$ 21,240
Vehicles	45,267	17,695	-	62,962
	66,507	17,695	-	84,202
Accumulated depreciation	(54,720)	(4,329)	-	(59,049)
Net depreciable assets	11,787	13,366	-	25,153
Construction in-progress	-	-	-	-
Net capital assets	<u>\$ 11,787</u>	<u>\$ 13,366</u>	<u>\$ -</u>	<u>\$ 25,153</u>

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Notes to Combined Financial Statements
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(5) Capital Assets, Continued

Depreciation expense for the years ended September 30, 2018 and 2017 was \$6,187 and \$4,329, respectively.

Construction in-progress is stated at cost and not depreciated. Construction in-progress includes the cost of construction and other direct costs attributable to the construction of the assets. No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and placed in service for operations.

The Authority's new two-story commercial office building construction project located in Melekeok State is estimated to be completed June 2019. As of September 30, 2018, and 2017, the Authority incurred and capitalized in construction in-progress \$128,810 and \$0, respectively. As of September 30, 2018, the estimated cost to complete the building project is approximately \$435,951.

(6) Noncurrent Liabilities

A summary of changes in noncurrent liabilities during fiscal year ended September 30, 2018 and 2017 is as follows:

	Outstanding October 1, 2017	Increases	Decreases	Outstanding September 30, 2018	Current	Noncurrent
Notes Payable	\$ 5,000,000	\$ -	\$ -	\$ 5,000,000	\$ -	\$ 5,000,000
Net Pension Liability	360,301	359	-	360,660	-	360,660
	<u>\$ 5,360,301</u>	<u>\$ 359</u>	<u>\$ -</u>	<u>\$ 5,360,660</u>	<u>\$ -</u>	<u>\$ 5,360,660</u>

	Outstanding October 1, 2016	Increases	Decreases	Outstanding September 30, 2017	Current	Noncurrent
Notes Payable	\$ 5,000,000	\$ -	\$ -	\$ 5,000,000	\$ -	\$ 5,000,000
Net Pension Liability	333,670	26,631	-	360,301	-	360,301
	<u>\$ 5,333,670</u>	<u>\$ 26,631</u>	<u>\$ -</u>	<u>\$ 5,360,301</u>	<u>\$ -</u>	<u>\$ 5,360,301</u>

PALAU HOUSING AUTHORITY
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Notes to Combined Financial Statements
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(7) Notes Payable

On April 8, 2016, the Republic of Palau entered into a \$5,000,000 loan agreement with Mega International Commercial Bank Co., Ltd. The purpose of the loan is to finance housing including displaced Palauan residents to be administered by the Palau Housing Authority. As of September 30, 2016, Palau Housing Authority received from the Republic of Palau \$2,500,000 of the \$5,000,000 loan. During the year ended September 30, 2017, the Authority received the remaining \$2,500,000 of the loan.

The loan is to be repaid in thirty-five (35) consecutive equal semi-annual installments of \$142,857 beginning on April 12, 2019 at the rate equal to six (6) months LIBOR plus one percent (1%) per annum. If Republic of Palau fails to repay any installment payment on the due date, the borrower shall pay interest on the amount of overdue payment at the rate of ten percent (10%) per annum or six (months) LIBOR plus five percent (5%), whichever is higher.

The Authority paid interest expense on the loan totaling \$125,120 and \$105,918, respectively, for the years ended September 30, 2018 and 2017.

(8) Retirement Plan

The Authority contributes to the Palau Civil Service Pension Trust Fund (the Fund), a defined benefit, cost-sharing, multi-employer pension plan established and administered by the Republic of Palau. The Fund issues a stand-alone financial report which is available at its office site.

The Fund provides retirement, security and other benefits to employees, and their spouses and dependents, of the Republic of Palau State Governments and Republic of Palau agencies, funds and public corporations, which are paid monthly and are two percent of each member's average monthly salary. Normal benefits are the credited total service up to a maximum of thirty years total service. Generally, benefits vest after three years of credited service. Members, who retire at or after age 60, or with 30 years of vesting service, are entitled to retirement benefits. Republic of Palau Public Law 2-26 is the authority under which benefit provisions and contributions rates are established. Member contribution rates are established by Republic of Palau Public Law 2-26 at six percent (6%) of total payroll and are deducted from the member' dollar for dollar by the employer.

Under the provisions of the Republic of Palau Public Law 2-26, the Fund's Board of Trustees adopted a Trust Fund Operation which has the force and effect of law, and which sets forth the procedures for the administration and coverage of the Plan. Amendments to the Plan are subject to the requirements of Title 6 of the Palau National Code.

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(8) Retirement Plan, Continued

The Fund utilizes the actuarial cost method termed “level aggregate cost method” with actuarial assumptions used to compute the pension benefit obligation. The following is the statement of actuarial assumptions as of October 1, 2015 applicable to the plan year ending September 30, 2015 of the ROP Civil Service Pension Plan:

Actuarial Cost Method	: Normal costs are calculated under the entry age normal method
Investment Income	: 7.5% per year
Expenses	: \$300,000 each year
Salary Increase	: 3% per year
Mortality	: RP 2000 Combined Healthy Mortality Table, set forward four years
Disabled Mortality	: PBGC Mortality Table for Disabled Persons Receiving Social Security
Retirement Age	: Age 60 and contributed for at least 5 years

The pension benefit obligation, which is the actuarial present value of credited projected benefits, is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and any step-rate benefits, estimated to be payable in the future as a result of employment service to date. The measure is intended to assist users to evaluate the Fund’s funding status on a going-concern basis, and evaluate progress made in accumulating adequate assets to pay benefits when due.

Based on the actuarial valuation of the Fund as of October 1, 2015, the actuarial valuation determined the unfunded pension benefit obligation as follows:

Accrued liability as of October 1, 2015 for:

Present value of Future Benefits	\$ 187,644,517
Present value of Future Normal Costs	<u>(26,735,675)</u>
Actuarial Accrued Liability	160,908,842
Market value of assets	(28,115,140)
Unfunded Actuarial Accrued Liability	\$ <u>132,793,702</u>
Funded ratio (ratio of assets to liabilities)	17.5%

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Notes to Combined Financial Statements
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(8) Retirement Plan, Continued

A. General information About the Pension Plan

Investment Rate of Return

The long-term expected rate of return on the Plan's investments of 7.5% was determined using the building-block method, creating a best-estimate range for each asset class.

As of September 30, 2016, the arithmetic real rates of return for each for major investment class are as follows:

Asset Class	Target Allocation	Expected Rate of Return
Cash	3%	4.55%
Equity	61%	6.35%
Corporate fixed income	5%	4.00%
Governmental fixed income	<u>31%</u>	7.75%
	<u>100%</u>	

Discount Rate

The discount rate used to measure the total pension liability was 3.62% at the current measurement date and 2.98% at the prior measurement date. The discount rate was determined using the current assumed rate of return until the point where the plan fiduciary net position is negative. Using the current contribution rates, a negative position happens in 2022 for the 2017 measurement date. For years on or after 2022, a discount rate of 3.57% is used. This rate is based on the Bond Buyer General Obligation 20-year Municipal Bond Index Rate.

Sensitivity of Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the Authority as of September 30, 2017, calculated using the discount rate of 3.62%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (2.62%) or 1.00% higher (4.62%) from the current rate.

1% Decrease 2.62%	Current Single Discount Rate Assumption 3.62%	1% Increase 4.62%
\$417,626	\$360,660	\$313,393

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September 30, 2018 and 2017

(8) Retirement Plan, Continued

Pension Liability. At September 30, 2018 and 2017, the Authority reported a liability of \$360,660 and \$360,301, respectively, for its proportionate share of the net pension liability. The Authority's proportion of the net pension liability was based on the projection of the Authority's long-term share of contributions to the Plan relative to the projected contributions of Republic of Palau, Republic of Palau's component units and other Government agencies, actuarially determined. At September 30, 2018 and 2017, the Authority's proportion was 0.144% and 0.152%, respectively.

The actuarial valuation did not provide a breakdown of actuarial present value of vested and non-vested accumulated plan benefits by sponsor or net position available for benefits by sponsor.

Deferred Outflows and Inflows of Resources: As of September 30, 2018 and 2017, the Authority reported total deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2018		2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 33,201	\$ 7,049	\$ -	\$ 9,235
Net difference between projected and actual earnings on pension plan investments	1,986	1,762	3,094	700
Change in assumptions	42,172	34,166	55,220	8,521
Authority contributions subsequent to the measurement date	-	-		
Changes in proportion and difference between the Authority contributions and proportionate share of contributions	<u>1,297</u>	<u>35,509</u>	<u>2,583</u>	<u>32,608</u>
Total	<u>\$ 78,656</u>	<u>\$ 78,486</u>	<u>\$ 60,897</u>	<u>\$ 51,064</u>

(9) Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. The Authority has elected to be self-insured for the risks of loss to which it is exposed.

PALAU HOUSING AUTHORITY
(A Component Unit of the Republic of Palau)

Notes to Combined Financial Statements
September 30, 2018 and 2017

(10) Commitments and Contingencies

Litigation

The Authority is subject to various claims and other legal actions in the normal course of business. The Authority consults its legal counsel and the Office of the Attorney General of the Republic of Palau whenever there is a potential or asserted claim, and relies on the advice of counsel for direction and for establishing reserves for potential unfavorable outcomes.

The Authority has initiated several foreclosure actions now pending in the Trial Division of the Supreme Court of Palau (the Court) against six (3) borrowers who defaulted on rehabilitation loans whose principal and interest balance approximate \$23,040 as of September 30, 2017. The Authority intends to take the following courses of action with respect to these matters: (1) renegotiate the loan; (2) pursue the claim in Court to recover the amount through judgments for monetary awards; or (3) pursue the claim in court to recover the amount through judgments for foreclosure on mortgaged properties.

(11) National Government Contributions

For the years ended September 30, 2018 and 2017, the Republic of Palau appropriated and contributed the following to the Authority:

	<u>2018</u>	<u>2017</u>
For operational costs of employees	\$ <u>70,000</u>	\$ <u>70,000</u>
	\$ <u>70,000</u>	\$ <u>70,000</u>

(12) Impairment of Fixed Assets

The Authority reviews the carrying value of property and equipment for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets. The factors considered by management in performing this assessment include current operating results, trends, and prospects, as well as the effects of obsolescence, demand, competition, and other economic factors.

PALAU HOUSING AUTHORITY
(A Component Unit of the Republic of Palau)

Notes to Combined Financial Statements
September 30, 2018 and 2017

(13) Reclassifications

Certain reclassifications have been made to the prior year's financial statements to conform to the current year presentation. These reclassifications had no effect on previously reported results of operations or net position

(14) Subsequent Events

The Authority has evaluated subsequent events from October 1, 2018 through April 29, 2019, the date the financial statements were available to be issued. The Authority did not note any subsequent events requiring disclosure or adjustment to the accompanying financial statements.

PALAU HOUSING AUTHORITY
(A Component Unit of the Republic of Palau)

Supplementary Statements of Revenues, Expenses, and Changes in Net Assets - Budget and Actual
Year Ended September 30, 2018

	Budgeted Amounts			Actual Amounts	(Unfavorable) Variance
	Original	Revision	Final		
Operating revenues	\$ -	\$ -	\$ -	\$ 184,090	\$ 184,090
Operating expenses:					
Interest expense	-	-	-	125,120	(125,120)
Salaries and wages including employee benefits	106,695	-	106,695	97,199	9,496
Rent expense	8,975	-	8,975	9,000	(25)
Communication	4,000	-	4,000	3,794	206
Professional fees	3,500	-	3,500	-	3,500
Travel	5,900	-	5,900	9,252	(3,352)
Utilities	3,700	-	3,700	2,470	1,230
Lease/insurance	4,500	-	4,500	1,064	3,436
Repairs and maintenance	1,500	-	1,500	4,890	(3,390)
Office supplies	4,730	-	4,730	4,743	(13)
Office equipment	10,000	-	10,000	-	10,000
Advertising	700	-	700	-	700
Bank charges	700	-	700	-	700
Depreciation	-	-	-	6,187	(6,187)
Miscellaneous	4,200	-	4,200	4,485	(285)
Total operating expenses	<u>159,100</u>	<u>-</u>	<u>159,100</u>	<u>268,204</u>	<u>(109,104)</u>
Operating income (loss)	<u>(159,100)</u>	<u>-</u>	<u>(159,100)</u>	<u>(84,114)</u>	<u>74,986</u>
Non-operating revenues:					
Investment income earned	-	-	-	260,534	260,534
Interest income	-	-	-	5,972	5,972
Other income (expense), net	-	-	-	6,872	6,872
Total non-operating revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>273,378</u>	<u>273,378</u>
Change in net assets	<u>\$ (159,100)</u>	<u>\$ -</u>	<u>\$ (159,100)</u>	<u>\$ 189,264</u>	<u>\$ 348,364</u>

PALAU DISTRICT HOUSING AUTHORITY
(A Component Unit of the Republic of Palau)

Required Supplemental Information (Unaudited)
Schedule of Proportional Share of the Net Pension Liability
Last 10 Fiscal Years*

	2017	2016	2015	2014
Civil Service Pension Trust Fund (Plan) total net pension liability	\$259,395,005	\$249,453,960	\$215,546,176	\$204,281,232
The Authority's proportionate share of the net pension liability	\$ 360,660	\$ 360,301	\$ 327,702	\$ 323,173
The Authority's proportionate share of the net pension liability	0.139%	0.144%	0.152%	0.158%
The Authority's covered-employee payroll**	\$ 80,550	\$ 76,479	\$ 73,732	\$ 74,360
The Authority's proportionate share of the net pension liability as a percentage of its covered employee payroll	447.75%	471.11%	444.45%	434.61%
Plan Fiduciary net position as a percentage of the total pension liability	10.18%	10.55%	11.54%	14.01%

* This data is presented for those years for which information is available.

** Covered-employee payroll data from the actuarial valuation date with one-year lag.

PALAU DISTRICT HOUSING AUTHORITY

(A Component Unit of the Republic of Palau)

Required Supplemental Information (Unaudited)

Schedule of Pension Contributions

Last 10 Fiscal Years*

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Actuarially determined contribution	\$ 23,879	\$ 20,819	\$ 16,571	\$ 16,804
Contribution in relation to the actuarially determined contribution	<u>4,833</u>	<u>4,527</u>	<u>4,394</u>	<u>4,379</u>
Contribution (excess) deficiency	<u>\$ 19,046</u>	<u>\$ 16,292</u>	<u>\$ 12,177</u>	<u>\$ 12,425</u>
Authority's covered-employee payroll	<u>\$ 80,550</u>	<u>\$ 76,479</u>	<u>\$ 73,732</u>	<u>\$ 74,360</u>
Contribution as a percentage of covered-employee payroll	6.00%	5.92%	5.96%	5.89%

* This data is presented for those years for which information is available.

** Covered-employee payroll data from the actuarial valuation date with one-year lag.

See accompanying Independent Auditors' Report.

PALAU HOUSING AUTHORITY
(A Component Unit of the Republic of Palau)

Schedule of Investments
September 30, 2018

<u>Cash and Money Market Funds</u>	<u>Cost</u>	<u>Fair Value</u>
Cash equivalents	\$ 64,942	\$ 64,942
Total Cash and Money Market Funds	<u>64,942</u>	<u>64,942</u>
 <u>Exchange-traded and Closed-in Funds:</u>		
<u>Mutual Funds</u>		
Ishares TR Core S&P 500 ETF	1,173,071	1,469,797
Ishares TR Core MSCI EAFE	253,023	280,094
Ishares Inc Core MSCI EMKT	231,297	244,350
Ishares TR Core S&P MCP ETF	197,649	236,113
Morgan Stanley INSTL FD TRUS	189,237	188,810
Goldman Sachs ERMG Markerts	171,614	159,915
JPMorgan TR 1 Global Bond I	<u>126,213</u>	<u>124,768</u>
Total Mutual Funds	<u>2,342,104</u>	<u>2,703,847</u>
 <u>Equities</u>		
DBX ETF Trust X-Trackers MSC	261,392	287,600
Alliance FDS Multi-Strategy T	1	140,029
Fidelity INVT TR	1	138,597
Ishares Europe ETF	85,260	98,295
Ishares INC SMCI JPN	<u>82,343</u>	<u>87,120</u>
Total Equities	<u>428,997</u>	<u>751,641</u>
 Total Exchange-traded and Closed-in Funds	 <u>2,771,101</u>	 <u>3,455,488</u>
 -		
Total Cash, Mutual Funds, and Equities	<u>\$ 2,836,043</u>	<u>\$ 3,520,430</u>

See Accompanying Independent Auditors's Report.

PALAU HOUSING AUTHORITY
(A Component Unit of the Republic of Palau)

INDEPENDENT AUDITORS' REPORT ON
INTERNAL CONTROL AND ON COMPLIANCE

Year Ended September 30, 2018



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
Palau 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 Palau Housing Authority (the Authority), which comprise the statement of net position as of September 30, 2018, and the related statements of revenues, expenses and changes in net position and the statement of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 24, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Palau Housing 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 Palau Housing Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Palau Housing Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization'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.



Koror, Republic of Palau
April 24, 2019

PALAU HOUSING AUTHORITY
(A Component Unit of the Republic of Palau)

STATISTICAL SECTION

Year Ended September 30, 2018

PALAU HOUSING AUTHORITY
(A Component Unit of the Republic of Palau)

NET POSITION
Last Six Fiscal Years Ending September 30

	2018	2017	2016	2015	2014 Restated	2013	2012	2011	2010	2009
Invested in capital assets	\$ 8,437	\$ 10,112	\$ 11,787	\$ 14,363	\$ 15,663	\$ 23,383	\$ 10,558	\$ 13,449	\$ 23,552	\$ 39,555
Restricted	3,136,848	2,428,218	2,339,989	2,275,930	2,095,405	1,923,639	1,981,793	1,785,948	1,839,988	2,374,498
Unrestricted	(336,838)	207,853	269,893	325,003	450,009	921,999	840,204	1,004,620	944,339	393,629
Total Net Position	\$ 2,808,447	\$ 2,646,183	\$ 2,621,669	\$ 2,615,296	\$ 2,561,077	\$ 2,869,021	\$ 2,832,555	\$ 2,804,017	\$ 2,807,879	\$ 2,807,682

Source: Annual reports on audited financial statements for the past ten fiscal years.

See Independent Auditors' Report.

PALAU HOUSING AUTHORITY
(A Component Unit of the Republic of Palau)

CHANGES IN NET POSITION
Last Six Fiscal Years Ending September 30

	2018	2017	2016	2015	2014 Restated	2013	2012	2011	2010	2009
Operating revenues										
Republic of Palau appropriation	\$ 70,000	\$ 70,000	\$ 70,000	\$ 70,000	\$ 70,000	\$ 59,000	\$ 58,990	\$ 64,000	\$ 60,000	\$ 66,645
Interest on loans	112,008	93,606	88,863	80,844	77,172	76,509	82,507	76,955	88,600	74,975
Other operating revenues	2,082	12,563	11,832	20,764	8,067	18,418	7,796	4,549	15,605	11,856
Section 8 income	-	-	-	-	-	-	-	6,000	13,550	16,200
National treasury income	-	-	-	-	-	-	-	9,000	9,000	9,000
Provision for loan losses	-	-	-	-	-	-	-	-	(17,052)	-
Total operating revenues, net	184,090	176,169	170,695	171,608	155,239	153,927	149,293	160,504	169,703	178,676
Operating expenses										
Salaries and wages	75,642	77,970	75,456	70,468	71,692	65,335	60,600	64,422	65,458	64,122
Interest expense	125,120	105,918	-	-	-	-	-	-	-	-
Rent expense	9,000	9,000	12,681	12,975	12,975	10,894	10,200	10,480	11,320	11,320
Employee benefits	21,557	34,728	12,262	6,723	23,425	9,155	7,587	8,248	6,693	6,549
Depreciation	6,187	4,329	2,576	2,865	7,109	8,290	2,891	10,103	14,549	14,153
Travel	9,252	8,524	5,481	3,697	4,827	3,557	4,402	3,412	2,848	2,559
Communication	3,794	4,057	4,836	5,314	4,664	4,658	4,600	3,667	2,722	5,312
Professional fees	-	390	-	1,650	1,900	4,000	10,500	10,525	12,000	9,000
Repairs and maintenance	4,890	154,326	5,640	1,458	1,573	1,007	2,844	3,460	2,710	2,610
Labor and materials	-	-	29,814	-	-	-	-	18,787	-	-
Provision for bad debts	-	-	-	-	-	-	8,551	22,631	-	-
Other operating expenses	12,762	18,103	18,081	13,070	15,950	14,766	9,553	9,469	9,105	14,424
Total operating expenses	268,204	417,345	166,827	118,220	144,115	121,662	121,728	165,204	127,405	130,049
Operating income (loss)	(84,114)	(241,176)	3,868	53,388	11,124	32,265	27,565	(4,700)	42,298	48,627
Non-operating revenues (expenses)										
Investment income earned	5,972	5,429	855	831	1,174	1,201	973	838	940	16,604
Net change in fair value of investments	260,534	259,896	-	-	-	-	-	-	-	-
Other income (expense)	6,872	365	1,650	-	(367)	3,000	-	-	(43,041)	-
Total non-operating revenues, net	273,378	265,690	2,505	831	807	4,201	973	838	(42,101)	16,604
Change in net position	\$ 189,264	\$ 24,514	\$ 6,373	\$ 54,219	\$ 11,931	\$ 36,466	\$ 28,538	\$ (3,862)	\$ 197	\$ 65,231

Source: Annual reports on audited financial statements for the past ten fiscal years.

PALAU HOUSING AUTHORITY
(A Component Unit of the Republic of Palau)

REVENUES BY SOURCE
Last Six Fiscal Years Ending September 30

Function	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
ROP Appropriations	\$ 70,000	\$ 70,000	\$ 70,000	\$ 70,000	\$ 59,000	\$ 58,990	\$ 64,000	\$ 88,600	\$ 66,645	\$ 67,000
Interest on loans	112,008	93,606	80,844	77,172	76,509	82,507	76,955	60,000	74,975	63,740
Section 8 income	-	-	-	-	-	-	6,000	13,550	16,200	16,400
National treasury income	-	-	-	-	-	-	9,000	9,000	9,000	8,500
Other operating revenues	2,082	12,563	20,764	8,067	18,418	7,796	4,549	15,605	11,856	6,387
Total Revenues	\$ 184,090	\$ 176,169	\$ 171,608	\$ 155,239	\$ 153,927	\$ 149,293	\$ 160,504	\$ 186,755	\$ 178,676	\$ 162,027

Source: Annual reports on audited financial statements for the past ten fiscal years.

See Independent Auditors' Report.

PALAU HOUSING AUTHORITY
(A Component Unit of the Republic of Palau)

SCHEDULE OF EXPENSES

Last Six Fiscal Years Ending September 30

Function	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Salaries and wages	75,642	\$ 77,970	\$ 75,456	\$ 70,468	\$ 71,692	\$ 65,335	\$ 60,600	\$ 64,422	\$ 65,458	\$ 64,122
Interest expense	125,120	105,918	-	-	-	-	-	-	-	-
Rent expense	9,000	9,000	12,681	12,975	12,975	10,894	10,200	10,480	11,320	11,320
Employee benefits	21,557	34,728	12,262	6,723	23,425	9,155	7,587	8,248	6,693	6,549
Depreciation	6,187	4,329	2,576	2,865	7,109	8,290	2,891	10,103	14,549	14,153
Travel	9,252	8,524	5,481	3,697	4,827	3,557	4,402	3,412	2,848	2,559
Communication	3,794	4,097	4,836	5,314	4,664	4,658	4,600	3,667	2,722	5,312
Professional fees	-	390	-	1,650	1,900	4,000	10,500	10,525	12,000	9,000
Repairs and maintenance	4,890	154,326	5,640	1,458	1,573	1,007	2,844	3,460	2,710	2,610
Provision for bad debts	-	-	-	-	-	-	8,551	22,631	-	-
Labor and materials	-	-	29,814	-	-	-	-	18,787	-	-
Other operating expenses	12,762	18,063	18,081	13,070	15,950	14,766	9,553	9,469	9,105	14,424
Total Expenses	\$ 268,204	\$ 417,345	\$ 166,827	\$ 118,220	\$ 144,115	\$ 121,662	\$ 121,728	\$ 165,204	\$ 127,405	\$ 130,049

Source: Annual reports on audited financial statements for the past ten fiscal years.

See Independent Auditors' Report.