

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

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**FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT**

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**Years Ended September 30, 2015 and 2014**

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

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September 30, 2015 and 2014

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**INDEPENDENT AUDITORS' REPORT**

To the Board of Directors  
Palau District Housing Authority

We have audited the accompanying combined financial statements of Palau District Housing Authority (the Authority), a component unit of the Republic of Palau as of September 30, 2015 and 2014, 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 2014 financial statements and, in our report dated May 24, 2015, 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Palau District Housing Authority as of September 30, 2015 and 2014, and the changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

As discussed in Note 1 to the financial statements, PCC implemented Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement 68* during the year ended September 30, 2015. As a result of adopting these standards, Palau District Housing Authority has restated its net position as of October 1, 2014 to reflect the adoption of these standards. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 16 and page 47, respectively, 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 financial statements as a whole. The statistical section on pages 50 through 53 is presented for purposes of additional analysis and is not a required part of the financial statements. The statistical section is the responsibility of management. 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 assurance on it.

The statistical section is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statement. 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 June 24, 2015, on our consideration of the Palau District Housing Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.



Koror, Republic of Palau  
June 24, 2016

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

Management's Discussion and Analysis  
September 30, 2015

As management of the Palau District 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, 2015. 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 46.

**Financial Highlights**

- The assets of the Authority exceeded its liabilities at September 30, 2015 and 2014 by \$2,627,912 and \$2,571,039, respectively. The Authority's net position (assets less liabilities) increased by \$54,219 from the previous year. The increase in net position is a result of excess of revenues earned over expenses.
- The Authority's cash and cash equivalents at September 30, 2015 and 2014 was \$650,117 and \$780,305, respectively, representing a decrease of \$130,188 mainly due to disbursements of approved FY 2015 news loans under the Home Rehabilitation Loan Program, Low-Cost Housing Program, and Emergency Loan Program.
- The Authority had operating revenues of \$171,608 and \$155,239 and operating expenses of \$118,220 and \$144,115 for the years ended September 30, 2015 and 2014, respectively. The net increase of \$16,369 in operating revenues is attributable to the increase in interest on loans as notes receivable increased and late fees.

**Overview of the Financial Statements**

The Management Discussion and Analysis (MD&A) 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, 2015, the College 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 DISTRICT HOUSING AUTHORITY**  
(A Component Unit of the Republic of Palau)

Management's Discussion and Analysis  
September 30, 2015

**Overview of the Financial Statements, Continued**

***AUTHORITY-WIDE FINANCIAL STATEMENTS***

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 position 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 operations, 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 was 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 to 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 46 of this report.

**PALAU DISTRICT HOUSING AUTHORITY**  
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Management's Discussion and Analysis  
September 30, 2015

**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 by the private sector accounting.

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

**Authority-Wide Financial Analysis**

Fiscal year 2015 is the thirteenth year of the implementation of Governmental Accounting Standards Board (GASB) Statement No. 34. The financial statements focus 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 Position 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 Position focus on both the gross costs and the net costs of Authority 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 Authority services to the general public of the ROP.



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Management's Discussion and Analysis  
September 30, 2015

**Authority-Wide Financial Analysis, Continued**

**Statements of Net Position**  
**As of September 30, 2015, 2014 and 2013**

	2015	2014 As Restated	2013
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 650,117	\$ 780,305	\$ 917,836
Notes receivable, current portion	255,489	240,098	238,231
Allowance for doubtful accounts	(87,994)	(87,994)	(87,994)
	167,495	152,104	150,237
Accounts receivable, net	1,017	-	15,324
Due from grantor agency	-	-	-
Interest receivable	9,593	9,590	9,590
Due from other fund	65	742	-
	828,287	942,741	1,092,987
Noncurrent assets:			
Notes receivable, net of current portion	2,108,435	1,943,301	1,759,402
Capital assets, net	14,363	15,663	23,383
Deferred inflows of resources	29,910	25,813	-
	2,152,708	1,984,777	1,782,785
<b>Total Assets and Deferred Outflows</b>	<b>\$ 2,980,995</b>	<b>\$ 2,927,518</b>	<b>\$ 2,875,772</b>

**PALAU DISTRICT HOUSING AUTHORITY**  
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Management's Discussion and Analysis  
September 30, 2015

**Authority-Wide Financial Analysis, Continued**

**Statements of Net Position**  
**As of September 30, 2015, 2014 and 2013**

	2015	2014 As Restated	2013
<b>Liabilities</b>			
Current liabilities:			
Due to other fund	\$ -	\$ 742	\$ -
Accrued expenses	6,751	6,751	6,751
Net pension liability	323,173	323,173	-
Total liabilities	329,924	330,666	6,751
Deferred inflows of resources	35,775	35,775	-
<b>Net Position</b>			
Net investment in capital assets	14,363	15,663	23,383
Restricted	2,275,930	2,095,405	1,923,639
Unrestricted	325,003	450,009	921,999
Total net position	2,615,296	2,561,077	2,869,021
<b>Total Liabilities, Deferred Inflows and Net Position</b>	<b>\$ 2,980,995</b>	<b>\$ 2,927,518</b>	<b>\$ 2,875,772</b>

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.

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**Authority-Wide Financial Analysis, Continued**

Total net position approximated \$3 million as of FY 2015 and \$2.9 million as of FY 2014.

The current portion of the notes receivable for FY 2015 remained relatively the same as compared to FY 2014, while noncurrent assets increased from \$1.9 million in FY 2014 to \$2 million in FY 2015 attributed by the increase in notes receivable. Of the total outstanding notes receivable, eighty-five percent (85%) or \$2,007,304 pertains to the Home Rehabilitation Loan Program as of September 30, 2015.

There were four (4) new loans approved in FY 2015 totaling \$19,991 sourced from HIRAP Loan Program. There were one (1) new loan approved in FY 2015 totaling \$38,000, sourced from the Emergency Loan Program to assist families to make the major repairs of homes damaged by the typhoon Bopha and Haiyan that struck Palau in December 2012 and 2013. The Authority approved and disbursed \$38,000 for one (1) new loan for home improvement and rehabilitation program as of September 30, 2015.

As noted earlier, net position may serve over time as a useful indicator of an entity's financial position. The case of the Authority's, assets exceeded liabilities by \$2,980,995 as of September 30, 2015.

**Operating Revenues for the Years Ended  
September 30, 2015, 2014 and 2013**

	2015	2014	2013
Operating revenues:			
Interest on loans	\$ 80,844	\$ 77,172	\$ 76,509
Republic of Palau appropriations	70,000	70,000	59,000
Tenant rental income	-	-	-
National treasury income	-	-	-
Other	20,764	8,067	18,418
Total operating revenues	\$ 171,608	\$ 155,239	\$ 153,927

The above schedule indicates total revenues realized by the Authority in FY 2015 totaled \$171,608. The OEK contributed \$70,000 through cost reimbursement grants during FY 2015. The Authority draws down monies from the appropriations from ROP for allowable expenses, except for non-cash transactions, such as depreciation expense and changes in compensated absences. The Authority's intergovernmental revenues and charges for services were sufficient to cover all expenses incurred during the year.

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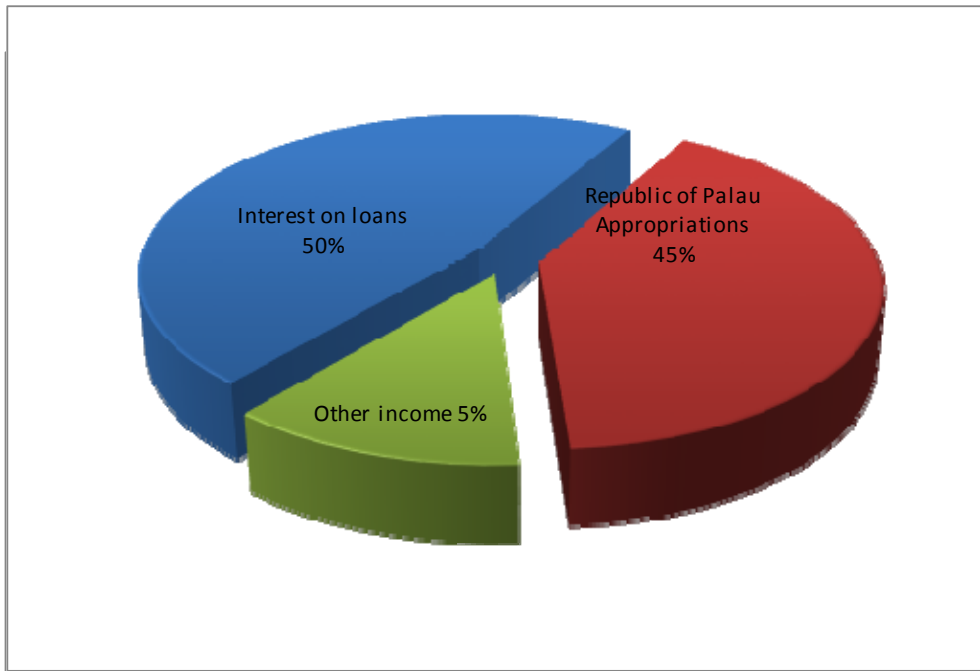
Management's Discussion and Analysis  
September 30, 2015

**Authority-Wide Financial Analysis, Continued**

The Authority's net operating revenues slightly increased by \$16,369 in FY 2015 due to increased in interest on loans and late fees.

The following chart exhibits the breakdown of revenues for Palau District Housing Authority in FY 2015.

Operating Revenues Breakdown



**PALAU DISTRICT HOUSING AUTHORITY**  
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Management's Discussion and Analysis  
September 30, 2015

**Operating Expenses for the Years Ended  
September 30, 2015, 2014 and 2013**

	<u>2015</u>	2014 <u>As Restated</u>	<u>2013</u>
Operating expenses:			
Salaries and wages	\$ 70,468	\$ 71,692	\$ 65,335
Rent expense	12,975	12,975	10,894
Employee benefits	6,723	23,425	9,155
Communication	5,314	4,664	4,658
Travel	3,697	4,827	3,557
Utilities	3,159	3,762	3,255
Depreciation	2,865	7,109	8,290
Professional fees	1,650	1,900	4,000
Repairs and maintenance	1,458	1,573	1,007
Miscellaneous	<u>9,911</u>	<u>12,188</u>	<u>11,511</u>
 Total operating expenses	 <u>\$ 118,220</u>	 <u>\$ 144,115</u>	 <u>\$ 121,662</u>

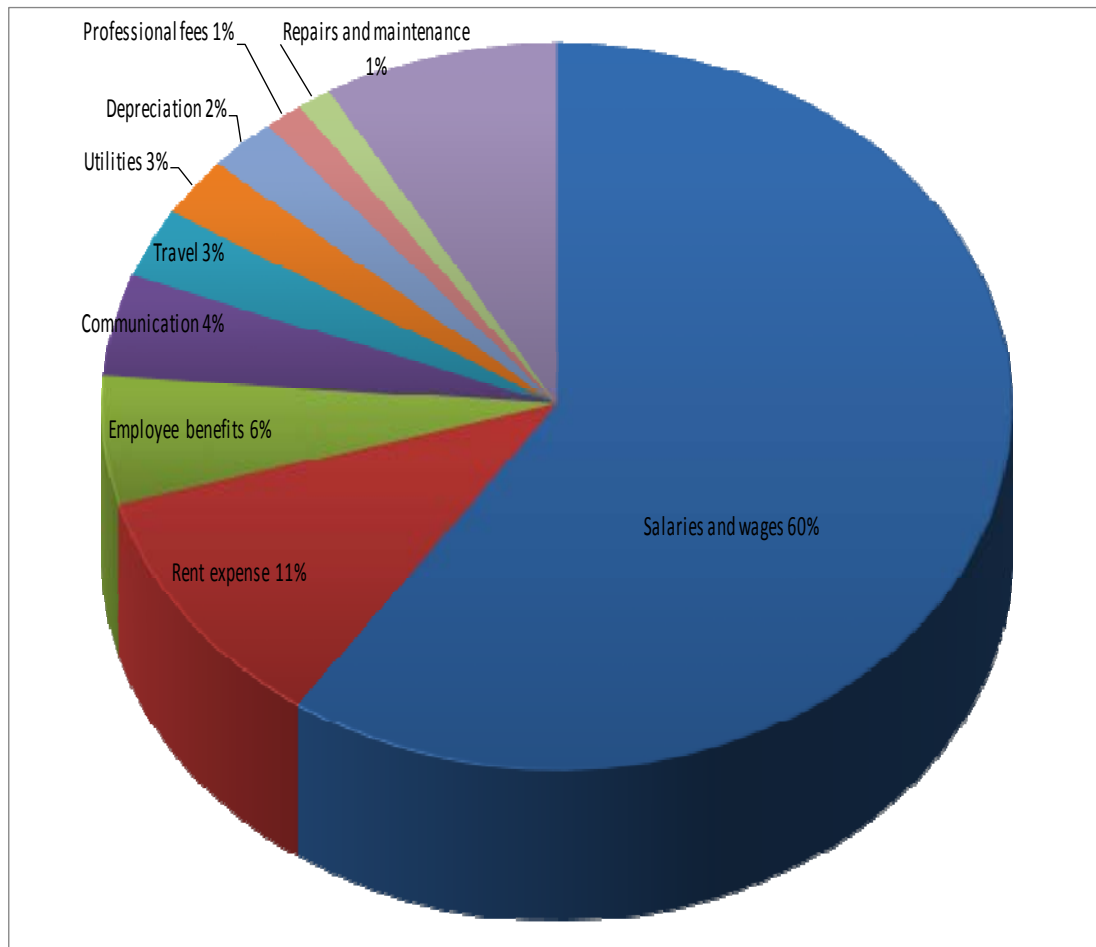
The above schedule shows total operating expenses of \$118,220 in FY 2015. The Authority's operating expenses decreased by \$25,895 or 18% over FY 2014 primarily as a result of the implementation of GASB 68.

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September 30, 2015

**Authority-Wide Financial Analysis, Continued**

Expense Breakdown  
For Year Ended September 30, 2015



The largest expenditure in FY 2015 was for employees' salaries and wages totaling \$70,468 covering four (4) full-time employees. For comparison purposes, the FY 2014 salaries and wages totaled \$71,692 thus representing a decrease in current year salaries and wages of \$1,224 or 2% which is nominal.

**PALAU DISTRICT HOUSING AUTHORITY**  
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Management's Discussion and Analysis  
September 30, 2015

**Authority-Wide Financial Analysis, Continued**

**CAPITAL ASSETS**

As of September 30, 2015, 2014 and 2013, the Authority's investment in capital assets (net of accumulated depreciation) for its business-type activities is as reflected in the following schedule:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Furniture, fixtures, and equipment	\$ 21,240	\$ 18,191	\$ 21,012
Vehicles	<u>45,267</u>	<u>46,099</u>	<u>46,099</u>
	66,507	64,290	67,111
Accumulated depreciation	<u>(52,144)</u>	<u>(48,627)</u>	<u>(43,728)</u>
	<u>\$ 14,363</u>	<u>\$ 15,663</u>	<u>\$ 23,383</u>

Additional information on the Authority's capital assets can be found in Notes 1 and 6 of the accompanying Notes to Combined Financial Statements.

**NET POSITION**

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

As of September 30, 2015, 2014 and 2013, the Authority's net position is as reflected in the following schedule:

	<u>2015</u>	<u>2014</u> <u>As Restated</u>	<u>2013</u>
Net investment in capital assets	\$ 14,363	\$ 15,663	\$ 23,383
Restricted	2,275,930	2,095,405	1,923,639
Unrestricted	<u>325,003</u>	<u>450,009</u>	<u>921,999</u>
Total net position	<u>\$ 2,615,296</u>	<u>\$ 2,561,077</u>	<u>\$ 2,869,021</u>

**PALAU DISTRICT HOUSING AUTHORITY**  
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Management's Discussion and Analysis  
September 30, 2015

**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. At September 30, 2015, the Authority's budget and actual is reflected in the following schedule:

	Budgeted Amounts		Actual Amounts	(Unfavorable) Variance
	Original	Final		
Operating revenues	\$ 144,100	\$ 144,100	\$ 171,608	\$ 27,508
Operating expenses	(144,100)	(144,100)	(118,220)	25,880
Operating income	-	-	53,388	53,388
Other expense	-	-	-	-
Investment income earned	-	-	831	831
Increase in net position	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 54,219</u>	<u>\$ 54,219</u>

Palau District 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 District Housing Authority through an Annual Appropriations Act.



**PALAU DISTRICT HOUSING AUTHORITY**  
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Management's Discussion and Analysis  
September 30, 2015

**Economic Factors and Next Year's Budget and Rates**

The following factors were considered in preparing the Authority's budget for the 2016 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,
- \$5 million loan from Mega Bank, Taiwan. This additional capital will assist with the displacement crisis, and the back log of loan applicants.
- Interest payment of the loan and other fees and charges

**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
- Leased parcel of land has been secured and the construction of a permanent office building for the Authority will be forthcoming however, due to land issues will be delayed.
- \$5 million loan - Mega Bank

**PALAU DISTRICT HOUSING AUTHORITY**  
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Management's Discussion and Analysis  
September 30, 2015

**Contacting the Authority's Financial Management**

The Management's 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 District Housing Authority, PO Box 197, Koror, Republic of Palau, 96940, or call (680) 488-6207.

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

Combined Statements of Net Position  
September 30, 2015  
(With comparative totals as of September 30, 2014)

	Major Enterprise Funds				Non-major Enterprise Fund	Total 2015	2014 As Restated
	Operation Fund	Home Rehabilitation Loan Program	Low-Cost Housing Program	Emergency Housing Loan Revolving Program			
<b>ASSETS</b>							
Current assets:							
Cash and cash equivalents (Notes 1, 2 and 3)	\$ 89,677	\$ 344,056	\$ 50,701	\$ 79,263	\$ 86,420	\$ 650,117	\$ 780,305
Notes receivable, current portion (Notes 1, 4 and 9)	-	228,833	26,656	-	-	255,489	240,098
Allowance for loan losses (Notes 1 and 4)	-	(69,442)	(18,552)	-	-	(87,994)	(87,994)
	-	159,391	8,104	-	-	167,495	152,104
Accounts receivable, net (Note 1)	1,017	-	-	-	-	1,017	-
Due from fund	-	56	-	9	-	65	742
Due from grantor agency	-	-	-	-	-	-	-
Interest receivable	-	7,791	1,802	-	-	9,593	9,590
Total current assets	90,694	511,294	60,607	79,272	86,420	828,287	942,741
Noncurrent assets:							
Notes receivable, net of current portion (Notes 1, 4 and 9)	-	1,778,471	113,637	216,327	-	2,108,435	1,943,301
Capital assets, net (Notes 1 and 6)	-	-	-	-	14,363	14,363	15,663
Total noncurrent assets	-	1,778,471	113,637	216,327	14,363	2,122,798	1,958,964
Deferred outflows of resources - pension	29,910	-	-	-	-	29,910	25,813
Total assets and deferred outflows of resources	\$ 120,604	\$ 2,289,765	\$ 174,244	\$ 295,599	\$ 100,783	\$ 2,980,995	\$ 2,927,518

See accompanying notes to the basic financial statements.

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

Combined Statements of Net Position, Continued  
September 30, 2015  
(With comparative totals as of September 30, 2014)

	Major Enterprise Funds					Total 2015	2014 As Restated
	Operation Fund	Home Rehabilitation Loan Program	Low-Cost Housing Program	Emergency Housing Loan Revolving Program	Non-major Enterprise Fund		
<b>LIABILITIES</b>							
<b>Current Liabilities:</b>							
Accrued expenses (Note 1)	\$ 6,751	\$ -	\$ -	\$ -	\$ -	\$ 6,751	\$ 6,751
Due to fund	-	-	-	-	-	-	742
<b>Total current liabilities</b>	<b>6,751</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6,751</b>	<b>7,493</b>
Net pension liability	323,173	-	-	-	-	323,173	323,173
<b>Total liabilities</b>	<b>329,924</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>329,924</b>	<b>330,666</b>
Deferred inflows of resources - pension	35,775	-	-	-	-	35,775	35,775
Commitments and Contingencies (Note 9)							
<b>NET POSITION (Note 1)</b>							
Net investment in capital assets	-	-	-	-	14,363	14,363	15,663
Restricted	-	1,937,862	121,741	216,327	-	2,275,930	2,095,405
Unrestricted	(245,095)	351,903	52,503	79,272	86,420	325,003	450,009
<b>Total net position</b>	<b>(245,095)</b>	<b>2,289,765</b>	<b>174,244</b>	<b>295,599</b>	<b>100,783</b>	<b>2,615,296</b>	<b>2,561,077</b>
<b>Total liabilities, deferred inflows of resources and net position</b>	<b>\$ 120,604</b>	<b>\$ 2,289,765</b>	<b>\$ 174,244</b>	<b>\$ 295,599</b>	<b>\$ 100,783</b>	<b>\$ 2,980,995</b>	<b>\$ 2,927,518</b>

See accompanying notes to the basic financial statements.

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

Combined Statements of Revenues, Expenses and Changes in Net Position  
Year Ended September 30, 2015  
(With comparative totals as of September 30, 2014)

	Major Enterprise Funds					Total 2015	2014 As Restated
	Operation Fund	Home Rehabilitation Loan Program	Low-Cost Housing Program	Emergency Housing Loan Revolving Program	Non-major Enterprise Fund		
Operating revenues:							
Interest on loans	\$ -	\$ 71,646	\$ 3,708	\$ 5,490	\$ -	\$ 80,844	\$ 77,172
Republic of Palau appropriation	70,000	-	-	-	-	70,000	70,000
Other	3	7,879	354	8,796	3,732	20,764	8,067
<b>Total operating revenues</b>	<b>70,003</b>	<b>79,525</b>	<b>4,062</b>	<b>14,286</b>	<b>3,732</b>	<b>171,608</b>	<b>155,239</b>
Operating expenses:							
Salaries and wages	47,908	22,560	-	-	-	70,468	71,692
Rent expense	6,800	6,175	-	-	-	12,975	12,975
Employee benefits	2,523	4,200	-	-	-	6,723	23,425
Depreciation	-	-	-	-	2,865	2,865	7,109
Travel	1,313	2,384	-	-	-	3,697	4,827
Communication	1,457	3,787	-	70	-	5,314	4,664
Utilities	1,276	1,883	-	-	-	3,159	3,762
Professional fees	-	1,275	-	375	-	1,650	1,900
Repairs and maintenance	524	809	-	125	-	1,458	1,573
Insurance	-	1,109	-	-	-	1,109	-
Miscellaneous	3,303	2,391	-	2,205	903	8,802	12,188
<b>Total operating expenses</b>	<b>65,104</b>	<b>46,573</b>	<b>-</b>	<b>2,775</b>	<b>3,768</b>	<b>118,220</b>	<b>144,115</b>
<b>Operating income (loss)</b>	<b>4,899</b>	<b>32,952</b>	<b>4,062</b>	<b>11,511</b>	<b>(36)</b>	<b>53,388</b>	<b>11,124</b>
Non-operating revenue (expense):							
Gain (loss) on disposal of assets	-	-	-	-	-	-	(367)
Interest income	110	402	71	141	107	831	1,174
<b>Total non-operating revenue (expense)</b>	<b>110</b>	<b>402</b>	<b>71</b>	<b>141</b>	<b>107</b>	<b>831</b>	<b>807</b>
<b>Change in net position</b>	<b>5,009</b>	<b>33,354</b>	<b>4,133</b>	<b>11,652</b>	<b>71</b>	<b>54,219</b>	<b>11,931</b>
<b>Total net position - beginning of year</b>	<b>(250,104)</b>	<b>2,256,411</b>	<b>170,111</b>	<b>283,947</b>	<b>100,712</b>	<b>2,561,077</b>	<b>2,549,146</b>
<b>Total net position - end of year</b>	<b>\$ (245,095)</b>	<b>\$ 2,289,765</b>	<b>\$ 174,244</b>	<b>\$ 295,599</b>	<b>\$ 100,783</b>	<b>\$ 2,615,296</b>	<b>\$ 2,561,077</b>

See accompanying notes to the basic financial statements.

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

Combined Statements of Cash Flows  
September 30, 2015  
(With comparative totals as of September 30, 2014)

	Major Enterprise Funds					Total 2015	2014 As Restated
	Operation Fund	Home Rehabilitation Loan Program	Low-Cost Housing Program	Emergency Housing Loan Revolving Program	Non-major Enterprise Fund		
Cash flows from operating activities:							
Receipts from customers, net	\$ 3	\$ (68,252)	\$ 8,993	\$ (23,405)	\$ 3,732	\$ (78,929)	\$ (85,203)
Receipts from ROP appropriation, net	70,000	-	-	-	-	70,000	70,000
Receipts from grantor agency	-	-	-	-	-	-	-
Payments to suppliers	(22,310)	(24,013)	-	(2,775)	(903)	(50,001)	(41,889)
Payments to employees	(47,908)	(22,560)	-	-	-	(70,468)	(81,857)
	<u>(215)</u>	<u>(114,825)</u>	<u>8,993</u>	<u>(26,180)</u>	<u>2,829</u>	<u>(129,398)</u>	<u>(138,949)</u>
Cash flows from investing activities:							
Proceeds from disposal of assets	-	-	-	-	-	-	244
Acquisition of capital assets	-	-	-	-	(3,049)	(3,049)	-
Interest and dividends	110	402	71	141	107	831	1,174
	<u>110</u>	<u>402</u>	<u>71</u>	<u>141</u>	<u>(2,942)</u>	<u>(2,218)</u>	<u>1,418</u>
Cash flows from financing activities:							
Increase (decrease) in due from funds	-	686	-	-	742	1,428	-
	<u>-</u>	<u>686</u>	<u>-</u>	<u>-</u>	<u>742</u>	<u>1,428</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	(105)	(113,737)	9,064	(26,039)	629	(130,188)	(137,531)
Cash and cash equivalents at beginning of year	<u>89,782</u>	<u>457,793</u>	<u>41,637</u>	<u>105,302</u>	<u>85,791</u>	<u>780,305</u>	<u>917,836</u>
Cash and cash equivalents at end of year	<u>\$ 89,677</u>	<u>\$ 344,056</u>	<u>\$ 50,701</u>	<u>\$ 79,263</u>	<u>\$ 86,420</u>	<u>\$ 650,117</u>	<u>\$ 780,305</u>

See accompanying notes to the basic financial statements.

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

Combined Statements of Cash Flows, Continued  
September 30, 2015  
(With comparative totals as of September 30, 2014)

	Major Enterprise Funds					Total 2015	2014 As Restated
	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 for) operating activities:							
Operating income (loss)	\$ 4,899	\$ 32,952	\$ 4,062	\$ 11,511	\$ (36)	\$ 53,388	\$ 24,384
Adjustments to reconcile net income (loss) to net cash provided by (used for) operating activities							
Depreciation	-	-	-	-	2,865	2,865	7,109
Pension recovery	(4,097)	-	-	-	-	(4,097)	-
(Increase) decrease in assets:							
Accounts receivable	(1,017)	-	-	14,000	-	12,983	15,324
Notes receivable	-	(147,777)	4,934	(51,691)	-	(194,534)	(185,766)
Interest receivable	-	-	(3)	-	-	(3)	-
Due from grantor agency	-	-	-	-	-	-	-
Increase (decrease) in liabilities:							
Accrued expenses	-	-	-	-	-	-	-
 Net cash provided by (used for) operating activities	 <u>\$ (215)</u>	 <u>\$ (114,825)</u>	 <u>\$ 8,993</u>	 <u>\$ (26,180)</u>	 <u>\$ 2,829</u>	 <u>\$ (129,398)</u>	 <u>\$ (138,949)</u>

See accompanying notes to the basic financial statements.

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

Notes to Combined Financial Statements  
September 30, 2015 and 2014

**(1) Summary of Significant Accounting Policies**

Reporting Entity

The Palau District 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 College 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 \$35,000 at 4.5% interest per annum with a 25 year term. The maximum loan amount to rehabilitate an existing dwelling is \$5,000 with a 10 year term at 3% interest rate per annum, and \$10,000 with a 15 year term at 4.5% interest rate per annum.



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

Notes to Combined Financial Statements  
September 30, 2015 and 2014

**(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.

During fiscal year ending September 30, 2013, the Authority received emergency funding of \$70,000 from the Bopha Catastrophe Relief Committee (BCRC) to assist family dwelling devastated by Typhoon Bopha. The Authority incurred additional related costs on behalf of BCRC totaling \$14,000 has been recorded as accounts receivables in the accompanying Statements of Net Position.

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

Notes to Combined Financial Statements  
September 30, 2015 and 2014

**(1) Summary of Significant Accounting Policies, Continued**

Non-Major Enterprise Funds

The following fund was determined to be non-major enterprise funds for the fiscal year ended September 30, 2015:

*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 has been able to sustain itself and continue to provide this service; however, the accounts will remain active until such time the Board decides to reprogram the remaining funds to other accounts.

*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. Fund financial statements report detailed information about the Authority. Each fund is accounted for by providing a separate set of self-balancing accounts, which constitute its assets, liabilities, net position, revenues, and expenses. 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 DISTRICT HOUSING AUTHORITY**  
(A Component Unit of the Republic of Palau)

Notes to Combined Financial Statements  
September 30, 2015 and 2014

**(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 Bank has determined the difference between projected and actual earnings on pension plan investments qualify for reporting in this category.

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

Notes to Combined Financial Statements  
September 30, 2015 and 2014

**(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 Bank recognizes a net pension liability for the defined benefit pension plan in which it participates, which represents the Bank'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.

*New Accounting Standards*

During the year ended September 30, 2015, the Authority implemented the following GASB Statements:

GASB issued Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The implementation of this Statement did not have a material effect on the financial statements of the Authority.

GASB issued Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans. The implementation of this Statement did not have a material effect on the financial statements of the Authority.

GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revised and establishes new financial reporting requirements for most governments that provide their employees with pension benefits.

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

Notes to Combined Financial Statements  
September 30, 2015 and 2014

**(1) Summary of Significant Accounting Policies, Continued**

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

*New Accounting Standards, continued*

GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, which amends paragraph 137 of Statement 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts.

GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations* in January 2013, which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions and transfers of operations. The Statement is effective for financial statements for periods beginning after December 15, 2014. Management has not yet determined the effect of implementation of this Statement on the financial statements of the Authority.

GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. The implementation of this Statement did not have a material effect on the financial statements of the Authority.

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

Notes to Combined Financial Statements  
September 30, 2015 and 2014

**(1) Summary of Significant Accounting Policies, Continued**

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

*New Accounting Standards, continued*

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application* which addresses accounting and financial reporting issues related to fair value measurements and guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. This Statement requires a government to use valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value. This Statement establishes a hierarchy of inputs to valuation techniques used to measure fair value. This Statement requires additional analysis of fair value if the volume or level of activity for an asset or liability has significantly decreased. It also requires identification of transactions that are not orderly. This Statement requires measurement at acquisition value (an entry price) for donated capital assets, donated works of art, historical treasures, and similar assets and capital assets received in a service concession arrangement. This Statement requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. It also requires additional disclosures regarding investments in certain entities that calculate net asset value per share (or its equivalent). The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015. Earlier application is encouraged. Management has not yet determined the effect of implementation of this Statement will have on the Authority's financial statements.

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Net 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 establishes accounting and financial reporting standards for pensions that do not meet the requirements set forth in Statement No. 67, *Financial Reporting for Pension Plans* and Statement No. 68, *Accounting and Financial Reporting for Pensions*, and makes some modifications to GASB Statement No. 67 and 68. The Provisions that effect pensions not within the scope of GASB Statement No. 67 and 68 will be effective for fiscal year beginning after June 15, 2015. Management has not yet determined the effect of implementation this Statement will have on the Authority's financial statements.

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

Notes to Combined Financial Statements  
September 30, 2015 and 2014

**(1) Summary of Significant Accounting Policies, Continued**

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

*New Accounting Standards, continued*

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which replaces 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*, and addresses financial reporting requirements for governments whose employees are provided with postemployment benefits other than pensions (other postemployment benefits or OPEB). The provisions in Statement No. 74 are effective for fiscal years beginning after June 15, 2016. Management has not yet determined the effect of implementation of this Statement will have on Authority's financial statements.

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. The provisions in Statement No. 785 are effective for fiscal years beginning after June 15, 2017. Management has not yet determined the effect of implementation of this Statement will have on Authority's financial statements.

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

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

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

Notes to Combined Financial Statements  
September 30, 2015 and 2014

**(1) Summary of Significant Accounting Policies, Continued**

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

*New Accounting Standards, continued*

In December 2015, GASB issued Statement No.78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*. The objective of this Statement is to address a practice 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 government employers whose employees are provided with such pensions. GASB Statement No. 78 will be effective for fiscal years beginning after December 15, 2015. Management has not yet determined the effect of implementation of this Statement will have on 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 will be effective for fiscal years beginning after December 15, 2015. Management has not yet determined the effect of implementation of this Statement will have on 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, with the primary state or local government being the sole corporate member, should be presented in the financial statements of the primary state or local government. GASB Statement No. 80 will be effective for fiscal years beginning after June 15, 2016. Management has not yet determined the effect of implementation of this Statement will have on Authority's financial statements.

In March 2016, GASB issued Statement No. 81, *Irrevocable Split-interest Agreements*. This Statement is intended to provide recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. GASB Statement No. 81 is effective for fiscal years beginning after December 15, 2016. Management has not yet determined the effect of implementation of this Statement will have on Authority's financial statements.



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

Notes to Combined Financial Statements  
September 30, 2015 and 2014

**(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. 82, *Pension Issues – An Amendment of GASB Statements No. 67, No. 68 and No. 73*. This Statement addresses the presentation of payroll – related measures in required supplementary information, the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and the classification of payments made by employers to satisfy employee (plan member) contribution requirements. GASB Statement No. 82 is effective for fiscal years beginning after June 15, 2016. Management has not yet determined the effect of implementation of this Statement will have on 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.

*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.

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

Notes to Combined Financial Statements  
September 30, 2015 and 2014

**(1) Summary of Significant Accounting Policies, Continued**

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

*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 Position 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, 2015 and 2014, 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 \$400,117 and \$564,425 as of September 30, 2015 and 2014, respectively.

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

Notes to Combined Financial Statements  
September 30, 2015 and 2014

**(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.

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

Notes to Combined Financial Statements  
September 30, 2015 and 2014

**(2) 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, 2015 and 2014, compensated absences payable to employees were \$6,751 for each year, and are recorded as a component of accrued expenses in the accompanying Combined Statement of Net Position. At September 30, 2015 and 2014, 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, 2015 and 2014, 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.

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

Notes to Combined Financial Statements  
September 30, 2015 and 2014

**(1) Summary of Significant Accounting Policies, Continued**

Measurement Focus, Basis of Accounting, and Basis of Presentation, 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, 2015 and 2014, 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, gains/losses on disposal of capital assets, 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, 2015 and 2014, the Authority incurred advertising costs totaling \$779 and \$2,804, respectively, and is included as a component of miscellaneous expense in the Combining Statements of Revenues and Expenses and Changes in Net Position. These costs primarily relate to construction bids and related procurement solicitation costs.

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

Notes to Combined Financial Statements  
September 30, 2015 and 2014

**(2) Cash and cash equivalents**

Cash and cash equivalents at September 30, 2015 and 2014 consist of the following:

	2015	2014	
Cash	\$ 636,324	\$ 766,519	
Time certificates of deposit	13,793	13,786	
	\$ 650,117	\$ 780,305	

**(3) Deposits and investments**

GASB Statement No. 40 addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk. As an element of interest rate risk, disclosure is required of investments that have fair values that are highly sensitive to changes in interest rates. This statement also requires disclosure of formal policies related to deposit and investment risks.

*Deposits*

GASB Statement No. 3 previously required government entities to present deposit risks in terms of whether the deposits fell into the following categories:

- Category 1      Deposits that are federally insured or collateralized with securities held by the Authority or its agent in the Authority's name;
- Category 2      Deposits that are uninsured but fully collateralized with securities held by the pledging financial institution's trust department or agent in the Authority's name; or
- Category 3      Deposits that are collateralized with securities held by the pledging financial institution's trust department or agent but not in Authority's name and noncollateralized deposits.

GASB Statement No. 40 amended GASB Statement No. 3 to in effect eliminate disclosure for deposits falling into categories 1 and 2 but retained disclosures for deposits falling under category 3. Category 3 deposits are those deposits that have exposure to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name.

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

Notes to Combined Financial Statements  
September 30, 2015 and 2014

**(3) Deposits and investments, Continued**

The Authority has an investment and deposit policy for custodial credit risk. For deposits, a general depository agreement pursuant to HUD regulations must be executed by the Authority and the depository. The depository bank must be a bank or financial institution whose deposits are insured by FDIC, Federal Savings and Loan Insurance Corporation or the National Credit Union Administration and all deposits must be fully collateralized by U.S. securities.

For credit risk in the case of deposits, there is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. As of September 30, 2015 and 2014, the carrying amount of the Authority's total cash and cash equivalents was \$650,117 and \$780,305, respectively, with a corresponding bank balance of \$647,944 and \$814,425, respectively. From these deposits \$250,000 at September 30, 2015 and 2014, respectively was subject to coverage by FDIC. The Authority does not require collateralization of bank accounts, and therefore, amounts in excess of insurable limits are uncollateralized and are subject to custodial credit risk.

*Investments*

GASB Statement No. 3 previously required government entities to present deposit risks in terms of whether the deposits fell into the following categories:

- |            |   |
|------------|---|
| Category 1 | Investments that are insured or registered, or securities held by the Authority or its agent in the Authority's name;   |
| Category 2 | Investments that are uninsured and unregistered for which the securities are held by the counterparty's trust department or agent in the Authority's name; or |
| Category 3 | Investments that are uninsured and unregistered, with securities held by the counterparty's trust department or agent but not in Authority's name.            |

GASB Statement No. 40 amended GASB Statement No. 3 to in effect eliminate disclosure for deposits falling into categories 1 and 2 and provided for disclosure requirements addressing other common risks of investments such as credit risk, interest rate risk, concentration of credit risk, and foreign currency risk. GASB Statement No. 40 did retain and expand the element of custodial risk in GASB Statement No. 3.

As of September 30, 2015 and 2014, the Authority did not have investments subject to GASB Statement No. 40.

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

Notes to Combined Financial Statements  
September 30, 2015 and 2014

**(4) Notes Receivable**

A summary of notes receivable at September 30, 2015 and 2014 consists of the following:

	<u>2015</u>	<u>2014</u>
Home Rehabilitation loans	\$ 2,007,304	\$ 1,859,527
Emergency Loan Revolving Fund loans	216,327	178,645
Low-Cost Housing loans	<u>140,293</u>	<u>145,227</u>
	2,363,924	2,183,399
Current portion	<u>(255,489)</u>	<u>(240,098)</u>
Long-term notes receivable, net of current portion	<u>\$ 2,108,435</u>	<u>\$ 1,943,301</u>

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

	<u>2015</u>	<u>2014</u>
Balance at beginning of year	\$ 87,994	\$ 87,994
Additions to provision for loan loss	-	-
Loans charged-off	-	-
Recoveries of loans charged-off	<u>-</u>	<u>-</u>
Balance at end of year	<u>\$ 87,994</u>	<u>\$ 87,994</u>



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

Notes to Combined Financial Statements  
September 30, 2015 and 2014

**(5) 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) inter-fund goods and services are provided or reimbursable expenditures occur; (2) transactions are recorded in the accounting system; and (3) payments between funds are made. At September 30, 2015, inter-fund was \$65, presented in the accompanying combined statements of net position as due from (to) fund.

**(6) Capital Assets**

A schedule of changes in capital assets for the fiscal years ended September 30, 2015 and 2014 is shown below:

Capital assets activity for the fiscal year ended September 30, 2014:

	Balance 09/30/14	Additions	Disposal/ Adjustment	Balance 09/30/15
Furniture, fixtures, and equipment	\$ 18,191	\$ 3,049	\$ -	\$ 21,240
Vehicles	46,099	-	(832)	45,267
	64,290	3,049	(832)	66,507
Accumulated depreciation	(48,627)	(2,865)	(652)	(52,144)
	<u>\$ 23,383</u>	<u>\$ 184</u>	<u>\$ (1,484)</u>	<u>\$ 14,363</u>

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

Notes to Combined Financial Statements  
September 30, 2015 and 2014

**(6) Capital Assets, Continued**

Capital assets activity for the fiscal year ended September 30, 2014:

	Balance 09/30/13	Additions	Disposal/ Adjustment	Balance 09/30/14
Furniture, fixtures, and equipment	\$ 21,012	\$ -	\$ (2,821)	\$ 18,191
Vehicles	46,099	-	-	46,099
	67,111	-	(2,821)	64,290
Accumulated depreciation	(43,728)	(7,109)	2,210	(48,627)
	<u>\$ 23,383</u>	<u>\$ (7,109)</u>	<u>\$ (611)</u>	<u>\$ 15,663</u>

Depreciation expense for the years ended September 30, 2015 and 2014 was \$2,865 and \$7,109, respectively.

**(7) Retirement Plan**

The Bank 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.

**PALAU DISTRICT HOUSING AUTHORITY**  
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Notes to Combined Financial Statements  
September 30, 2015 and 2014

**(7) Retirement Plan, Continued**

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.

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, 2013 applicable to the plan year ending September 30, 2014 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, 2013 issued in October 2012, the actuarial valuation determined the unfunded pension benefit obligation as follows:

Accrued liability as of October 1, 2013 for:

Active participants	\$ 82,099,216
Inactive participants with vested deferred benefits	3,323,468
Participants in pay status	<u>61,865,857</u>
Total accrued liability	147,288,541
Market value of assets	<u>(34,261,206)</u>
Unfunded accrued liability	\$ <u>113,027,335</u>
Funded ratio (ratio of assets to liabilities)	23.3%

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

Notes to Combined Financial Statements  
September 30, 2015 and 2014

**(7) Retirement Plan, Continued**

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, 2015, the Bank reported total deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 25,813	\$ -
Net difference between projected and actual earnings on pension plan investments	-	35,775
NDBP contributions subsequent to the measurement date	<u>4,097</u>	<u>-</u>
Total	<u>\$ 29,910</u>	<u>\$ 35,775</u>

**(8) 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.

**(9) 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 three (3) borrowers who defaulted on rehabilitation loans whose principal and interest balance approximate \$23,040 as of September 30, 2015. 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.

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

Notes to Combined Financial Statements  
September 30, 2015 and 2014

**(9) Commitments and Contingencies, Continued**

*Commitments*

The Authority entered a lease agreement with Koror State Public Lands Authority (KSPLA) for a period of fifty (50) years expiring on July 2063. The lease provides for equal quarterly payments of \$694 or for total annual base rent of \$2,775 for the first ten (10) years and thereafter, base rent will be increased by five percent (5%) for every ten years. The land lease will be used to situate the future construction of the Authority's office building. Future minimum lease payments due for each of the next five years and the five year periods thereafter, are as follows:

<u>Fiscal Year End</u> <u>September 30,</u>	<u>Total</u>
2016	\$ 2,775
2017	2,775
2018	2,775
2019	2,775
2020	2,775
2021-2025	14,153
2026-2030	14,569
2031-2035	14,860
2036-2040	15,297
2041-2045	15,603
2046-2050	16,062
2051-2055	16,383
2056-2060	16,865
2061-2063	<u>10,119</u>
Total	<u>\$ 147,786</u>

The Authority's current business operations are conducted from premises under a lease agreement expiring on December 2014. For the year ended September 30, 2014, the future lease payment for this agreement is \$1,700.

For the years ended September 30, 2015 and 2014, rent expense was \$12,975, respectively.

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

Notes to Combined Financial Statements  
September 30, 2015 and 2014

**(10) National Government Contributions**

For the years ended September 30, 2015 and 2014, the Republic of Palau appropriated and contributed the following to the Authority:

	<u>2015</u>	<u>2014</u>
For operational costs of employees	<u>\$ 70,000</u>	<u>\$ 70,000</u>

**(11) Economic Dependency**

The Authority receives a substantial amount of its support from interests received from private sector and government donors. A significant reduction in the level of this support, if this were to occur, may have an adverse effect on the Authority's programs and activities. As of September 30, 2015 and 2014, the Authority received 59% and 55%, respectively, of its support from the interests received and other charges from private sector, and 41% and 45%, respectively, from government donors.

**(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.

**(13) Fair Value of Financial Instruments**

The Authority's financial instruments are cash, loans receivable, other receivables, accounts payables. The recorded values of these financial instruments approximate their fair values based on their short-term nature.

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

Notes to Combined Financial Statements  
September 30, 2015 and 2014

**(14) Restatement**

Net position as of September 30, 2014, has been restated for the implementation 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*.

The following is a summary of the restatement for the year ending September 30, 2015:

Net assets, beginning , as previously reported	\$ 2,894,212
Restatement	<u>(333,135)</u>
Net assets, beginning, as restated	<u><u>\$ 2,561,077</u></u>

The effect of the Authority's previously issued 2014 financial statements are summarized as follows:

Statement of Financial Position:

	Previously Reported	Increase (Decrease)	As Restated
Current assets	\$ 942,741	\$ -	\$ 942,741
Noncurrent assets	<u>1,958,964</u>	<u>-</u>	<u>1,958,964</u>
Total assets	2,901,705	-	2,901,705
Deferred outflows of resources	<u>-</u>	<u>25,813</u>	<u>25,813</u>
	2,901,705	25,813	2,927,518
Current liabilities	7,493	-	7,493
Noncurrent liabilities	-	-	-
Net pension liability	-	323,173	323,173
Deferred inflows of resources	<u>-</u>	<u>35,775</u>	<u>35,775</u>
Net position	<u><u>\$ 2,894,212</u></u>	<u><u>\$ (333,135)</u></u>	<u><u>\$ 2,561,077</u></u>

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

Notes to Combined Financial Statements  
September 30, 2015 and 2014

**(14) Restatement, Continued**

Statement of Revenues, Expenses, and Changes in Net Position:

	Previously Reported	Increase (Decrease)	As Restated
Operating revenues	\$ 155,239	\$ -	\$ 155,239
Operating expenses	(130,855)	(13,260)	(144,115)
Non-operating revenues (expenses), net	<u>807</u>	<u>-</u>	<u>807</u>
Changes in net position	25,191	(13,260)	11,931
Net position at beginning of year	<u>2,869,021</u>	<u>(319,875)</u>	<u>2,549,146</u>
Net position, at the end of year	<u>\$ 2,894,212</u>	<u>\$ (333,135)</u>	<u>\$ 2,561,077</u>

**(15) 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.

**(16) Subsequent Events**

The Authority has evaluated subsequent events from September 30, 2015 through June 24, 2016, 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 DISTRICT HOUSING AUTHORITY**  
(A Component Unit of the Republic of Palau)

Supplementary Statements of Revenues, Expenses, and Changes in Net Position - Budget and Actual  
Year Ended September 30, 2015

	Budgeted Amounts		Actual Amounts	(Unfavorable) Variance
	<u>Original</u>	<u>Final</u>		
Operating revenues	\$ 144,100	\$ 144,100	\$ 171,608	\$ 27,508
Operating expenses:				
Salaries and wages including employee benefits	95,000	95,000	77,191	17,809
Rent expense	8,975	8,975	12,975	(4,000)
Depreciation	-	-	2,865	(2,865)
Communication	4,000	4,000	5,314	(1,314)
Professional fees	3,500	3,500	1,650	1,850
Travel	3,600	3,600	3,697	(97)
Utilities	3,700	3,700	3,159	541
Repairs and maintenance	1,500	1,500	1,458	42
Office equipment	11,225	11,225	-	11,225
Miscellaneous	12,600	12,600	9,911	2,689
Total operating expenses	<u>144,100</u>	<u>144,100</u>	<u>118,220</u>	<u>25,880</u>
Operating income	<u>-</u>	<u>-</u>	<u>53,388</u>	<u>53,388</u>
Non-operating revenues:				
Investment income earned	-	-	831	831
Other expense	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total non-operating expense, net	<u>-</u>	<u>-</u>	<u>831</u>	<u>831</u>
Increase in net position	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 54,219</u>	<u>\$ 54,219</u>

See Accompanying Independent Auditors' Report.

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

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**INDEPENDENT AUDITORS' REPORT ON  
INTERNAL CONTROL AND ON COMPLIANCE**

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**Year Ended September 30, 2015**



**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***

To the Board of Directors  
Palau District 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 District Housing Authority (the Authority), which comprise the statements of net position as of September 30, 2015 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 June 24, 2016.

**Internal Control over Financial Reporting**

In planning and performing the audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

*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 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 over financial reporting that might be significant deficiencies or material weaknesses. 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.

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## **Compliance and Other Matters**

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

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Koror, Republic of Palau  
June 24, 2016

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

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**STATISTICAL SECTION**

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**Year Ended September 30, 2015**

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

**NET POSITION**  
Last Ten Fiscal Years Ending September 30

	2015	2014 Restated	2013	2012	2011	2010	2009	2008	2007	2006
Investment in capital assets	\$ 14,363	\$ 14,363	\$ 23,383	\$ 10,558	\$ 13,449	\$ 23,552	\$ 39,555	\$ 22,424	\$ 28,175	\$ 35,481
Restricted	2,275,930	2,275,930	1,923,639	1,981,793	1,785,948	1,839,988	2,374,498	2,344,123	2,312,086	2,312,086
Unrestricted	325,003	325,003	921,999	840,204	1,004,620	944,339	393,629	345,529	278,135	195,475
Total Net Position	\$ 2,615,296	\$ 2,615,296	\$ 2,869,021	\$ 2,832,555	\$ 2,804,017	\$ 2,807,879	\$ 2,807,682	\$ 2,712,076	\$ 2,618,396	\$ 2,543,042

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

See Accompanying Independent Auditors' Report.

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

**CHANGES IN NET POSITION**  
Last Ten Fiscal Years Ending September 30

	2015	2014 Restated	2013	2012	2011	2010	2009	2008	2007	2006
<b>Operating revenues</b>										
Republic of Palau appropriation	\$ 70,000	\$ 70,000	\$ 59,000	\$ 58,990	\$ 64,000	\$ 60,000	\$ 66,645	\$ 67,000	\$ 67,000	\$ 67,000
Interest on loans	80,844	77,172	76,509	82,507	76,955	88,600	74,975	63,740	61,479	45,341
Other operating revenues	20,764	8,067	18,418	7,796	4,549	15,605	11,856	6,387	16,469	7,581
Section 8 income	-	-	-	-	6,000	13,550	16,200	16,400	15,300	13,812
National treasury income	-	-	-	-	9,000	9,000	9,000	8,500	8,500	8,000
Federal contributions	-	-	-	-	-	-	-	-	4,050	-
Provision for loan losses	-	-	-	-	-	(17,052)	-	-	-	-
<b>Total operating revenues, net</b>	171,608	155,239	153,927	149,293	160,504	169,703	178,676	162,027	172,798	141,734
<b>Operating expenses</b>										
Salaries and wages	70,468	71,692	65,335	60,600	64,422	65,458	64,122	63,552	59,907	54,929
Rent expense	12,975	12,975	10,894	10,200	10,480	11,320	11,320	11,890	11,320	10,200
Employee benefits	6,723	23,425	9,155	7,587	8,248	6,693	6,549	6,373	5,748	5,309
Depreciation	2,865	7,109	8,290	2,891	10,103	14,549	14,153	8,265	9,606	10,198
Travel	3,697	4,827	3,557	4,402	3,412	2,848	2,559	2,887	7,823	9,040
Communication	5,314	4,664	4,658	4,600	3,667	2,722	5,312	3,446	2,925	2,919
Professional fees	1,650	1,900	4,000	10,500	10,525	12,000	9,000	9,000	9,380	8,500
Repairs and maintenance	1,458	1,573	1,007	2,844	3,460	2,710	2,610	2,699	2,666	3,888
Labor and materials	-	-	-	-	18,787	-	-	-	-	-
Provision for bad debts	-	-	-	8,551	22,631	-	-	-	-	-
Other operating expenses	13,070	15,950	14,766	9,553	9,469	9,105	14,424	11,490	12,928	12,208
<b>Total operating expenses</b>	118,220	144,115	121,662	121,728	165,204	127,405	130,049	119,602	122,303	117,191
<b>Operating income (loss)</b>	53,388	11,124	32,265	27,565	(4,700)	42,298	48,627	42,425	50,495	24,543
<b>Non-operating revenues (expenses)</b>										
Investment income earned	831	1,174	1,201	973	838	940	16,604	19,218	24,859	22,279
Other income (expense)	-	(367)	3,000	-	-	(43,041)	-	-	-	-
<b>Total non-operating revenues, net</b>	831	807	4,201	973	838	(42,101)	16,604	19,218	24,859	22,279
<b>Change in net position</b>	\$ 54,219	\$ 11,931	\$ 36,466	\$ 28,538	\$ (3,862)	\$ 197	\$ 65,231	\$ 61,643	\$ 75,354	\$ 46,822

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

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

**REVENUES BY SOURCE**  
Last Ten Fiscal Years Ending September 30

Function	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Interest on loans	\$ 80,844	\$ 77,172	\$ 76,509	\$ 82,507	\$ 76,955	\$ 88,600	\$ 74,975	\$ 63,740	\$ 61,479	\$ 45,341
ROP Appropriations	70,000	70,000	59,000	58,990	64,000	60,000	66,645	67,000	67,000	67,000
Section 8 income	-	-	-	-	6,000	13,550	16,200	16,400	15,300	13,812
National treasury income	-	-	-	-	9,000	9,000	9,000	8,500	8,500	8,000
Other operating revenues	20,764	8,067	18,418	7,796	4,549	15,605	11,856	6,387	16,469	7,581
Federal contributions	-	-	-	-	-	-	-	-	-	-
<b>Total Revenues</b>	<b>\$ 171,608</b>	<b>\$ 155,239</b>	<b>\$ 153,927</b>	<b>\$ 149,293</b>	<b>\$ 160,504</b>	<b>\$ 186,755</b>	<b>\$ 178,676</b>	<b>\$ 162,027</b>	<b>\$ 168,748</b>	<b>\$ 141,734</b>

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



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

**SCHEDULE OF EXPENSES**

Last Ten Fiscal Years Ending September 30

Function	2015	2014 Restated	2013	2012	2011	2010	2009	2008	2007	2006
Salaries and wages	\$ 70,468	\$ 71,692	\$ 65,335	\$ 60,600	\$ 64,422	\$ 65,458	\$ 64,122	\$ 63,552	\$ 59,907	\$ 54,929
Rent expense	12,975	12,975	10,894	10,200	10,480	11,320	11,320	11,890	11,320	10,200
Employee benefits	6,723	23,425	9,155	7,587	8,248	6,693	6,549	6,373	5,748	5,309
Depreciation	2,865	7,109	8,290	2,891	10,103	14,549	14,153	8,265	9,606	10,198
Travel	3,697	4,827	3,557	4,402	3,412	2,848	2,559	2,887	7,823	9,040
Communication	5,314	4,664	4,658	4,600	3,667	2,722	5,312	3,446	2,925	2,919
Professional fees	1,650	1,900	4,000	10,500	10,525	12,000	9,000	9,000	9,380	8,500
Repairs and maintenance	1,458	1,573	1,007	2,844	3,460	2,710	2,610	2,699	2,666	3,888
Provision for bad debts	-	-	-	8,551	22,631	-	-	-	-	-
Labor and materials	-	-	-	-	18,787	-	-	-	-	-
Other operating expenses	13,070	15,950	14,766	9,553	9,469	9,105	14,424	11,490	12,928	12,208
Total Expenses	\$ 118,220	\$ 144,115	\$ 121,662	\$ 121,728	\$ 165,204	\$ 127,405	\$ 130,049	\$ 119,602	\$ 122,303	\$ 117,191

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

See Accompanying Independent Auditors' Report.