

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

**INDEPENDENT AUDITORS' REPORT
AND
FINANCIAL STATEMENTS**

Years Ended September 30, 2019 and 2018

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

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SEPTEMBER 30, 2019

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Palau Housing Authority:

Report on the Financial Statements

We have audited the accompanying financial statements of Palau Housing Authority (the Authority), a component unit of the Republic of Palau, which comprise the statements of net position as September 30, 2019 and 2018, the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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 Housing Authority as of September 30, 2019 and 2018, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 16, the Budgetary Comparison Information on page 49, the Schedule of the Authority's Proportional Share of the Net Pension Liability on page 52, and the Schedule of Pension Contributions on page 53 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Financial Information

Our audit was conducted for the purpose of forming an opinion on the Authority's basic financial statements as a whole. The combining statements of net position and of revenues, expenses and changes in net position on pages 55 and 56 are presented for purposes of additional analysis and are not a required part of the financial statements. The combining statements of net position and of revenues, expenses and changes in net position are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining statements of net position and of revenues, expenses and changes in net position are fairly stated, in all material respects, in relation to the financial statements as a whole.

The schedule of investments as of September 30, 2019 on page 54 and the statistical section on pages 58 through 61 is presented for purposes of additional analysis and is not a required part of the financial statements. The schedule of investments and the statistical section are the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the statistical section is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 22, 2021 on our consideration of the Palau Housing Authority's internal control over financial reporting and our tests of its compliance with certain provision of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.



January 22, 2021

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

Management's Discussion and Analysis
September 30, 2019

As management of the Palau Housing Authority (the Authority), a component unit of the Republic of Palau (ROP), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended September 30, 2019. 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 51.

Financial Highlights

- The assets of the Authority exceeded its liabilities at September 30, 2019 and 2018 by \$2,461,030 and \$2,835,276, respectively. The Authority's net position (assets less liabilities) decreased by \$424,559 from the previous year. The decrease in net assets is a result of excess of expenses over revenues and the net decrease in the fair value of investments.
- The Authority's cash and cash equivalents at September 30, 2019 and 2018 was \$867,624 and \$1,464,575, respectively, representing a decrease of \$596,951 which used primarily to fund new loans approximating \$290,000 and \$312,000 for the construction and completion of the new commercial office building.
- The Authority had operating revenues and annual appropriations of \$212,288 and \$184,090 and operating expenses of \$376,999 and \$268,204 for the years ended September 30, 2019 and 2018, respectively. Operating expenses increased by \$108,795 primarily due to the increase in interest expense on borrowings and salaries and benefits.

Overview of the Financial Statements

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

For the year ended September 30, 2019, the Authority implemented the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. GASB Statement Nos. 68 and 71 establish standards for measuring and recognizing net pension liabilities, deferred outflows of resources, deferred inflows of resources, and expenses related to pension benefits provided through defined pension plans. In addition, Statement No. 68 requires disclosure of information related to pension benefits.

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

Management's Discussion and Analysis
September 30, 2019

Overview of the Financial Statements, Continued

AUTHORITY-WIDE FINANCIAL STATEMENTS, Continued

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

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

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

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

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

The authority-wide financial statements can be found on pages 17 through 19 of this report.

NOTES TO THE FINANCIAL STATEMENTS

The notes to the financial statements provide additional information that is essential for a full understanding of the data provided in the authority-wide financial statements. The notes to the financial statements can be found on pages 20 through 51 of this report.

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

Management's Discussion and Analysis
September 30, 2019

Overview of the Financial Statements, Continued

FUND FINANCIAL STATEMENTS

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

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

Authority-Wide Financial Analysis

Fiscal year 2019 is the seventeenth year of implementation of Governmental Accounting Standards Board (GASB) Statement No. 34. The financial statement focuses on the Authority as a whole. The Authority's financial statements are designed to emulate corporate presentation models whereby all Authority activities are combined into one total. The focus of the Statement of Net Assets is designed to be similar to bottom line results for the Authority. This Statement combines current financial resources (short-term spendable resources) with capital assets. The Statement of Revenues, Expenses, and Changes in Net Assets focuses on both the gross costs and the net costs of the Authority's activities which are supported mainly by appropriations from Palau National Congress (Olbiil Era Kelulau or OEK) and by other revenues. This approach is intended to summarize and simplify the user's analysis of cost of the Authority's services to the general public of the ROP.

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

Management's Discussion and Analysis
September 30, 2019

Authority-Wide Financial Analysis, Continued

Statements of Net Position
September 30, 2019, 2018, 2017

| | <u>2019</u> | <u>2018</u> | <u>2017</u> |
|--|---------------------|---------------------|---------------------|
| Assets and Deferred Outflows of Resources | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$ 867,624 | \$ 1,464,575 | \$ 2,389,073 |
| Investments | <u>3,243,784</u> | <u>3,520,430</u> | <u>3,259,896</u> |
| | <u>4,111,408</u> | <u>4,985,005</u> | <u>5,648,969</u> |
| Notes receivable, current portion | 222,705 | 204,284 | 204,284 |
| Allowance for doubtful accounts | <u>(110,546)</u> | <u>(87,994)</u> | <u>(87,994)</u> |
| | <u>112,159</u> | <u>116,290</u> | <u>116,290</u> |
| Other receivables | <u>18,916</u> | <u>226,903</u> | <u>15,726</u> |
| Total current assets | <u>4,242,483</u> | <u>5,328,198</u> | <u>5,780,985</u> |
| Notes receivable, net of current portion | 2,950,826 | 2,959,565 | 2,223,934 |
| Capital assets, net | <u>454,995</u> | <u>147,776</u> | <u>25,153</u> |
| Total assets | <u>7,648,304</u> | <u>8,435,539</u> | <u>8,030,072</u> |
| Deferred outflows of resources related to pension | <u>53,716</u> | <u>78,656</u> | <u>60,897</u> |
| Total Assets and Deferred Outflows of Resources | <u>\$ 7,702,020</u> | <u>\$ 8,514,195</u> | <u>\$ 8,090,969</u> |

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

Management's Discussion and Analysis
September 30, 2019

Authority-Wide Financial Analysis, Continued

Statements of Net Position
September 30, 2019, 2018, 2017

| | 2019 | 2018 | 2017 |
|--|--------------|--------------|--------------|
| Liabilities, Deferred Inflows of Resources and Net Position | | | |
| Current Liabilities: | | | |
| Current portion of note payable | \$ 142,857 | \$ - | \$ - |
| Accrued expenses | 16,282 | 31,695 | 33,421 |
| Due to other fund | - | 207,908 | - |
| Total current liabilities | 159,139 | 239,603 | 33,421 |
| Notes payable, net of current portion | 4,714,286 | 5,000,000 | 5,000,000 |
| Net pension liability | 313,849 | 360,660 | 360,301 |
| Total liabilities | 5,187,274 | 5,600,263 | 5,393,722 |
| Deferred inflows of resources related to pension | 103,858 | 78,486 | 51,064 |
| Total liabilities and deferred inflows of resources | 5,291,132 | 5,678,749 | 5,444,786 |
| Net Position | | | |
| Invested in capital assets | 454,995 | 8,437 | 10,112 |
| Restricted | 3,456,690 | 3,163,848 | 2,428,218 |
| Unrestricted | (1,500,797) | (336,838) | 207,853 |
| Total net position | 2,410,888 | 2,835,447 | 2,646,183 |
| Total Liabilities, Deferred Inflows of Resources and Net Position | \$ 7,702,020 | \$ 8,514,196 | \$ 8,090,969 |

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

PALAU HOUSING AUTHORITY
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Management's Discussion and Analysis
September 30, 2019

Authority-Wide Financial Analysis, Continued

Total assets and deferred outflows of resources from pension totaled \$7.7 million at September 30, 2019. This balance as compared to September 30, 2018 reflects a decrease of \$812,175 associated with an increase \$312,000 for the construction costs incurred for the Authority's new commercial office and offset by a decrease in cash of \$596,951 used to fund new loans, operations and decrease of \$276,646 in fair value of investments.

During the fiscal year ending September 30, 2019, the Authority approved nine (9) loans approved totaling \$258,350 for new home construction and renovation.

As noted earlier, net position may serve over time as a useful indicator of an entity's financial position. In the case of the Authority, assets exceeded liabilities by \$2,461,030 as of September 30, 2019.

**Operating Revenues and Appropriations for the Years Ended
September 30, 2019, 2018 and 2017**

| | <u>2019</u> | <u>2018</u> | <u>2017</u> |
|--|-----------------------|-----------------------|-----------------------|
| Operating revenues and appropriations: | | | |
| Republic of Palau appropriations | \$ 70,000 | \$ 70,000 | \$ 70,000 |
| Interest on loans | 139,818 | 112,008 | 93,606 |
| Other | <u>2,470</u> | <u>2,082</u> | <u>12,563</u> |
| Total operating revenues | <u>\$ 212,288</u> | <u>\$ 184,090</u> | <u>\$ 176,169</u> |

The above schedule indicates total revenues and operating appropriations realized by the Authority in FY 2019 totaling \$212,288. The OEK contributed \$70,000 for operations during FY 2019. The Authority's intergovernmental revenues and charges for services were not sufficient to cover all expenses excluding depreciation and interest expense incurred during the year.

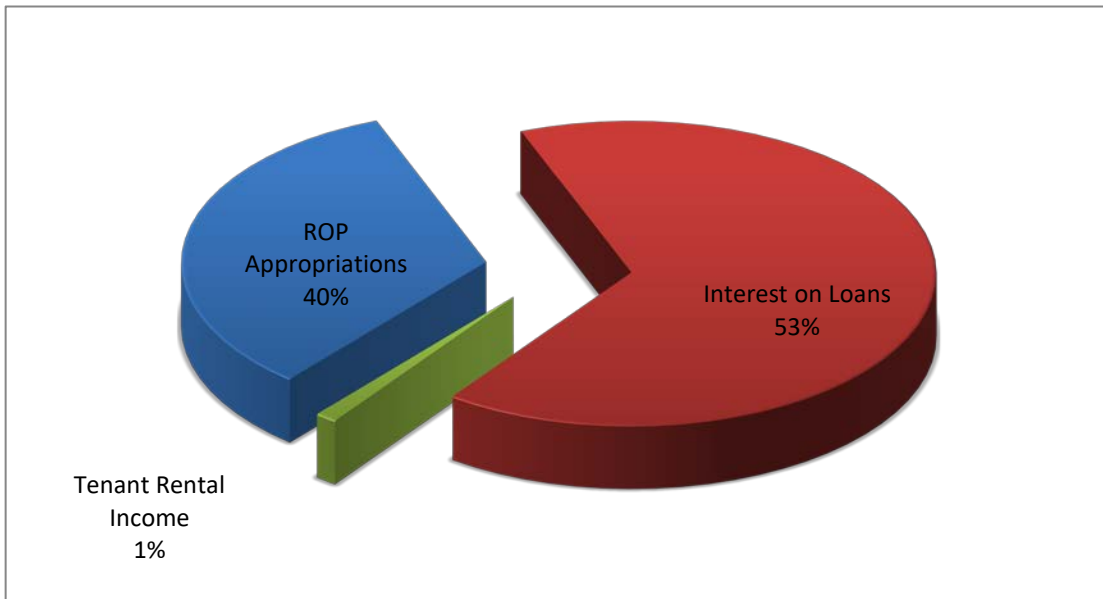
PALAU HOUSING AUTHORITY
(A Component Unit of the Republic of Palau)

Management's Discussion and Analysis
September 30, 2019

Authority-Wide Financial Analysis, Continued

The following chart exhibits the breakdown of revenues and appropriations for Palau Housing Authority in FY 2019.

Operating Revenues Breakdown



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

Management's Discussion and Analysis
September 30, 2019

Authority-Wide Financial Analysis, Continued

**Operating Expenses for the Years Ended
September 30, 2019, 2018 and 2017**

| | 2019 | 2018 | 2017 |
|--------------------------|------------|------------|------------|
| Operating expenses: | | | |
| Interest expense | \$ 179,176 | \$ 125,120 | \$ 105,918 |
| Salaries and wages | 88,780 | 75,642 | 77,970 |
| Rent expense | 7,500 | 9,000 | 9,000 |
| Employee benefits | 20,051 | 21,557 | 34,728 |
| Communication | 4,362 | 3,794 | 4,057 |
| Travel | 16,269 | 9,252 | 8,524 |
| Utilities | 2,634 | 2,470 | 2,289 |
| Depreciation | 4,273 | 6,187 | 4,329 |
| Professional fees | 3,120 | - | 390 |
| Repairs and maintenance | 4,424 | 4,890 | 154,326 |
| Insurance | 2,555 | 1,064 | 1,077 |
| Miscellaneous | 43,855 | 9,228 | 14,737 |
| Total operating revenues | \$ 376,999 | \$ 268,204 | \$ 417,345 |

The above schedule shows total operating expenses of \$376,999 in FY 2019.

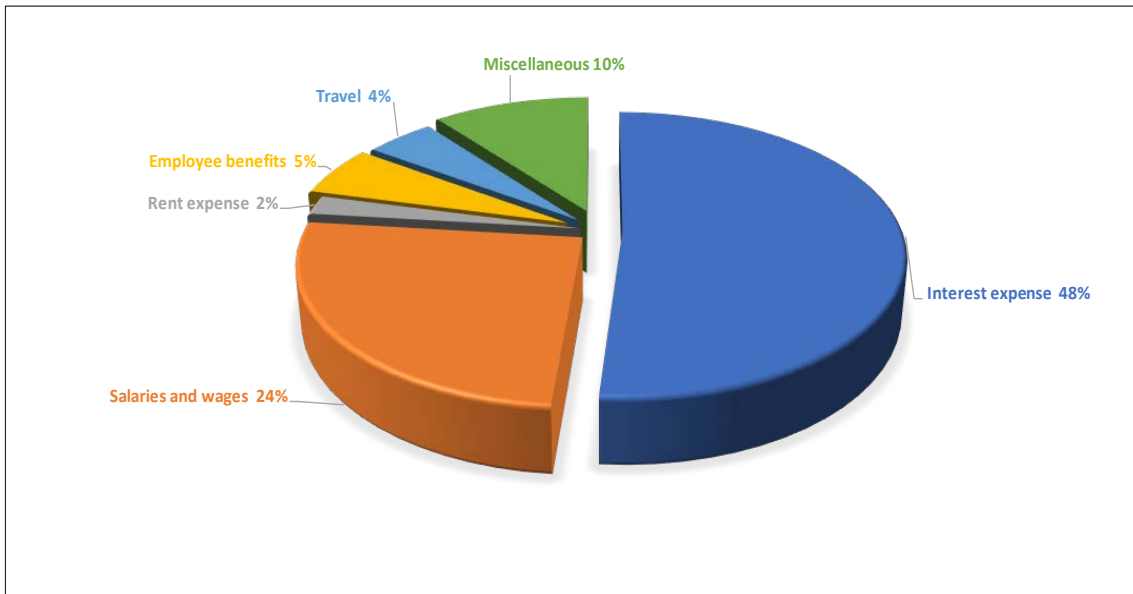
The Authority's operating expenses increased by \$108,795 or 41% in FY 2019 primarily due to an increase in interest expense on borrowings incurred during the current year, an increase in employee salaries and an increased business-related travel costs incurred.

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

Management's Discussion and Analysis
September 30, 2019

Authority-Wide Financial Analysis, Continued

Expense Breakdown
For Year Ended September 30, 2019



The two largest expenditures in FY 2019 were for interest expense and employee salaries and wages totaling \$179,176 and \$88,780, respectively. Expenses representing less than 2% were not presented in the above table. For comparison purposes, the FY 2018 interest expense totaled \$125,120 and salaries and wages totaled \$75,642.

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

Management's Discussion and Analysis
September 30, 2019

Authority-Wide Financial Analysis, Continued

CAPITAL ASSETS

As of September 30, 2019, 2018 and 2017, the Authority's investment in capital assets (net of accumulated depreciation) for its business-type activities is as reflected in the following schedule:

| | <u>2019</u> | <u>2018</u> | <u>2017</u> |
|------------------------------------|-------------------|-------------------|------------------|
| Building | \$ 440,302 | \$ - | \$ - |
| Furniture, fixtures, and equipment | 21,240 | 21,240 | 21,240 |
| Vehicles | 62,962 | 62,962 | 62,962 |
| Construction in-progress | <u>-</u> | <u>128,810</u> | <u>-</u> |
| | 524,504 | 213,012 | 84,202 |
| Accumulated depreciation | <u>(69,509)</u> | <u>(65,236)</u> | <u>(59,049)</u> |
| | <u>\$ 454,995</u> | <u>\$ 147,776</u> | <u>\$ 25,153</u> |

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

FUND BALANCE

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

As of September 30, 2019, 2018 and 2017, the Authority's fund balance is as reflected in the following schedule:

| | <u>2019</u> | <u>2018</u> | <u>2017</u> |
|----------------------------------|---------------------|---------------------|---------------------|
| Net investment in capital assets | \$ 454,995 | \$ 147,775 | \$ 25,153 |
| Restricted | 3,456,690 | 3,075,855 | 2,340,224 |
| Unrestricted | <u>(1,500,797)</u> | <u>(388,183)</u> | <u>280,806</u> |
| Total net position | <u>\$ 2,410,888</u> | <u>\$ 2,835,447</u> | <u>\$ 2,646,183</u> |

PALAU HOUSING AUTHORITY
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Management's Discussion and Analysis
September 30, 2019

Authority-Wide Financial Analysis, Continued

BUDGETARY INFORMATION

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

| | Budgeted Amounts | | Actual Amounts | (Unfavorable) |
|--------------------------|---------------------|---------------------|---------------------|---------------------|
| | <u>Original</u> | <u>Final</u> | | <u>Variance</u> |
| Operating revenues | \$ - | \$ - | \$ 142,288 | \$ 142,288 |
| Operating expenses | <u>(156,300)</u> | <u>(156,300)</u> | <u>(376,999)</u> | <u>(220,699)</u> |
| Operating loss | (156,300) | (156,300) | (234,711) | (78,411) |
| Investment income earned | - | - | (276,646) | (276,646) |
| ROP appropriations | - | - | 70,000 | 70,000 |
| Other income | <u>-</u> | <u>-</u> | <u>16,798</u> | <u>16,798</u> |
| Change in net assets | <u>\$ (156,300)</u> | <u>\$ (156,300)</u> | <u>\$ (424,559)</u> | <u>\$ (268,259)</u> |

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

PALAU HOUSING AUTHORITY
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Management's Discussion and Analysis
September 30, 2019

2019 - 2020 ECONOMIC OUTLOOK

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

The Palau Housing Authority continued to show strong performance carried forward from previous year due to the availability of loan funding from Mega Bank. The total loans approved in 2018 were 28 loans \$688,000 compared to 32 loans \$1,249,568 in 2019 and 2020. The increase is derived from the Housing Development Loan Program however, the interest rate is at 1% or 3% in accordance to RPPL 10-39 and Executive Order No. 425. Nevertheless, PHA is currently challenged with high cost of funds (Libor rate plus 1%).

Land Development Project

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

ROP Housing Development Loan Project

House Bill No. 10-108-10 – RPPL No. 10-36

Authorizing the Republic of Palau, by and through the President of the Republic of Palau to borrow \$15 million from Mega International Commercial Bank Co., Ltd., for Housing Development. RPPL No. 10-36 was established to create the National Housing Commission; to amend Titles 24, 26, 34, and 37 of the Palau National Code to effectuate the Housing Development Project; to authorize and appropriate the sum of \$15 million from Loan No. 025-107001 for the purposes of funding the Housing Development Loan Project; to allow the restructuring of mortgages financed by Loan No. 025-105003.

PHA shall account for all costs, expenses, and loss of interest income resulting from the HDLP in its required audits. Loss of interest income will be the interest earnings lost from loans provided at less than 4.5%. The HDLP program loan terms it will impact the PHA's long-term sustainability.

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

Management's Discussion and Analysis
September 30, 2019

Contacting the Authority's Financial Management

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

For additional information concerning this report, please contact the Executive Director of the Palau Housing Authority, PO Box 197, Ngeburch, Republic of Palau, 96940, or call (680) 654-6207.

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

Statements of Net Position
September 30, 2019 and 2018

| <u>ASSETS AND</u> | <u>2019</u> | <u>2018</u> |
|--|---------------------|---------------------|
| <u>DEFERRED OUTFLOWS OF RESOURCES</u> | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 867,624 | \$ 1,464,575 |
| Investments | 3,243,784 | 3,520,430 |
| Receivables, net: | | |
| Notes receivable - current | 222,705 | 204,284 |
| Accounts receivable | 157 | 157 |
| Interest receivable | 13,816 | 9,588 |
| Other receivables | 4,943 | 4,943 |
| Due from other funds | - | 212,216 |
| | <u>241,621</u> | <u>431,188</u> |
| Less allowance for doubtful accounts | (110,546) | (87,994) |
| Total receivables, net | <u>131,075</u> | <u>343,194</u> |
| Total current assets | <u>4,242,483</u> | <u>5,328,199</u> |
| Noncurrent assets: | | |
| Notes receivable, net of current portion | 2,950,826 | 2,959,565 |
| Capital assets, net | <u>454,995</u> | <u>147,775</u> |
| Total noncurrent assets | <u>3,405,821</u> | <u>3,107,340</u> |
| Total assets | 7,648,304 | 8,435,539 |
| Deferred outflows of resources from pension | <u>53,716</u> | <u>78,656</u> |
| Total assets and deferred outflows of resources | <u>\$ 7,702,020</u> | <u>\$ 8,514,195</u> |
| <u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES</u> | | |
| <u>AND NET POSITION</u> | | |
| Current liabilities: | | |
| Current portion of note payable | \$ 142,857 | \$ - |
| Accounts payable and accrued expenses | 16,282 | 31,695 |
| Due to other funds | - | 207,908 |
| Total current liabilities | <u>159,139</u> | <u>239,603</u> |
| Noncurrent liabilities: | | |
| Note payable, net of current portion | 4,714,286 | 5,000,000 |
| Net pension liability | <u>313,849</u> | <u>360,660</u> |
| Total noncurrent liabilities | <u>5,028,135</u> | <u>5,360,660</u> |
| Total liabilities | <u>5,187,274</u> | <u>5,600,263</u> |
| Deferred inflows of resources from pension | <u>103,858</u> | <u>78,486</u> |
| Net position: | | |
| Invested in capital assets | 454,995 | 147,775 |
| Restricted | 3,456,690 | 3,075,855 |
| Unrestricted | <u>(1,500,797)</u> | <u>(388,183)</u> |
| Total net position | <u>2,410,888</u> | <u>2,835,447</u> |
| Total liabilities, deferred inflows of resources and net position | <u>\$ 7,702,020</u> | <u>\$ 8,514,196</u> |

See accompanying notes to financial statements.

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

Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2019 and 2018

| | 2019 | 2018 |
|--|--------------|--------------|
| Operating revenues: | | |
| Interest on loans | \$ 139,818 | \$ 112,008 |
| Other | 2,470 | 2,082 |
| Total operating revenues | 142,288 | 114,090 |
| Operating expenses: | | |
| Interest on borrowing | 179,176 | 125,120 |
| Salaries | 88,780 | 75,642 |
| Employee benefits | 20,051 | 21,557 |
| Travel | 16,269 | 9,252 |
| Rent expense | 7,500 | 9,000 |
| Office supplies | 6,629 | 4,743 |
| Repairs and maintenance | 4,424 | 4,890 |
| Communications | 4,362 | 3,794 |
| Depreciation | 4,273 | 6,187 |
| Professional services | 3,120 | - |
| Utilities | 2,634 | 2,470 |
| Insurance | 2,555 | 1,064 |
| Other | 37,226 | 4,485 |
| Total operating expenses | 376,999 | 268,204 |
| Operating loss | (234,711) | (154,114) |
| Nonoperating revenues (expenses): | | |
| Appropriations | 70,000 | 70,000 |
| Net increase (decrease) in the fair value of investments | (276,646) | 260,534 |
| Interest income | 1,412 | 5,972 |
| Other income | 15,386 | 6,872 |
| Total nonoperating revenues (expenses), net | (189,848) | 343,378 |
| Change in net position | (424,559) | 189,264 |
| Net position at beginning of year | 2,835,447 | 2,646,183 |
| Net position at end of year | \$ 2,410,888 | \$ 2,835,447 |

See accompanying notes to financial statements.

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

Statements of Cash Flows
For the years ended September 30, 2019 and 2018

| | 2019 | 2018 |
|--|--------------|--------------|
| Cash flows from operating activities: | | |
| Receipts from customers, net | \$ 137,324 | \$ 139,422 |
| Cash payments to suppliers for goods and services | (280,445) | (61,255) |
| Cash payments to employees and customers | (151,233) | (953,348) |
| Net cash used in operating activities | (294,354) | (875,181) |
| Cash flows from capital and related financing activities: | | |
| Appropriations | 70,000 | 70,000 |
| Net cash provided by noncapital financing activities | 70,000 | 70,000 |
| Cash flows from capital and related financing activities: | | |
| Capital assets acquisitions | (311,492) | (128,810) |
| Principal payments on note payable | (142,857) | - |
| Net cash used in capital and related financing activities | (454,349) | (128,810) |
| Cash flows from investing activities: | | |
| Interest and dividends | 1,412 | 408 |
| Other income | 15,436 | 12,436 |
| Increase (decrease) in due from funds | 64,904 | (3,351) |
| Net cash used in investing activities | 81,752 | 9,493 |
| Net change in cash | (596,951) | (924,498) |
| Cash at beginning of year | 1,464,575 | 2,389,073 |
| Cash at end of year | \$ 867,624 | \$ 1,464,575 |
| Reconciliation of operating loss to net cash provided by (used in) operating activities: | | |
| Operating loss | \$ (234,711) | \$ (154,114) |
| Adjustments to reconcile operating loss to net cash used in operating activities: | | |
| Depreciation | 4,273 | 6,187 |
| Noncash pension costs | 3,501 | 10,022 |
| (Increase) decrease in assets: | | |
| Accounts receivable | - | - |
| Notes receivables | (52,084) | (655,483) |
| Interest receivable | (4,228) | (3,314) |
| Due from other funds | 212,216 | 18 |
| Increase (decrease) in liabilities: | | |
| Accounts payable and accrued expenses | (15,413) | (81,873) |
| Due to other funds | (207,908) | 3,376 |
| Net cash provided by (used in) operating activities | \$ (294,354) | \$ (875,181) |

See accompanying notes to financial statements.

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

Notes to Combined Financial Statements
September 30, 2019 and 2018

(1) Summary of Significant Accounting Policies

Reporting Entity

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

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

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

Major Enterprise Funds

Home Rehabilitation Loan Program

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

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

Notes to Combined Financial Statements
September 30, 2019 and 2018

(1) Summary of Significant Accounting Policies, Continued

Major Enterprise Funds, Continued

Low-Cost Housing Program

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

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

Emergency Housing Revolving Loan Program

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

Pursuant to RPPL No. 10-36 effective June 12, 2019, the Authority entered into an agreement with the National Housing Commission (NHC) of the Republic of Palau to obtain funding from the Housing Development Loan Project (HDLP) to offer loans at a subsidized 1% interest rate to homeowners or 3% interest rate with a \$10,000 subsidy used for the upfront reduction of the loan principal. The Authority is allowed to lend no more than \$60,000 per loan under the HDLP. Loan amounts including subsidies, shall not exceed \$60,000. Loan repayment terms may be set up to 30 years, depending on the applicant's ability to pay, in order to maximize the number of citizens who can qualify for the HDLP.

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

Notes to Combined Financial Statements
September 30, 2019 and 2018

(1) Summary of Significant Accounting Policies, Continued

Non-Major Enterprise Funds

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

Section 8 Housing Assistance Program

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

Transitional/Emergency Shelter Program

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

Local Funds

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

Measurement Focus, Basis of Accounting, and Basis of Presentation

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

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

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

Notes to Combined Financial Statements
September 30, 2019 and 2018

(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 represent a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (deduction of net position) until then. The Authority determined the differences between expected and actual experience with regard to economic or demographic factors in the measurement of the total pension liability, pension contributions made subsequent to the measurement date and changes in proportion and difference between the Authority's pension contributions and proportionate share of contributions qualify for reporting in this category.

Deferred Inflows of Resources

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

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

Notes to Combined Financial Statements
September 30, 2019 and 2018

(1) Summary of Significant Accounting Policies, Continued

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

Pensions

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

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

Recently Adopted Accounting Pronouncements

During the year ended September 30, 2019, the Authority implemented the following pronouncements:

- GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations associated with the retirement of a tangible capital asset.
- GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, which improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements.

The implementation of these Statements did not have a material effect on the Authority's financial statements.

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

Notes to Combined Financial Statements
September 30, 2019 and 2018

(1) Summary of Significant Accounting Policies, Continued

Upcoming Accounting Pronouncements

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

In June 2017, GASB issued Statement No. 87, *Leases*, which established a single model for lease accounting based on the foundational principle that leases are financing of the right of use an underlying asset. The provisions in this Statement are effective for fiscal years beginning after December 15, 2019. Management does not believe that the implementation of this Statement will have a material effect on the Authority's financial statements.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The provisions in this Statement are effective for fiscal years beginning after December 15, 2019. Management does not believe that the implementation of this Statement will have a material effect on the Authority's financial statements.

In August 2018, GASB issued Statement No. 90, *Majority Equity Interest*, which improves the consistency and comparability of reporting of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. The provisions of this Statement are effective for reporting periods beginning after December 15, 2018. Management does not believe that the implementation of this Statement will have a material effect on the Authority's financial statements.

In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*, which clarifies the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The provisions of this Statement are effective for fiscal years beginning December 15, 2020. Management does not believe that the implementation of this Statement will have a material effect on the Authority's financial statements.

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

Notes to Combined Financial Statements
September 30, 2019 and 2018

(1) Summary of Significant Accounting Policies, Continued

Upcoming Accounting Pronouncements

In May 2020, GASB issued Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance, which postpones the effective dates of GASB Statements No. 84, 89, 90, and 91 by one year and GASB Statement No. 87 by 18 months; however, earlier application of the provisions addressed in GASB Statement No. 95 is encouraged and is permitted to the extent specified in each pronouncement as originally issued. Management has yet to determine whether the implementation of these Statements will be postponed as provided in GASB Statement No. 95.

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

Notes to Combined Financial Statements
September 30, 2019 and 2018

(1) Summary of Significant Accounting Policies, 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 Assets and Statement of Cash Flows, the Authority considers cash and cash equivalents to be cash on hand, cash in checking and savings accounts, and time certificates of deposit of less than ninety-day maturities. All of the Authority's cash are with a federally insured bank, \$250,000 of which is subject to coverage by federal insurance as of September 30, 2019 and 2018, 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 \$95,401 and \$1,456,557 as of September 30, 2019 and 2018, respectively.

Investments

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

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. GASB Statement No. 40 requires disclosure by issuer and amount of investments that represents five percent (5%) or more of total investments of the Authority.

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

Notes to Combined Financial Statements
September 30, 2019 and 2018

(1) Summary of Significant Accounting Policies, Continued

Investments, continued

As of September 30, 2019 and 2018, the following fixed income securities and exchange-traded and closed-end funds constituted more than 5% of the Authority's total investments:

| | 2019 | 2018 |
|--------------------------------------|------|------|
| Exchange-traded and Closed-in Funds: | | |
| Equities: | | |
| Ishares TR Core S&P 500 ETF | 30% | 42% |
| Ishares TR RUS MID CAP 500 ETF | 6% | - |
| Ishares TR U.S. ES ETF | 21% | - |
| DBX ETF Trust X-Trackers MSC | 7% | - |
| Ishares TR Core MSCI EAFE | 8% | - |
| Ishares TR Core MNSCI EAFE | - | 8% |
| Ishares Inc Core MSCI EMKT | - | 7% |
| Ishares TR Core S&P MCP ETF | - | 7% |
| Morgan Stanley INSTL FD TRUS | - | 5% |
| Goldman Sachs ERMG Markerts | - | 5% |
| DBX ETF Trust X-Trackers MSC | - | 8% |
| Ishares TR SH TR CRPORT | 8% | - |
| Ishares TR ULTR SH TRM | 8% | - |

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

General:

1. Any pertinent restrictions existing under the laws of ROP with respect to the Authority, that may exist now or in the future, will be the governing restriction.
2. U.S. and non-U.S. equities, ADRs (American Depositary Receipts), convertible bonds, preferred stocks, fixed-income securities, mutual funds and short-term securities are permissible investments.
3. No individual security of any issuer, other than that of the United States Government, shall constitute more than 10% (at cost) of Investment Manager's portfolio.
4. Holdings of any issuer shall constitute no more than 5% of the outstanding securities of such issuer.

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

Notes to Combined Financial Statements
September 30, 2019 and 2018

(1) Summary of Significant Accounting Policies, Continued

Investments, continued

5. Investments in a registered mutual fund managed by the Investment Manager are subject to the prior approval of the Board of Directors.
6. The following securities and transactions are not authorized without prior written Board of Director's approval: letter stock and other unregistered securities; non-negotiable securities; commodities or other commodity contracts; options; futures; short sale; and margin transactions.

Investments may be made in:

A. Equity Investments

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

B. Fixed Income Investments

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

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

Notes to Combined Financial Statements
September 30, 2019 and 2018

(1) Summary of Significant Accounting Policies, Continued

Investments, continued

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

C. Cash and Cash Equivalents

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

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, the Authority will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The Authority's investments are held and administered by trustees in accordance with negotiated trust and custody agreements. Based on these agreements, all of these investments were held in the Authority's name by the Authority's custodial financial institutions at September 30, 2019 and 2018.

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

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

Notes to Combined Financial Statements
September 30, 2019 and 2018

(1) Summary of Significant Accounting Policies, Continued

Investments, continued

The Authority values its investments at fair value in accordance with GASB Statement 31. The Authority's investments as of September 30, 2019 and 2018 are as follows:

| <u>Investment Type</u> | <u>Fair Value</u> | |
|-----------------------------|---------------------|---------------------|
| | <u>2019</u> | <u>2018</u> |
| Cash and money market funds | \$ 524,382 | \$ 64,942 |
| Equities | 2,036,453 | 2,703,847 |
| Fixed income | <u>682,949</u> | <u>751,641</u> |
| | <u>\$ 3,243,784</u> | <u>\$ 3,520,430</u> |

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

Fair Value Measurement of the Investments

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

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

Notes to Combined Financial Statements
September 30, 2019 and 2018

(1) Summary of Significant Accounting Policies, Continued

Fair Value Measurement of the Investments, Continued

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

| | Fair Value Measurement Using | | | |
|---|------------------------------|---------------------|----------------|----------------|
| | <u>2019</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
| Investments by fair value level | | | | |
| Exchange traded funds and closed-end funds: | | | | |
| Equities | \$ 2,719,402 | \$ 2,719,402 | \$ - | \$ - |
| Total investments by fair fair value level | <u>\$ 2,719,402</u> | <u>\$ 2,719,402</u> | <u>\$ -</u> | <u>\$ -</u> |
| Investments measured at cost based measure | | | | |
| Cash and cash equivalents | <u>\$ 524,382</u> | | | |

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

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

Notes to Combined Financial Statements
September 30, 2019 and 2018

(1) Summary of Significant Accounting Policies, Continued

Custodial credit risk

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, the Authority will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The Authority's investments are held and administered by trustees in accordance with negotiated trust and custody agreements. Based on those agreements, all of these investments were held in the Authority's name by the custodial financial institutions at September 30, 2019 and 2018.

Foreign Currency Risk

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

Foreign currency is comprised of international investment proceeds and income to be repatriated into U.S. dollars and funds available to purchase international securities. Foreign currency is not held as a form of investment. Foreign currency is held for less than 30 days in foreign accounts until it can be repatriated or expended. For the years ended September 30, 2019 and 2018, the Authority did not have investments in foreign currency.

Investment income

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

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect an investment's value. The Authority does not have a formal policy regarding interest rate risk. At September 30, 2019 and 2018, the Authority did not have any investments in debt securities.

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

Notes to Combined Financial Statements
September 30, 2019 and 2018

(1) Summary of Significant Accounting Policies, 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> |
|-----------------------------------|----------------------------|
| Buildings | 30 |
| 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 HOUSING AUTHORITY
(A Component Unit of the Republic of Palau)

Notes to Combined Financial Statements
September 30, 2019 and 2018

(1) Summary of Significant Accounting Policies, 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, 2019 and 2018, compensated absences payable to employees was \$5,000 and \$6,751, respectively, and are recorded as a component of accounts payable and accrued expenses in the accompanying Combined Statement of Net Position. At September 30, 2019 and 2018, 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, 2019 and 2018, 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, the Housing Development Loan Project 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 HOUSING AUTHORITY
(A Component Unit of the Republic of Palau)

Notes to Combined Financial Statements
September 30, 2019 and 2018

(1) Summary of Significant Accounting Policies, Continued

Net Assets, continued

The Authority's restricted component of net position is expendable which is subject to externally imposed stipulations that can be fulfilled by actions of the Authority pursuant to those stipulations or that expire with the passage of time. At September 30, 2019 and 2018, the Authority had no expendable net position.

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

Classification of Revenues

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

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

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

Advertising

For the fiscal years ending September 30, 2019 and 2018, the Authority incurred advertising costs totaling \$751 and \$486, respectively and is included as a component of miscellaneous expense in the accompanying statements of revenues, expenses and changes in net position. These costs primarily relate to construction bids and related procurement solicitation costs.

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

Notes to Combined Financial Statements
September 30, 2019 and 2018

(2) Cash and cash equivalents

Cash and cash equivalents at September 30, 2019 and 2018 consist of the following:

| | <u>2019</u> | <u>2018</u> |
|------------------------------|-------------------|---------------------|
| Cash | \$ 853,810 | \$ 1,450,761 |
| Time certificates of deposit | <u>13,814</u> | <u>13,814</u> |
| | <u>\$ 867,624</u> | <u>\$ 1,464,575</u> |

(3) Notes Receivable

A summary of notes receivable at September 30, 2019 and 2018 consists of the following:

| | <u>2019</u> | <u>2018</u> |
|---|---------------------|---------------------|
| Home Rehabilitation loans | \$ 2,885,760 | \$ 2,860,037 |
| Emergency Loan Revolving Fund loans | 145,295 | 156,927 |
| Low-Cost Housing Loans | 119,924 | 146,885 |
| Section 8 Housing | <u>22,552</u> | <u>-</u> |
| | 3,173,531 | 3,163,849 |
| Current portion | <u>(222,705)</u> | <u>(204,284)</u> |
| Long-term notes receivable, net of current portion | <u>\$ 2,950,826</u> | <u>\$ 2,959,565</u> |

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

| | <u>2019</u> | <u>2018</u> |
|---------------------------------------|-------------------|------------------|
| Balance at beginning of year | \$87,994 | \$87,994 |
| Additions to provisions for loan loss | 22,552 | - |
| Loan charged-off | - | - |
| Recoveries of loans charged-off | <u>-</u> | <u>-</u> |
| | <u>\$ 110,546</u> | <u>\$ 87,994</u> |

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

Notes to Combined Financial Statements
September 30, 2019 and 2018

(4) Interfunds

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

(5) Capital Assets

A schedule of changes in capital assets for the fiscal years ended September 30, 2019 and 2018 is shown below:

| | Balance 10/01/2018 | Additions | Transfers Disposals | Balance 09/30/2019 |
|-----------------------------------|-----------------------|-------------------|------------------------|-----------------------|
| Building | \$ - | \$ 311,492 | \$ 128,810 | \$ 440,302 |
| Furniture, fixtures and equipment | 21,240 | - | - | 21,240 |
| Vehicles | 62,962 | - | - | 62,962 |
| | 84,202 | 311,492 | 128,810 | 524,504 |
| Accumulated depreciation | (65,236) | (4,273) | | (69,509) |
| Net depreciable assets | 18,966 | 307,219 | 128,810 | 454,995 |
| Construction in-progress | 128,810 | - | (128,810) | - |
| Net capital assets | <u>\$ 147,776</u> | <u>\$ 307,219</u> | <u>\$ -</u> | <u>\$ 454,995</u> |

| | Balance 10/01/2017 | Additions | Transfers Disposals | Balance 09/30/2018 |
|-----------------------------------|-----------------------|-------------------|------------------------|-----------------------|
| Furniture, fixtures and equipment | \$ 21,240 | \$ - | \$ - | \$ 21,240 |
| Vehicles | 62,962 | - | - | 62,962 |
| | 84,202 | - | - | 84,202 |
| Accumulated depreciation | (59,049) | (6,187) | | (65,236) |
| Net depreciable assets | 25,153 | (6,187) | - | 18,966 |
| Construction in-progress | - | 128,810 | - | 128,810 |
| Net capital assets | <u>\$ 25,153</u> | <u>\$ 122,623</u> | <u>-</u> | <u>\$ 147,776</u> |

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

Notes to Combined Financial Statements
September 30, 2019 and 2018

(5) Capital Assets, Continued

Depreciation expense for the years ended September 30, 2019 and 2018 was \$4,273 and \$6,187, respectively.

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

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

(6) Noncurrent Liabilities

A summary of changes in noncurrent liabilities during fiscal year ended September 30, 2019 and 2018 is as follows:

| | Outstanding October 1, 2018 | Increases | Decreases | Outstanding September 30, 2019 | Current | Noncurrent |
|-----------------------|-----------------------------------|-------------|-------------------|--------------------------------------|-------------------|---------------------|
| Notes Payable | \$ 5,000,000 | \$ - | \$ 142,857 | \$ 4,857,143 | \$ 142,857 | \$ 4,714,286 |
| Net Pension Liability | <u>360,660</u> | <u>-</u> | <u>46,811</u> | <u>\$ 313,849</u> | <u>-</u> | <u>313,849</u> |
| | <u>\$ 5,360,660</u> | <u>\$ -</u> | <u>\$ 189,668</u> | <u>\$ 5,170,992</u> | <u>\$ 142,857</u> | <u>\$ 5,028,135</u> |

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

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

Notes to Combined Financial Statements
September 30, 2019 and 2018

(7) Notes Payable

On April 8, 2016, the Republic of Palau entered into a \$5,000,000 loan agreement with Mega International Commercial Bank Co., Ltd. The purpose of the loan is to finance housing including displaced Palauan residents to be administered by the Palau Housing Authority.

The loan is to be repaid in thirty-five (35) consecutive equal semi-annual installments of \$142,857 beginning on April 12, 2019 at the rate equal to six (6) months LIBOR plus one percent (1%) per annum (effective interest rates were 3.06438% and 3.44403 as of September 30, 2019 and 2018, respectively), interest only payable semi-annually until September 30, 2018 with the first semi-annual principal installment of \$142,857 payable on March 31, 2019. Annual expected principal payments are \$285,714. The note is uncollateralized and is due March 31, 2036. The outstanding balance is \$4,857,143 and \$5,000,000 at September 30, 2019 and 2018, respectively.

The annual debt service requirements to maturity for principal and interest payments are as follows:

| <u>Year Ending September 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|----------------------------------|---------------------|-------------------|---------------------|
| 2020 | \$ 142,857 | \$ 74,421 | \$ 217,278 |
| 2022 | 285,714 | 144,464 | 430,178 |
| 2023 | 285,714 | 135,708 | 421,422 |
| 2024 | 285,714 | 126,953 | 412,667 |
| 2025 | 285,714 | 118,198 | 403,912 |
| 2026 - 2030 | 1,428,570 | 108,442 | 1,537,012 |
| 2031 - 2035 | 1,428,570 | 65,665 | 1,494,235 |
| 2036 | 714,290 | 21,887 | 736,177 |
| | <u>\$ 4,857,143</u> | <u>\$ 795,738</u> | <u>\$ 5,652,881</u> |

The Authority paid interest expense on the loan totaling \$179,176 and \$125,120, respectively, for the years ended September 30, 2019 and 2018.

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

Notes to Combined Financial Statements
September 30, 2019 and 2018

(8) Retirement Plan

Defined Benefit Plan

A. General Information About the Pension Plan:

Plan Description: The Authority contributes to the Republic of Palau Civil services Pension Trust Fund (the Plan), a defined benefit, cost sharing multi-employer plan, which is a component unit of the Republic of Palau (ROP) National Government, providing retirement, security and their benefits to employees, their spouses and dependents, of the ROP, ROP State Governments and ROP agencies, funds and public corporations. The Plan was established pursuant to Republic of Palau Public Law (RPPL) No. 2-26 passed into law on April 3, 1987 and began operations on October 1, 1987.

Portions of RPPL No. 2-26 were revised by RPPL 3-21, RPL 4-40, RPPL 4-49, RPPL 5-30, RPPL 6-37, RPPL 6-37, RPPL 7-56, RPPL 8-10 and RPPL 9-2. A single actuarial valuation report is performed annually covering all plan members and the same contribution rate applies to each employer.

The Plan issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit plan. That report may be obtained by writing to the Plan's Administrator at the Republic of Palau Civil Service Pension Trust Fund, P.O. Box 1767, Koror, Republic of Palau 96940, or e-mail cspp@palaunet.com or call (680) 488-2523.

Plan Membership. As of September 30, 2017, the date of the most recent valuation, plan membership consisted of the following:

| | |
|---|---------------------|
| Inactive members currently receiving benefits | 1,576 |
| Inactive members entitled to but not receiving benefits | 1,162 |
| Active members | <u>3,422</u> |
| Total members | <u><u>6,160</u></u> |

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

Notes to Combined Financial Statements
September 30, 2019 and 2018

(8) Employees' Retirement Plan, continued

A. General information About the Pension Plan, continued:

Pension Benefits. Retirement benefits are paid to members who are required, with certain exceptions, to retire no later than their sixtieth birthday or after thirty years of service. A member may retire after his or her fifty-fifth birthday at a reduced pension amount if the member has completed at least twenty years of government employment. A married member of a former member receiving a distribution of benefits under the Pension Fund receives reduced benefit amounts to provide survivors' benefits to his or her spouse. An unmarried member or former member may elect to receive a reduced benefit amount during his or her lifetime with an annuity payable to his or her designated beneficiary. Disability benefits are paid to qualified members for the duration of the disability. Effective May 17, 1996, through RPPL 4-49, members, who have twenty-five years or more of total service, are eligible for retirement regardless of their age and, upon such retirement, are eligible to receive pension benefits at a level established by the Board. Effective July 1, 1999, pursuant to RPPL 4-49 and RPPL 5-30, retirement is mandatory for all members who have thirty years or more of total service and all employees who are sixty years of age or older with certain exceptions.

Beginning October 1, 2003, pursuant to RPPL 6-37, mandatory retirement may be delayed for up to five years, by specific exemption by the Board. In December 2008, RPPL 7-56 eliminated early retirement and thirty-year mandatory service provisions. These provisions were restored through RPPL 8-10 in October 2009. On April 30, 2013, RPPL 9-2 eliminated the mandatory service retirement after thirty years of service. After December 31, 2013, no employee shall be entitled to pension benefits until reaching the age of sixty.

In accordance with the directives of RPPL 5-7, the Board adopted a resolution which provides that "no person who retires after October 1, 1997, may receive benefits under the Plan unless he or she has contributed to the Plan for at least five years or has made an actuarially equivalent lump sum contribution". In accordance with PPL 9-2, members who retire after April 30, 2013 must not receive benefits greater than thirty thousand dollars per year. Further, the amount of benefits that a member receives should not be recalculated if the member is re-employed subsequent to retirement.

Currently, normal benefits are paid monthly and are two percent of each member's average monthly salary for each year of credited total service up to a maximum of thirty years total service. The average annual salary is the average of the highest three consecutive fiscal years of compensation received by a member during his or her most recent ten full fiscal years of service. For members who have not completed three consecutive fiscal years of employment during his or her most recent ten full fiscal years of service, the average annual salary is the average monthly salary during the term of the member's service multiplied by twelve.

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

Notes to Combined Financial Statements
September 30, 2019 and 2018

(8) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General information About the Pension Plan, Continued:

The benefit amount that married members or unmarried members receive, who have elected to designate a beneficiary, is based on the normal benefit amount reduced by the following factors:

| <u>Factor</u> | <u>If the Spouse or Beneficiary is:</u> |
|---------------|--|
| 1.00 | 21 or more years older than the member |
| 0.95 | 16 to 20 years older than the member |
| 0.90 | 11 to 15 years older than the member |
| 0.85 | 6 to 10 years older than the member |
| 0.80 | 0 to 5 years younger than the member or 0 to 5 years older than the member |
| 0.75 | 6 to 10 years younger than the member |
| 0.70 | 11 to 15 years younger than the member |
| 0.65 | 16 or more years younger than the member |

Surviving beneficiaries of an employee may only receive benefits up to the total present value of the employees accrued benefit pursuant to RPPL 9-2.

A member that meets the requirements for early retirement and elects to retire on an early retirement date is entitled to receive payment of an early retirement benefit equal to the member's normal retirement benefit reduced according to the following schedule based on the age at which early retirement benefit payments begin:

- 1/12th per year for the first 3 years before age 60;
- plus an additional 1/18th per year for the 3 years;
- plus an additional 1/24th per year for the next 5 years; and
- plus an additional 1/50th per year for each year in excess of 11 years.

Upon the death of a member or former member with eligible survivors before commencement of the members' normal, early, or late retirement benefits or disability retirement benefits the following shall be payable:

- If the former member is not an employee at his date of death and a spouse or beneficiary survives, he total death benefits payable shall be the actuarial equivalent of the member's present value of accrued benefit.

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

Notes to Combined Financial Statements
September 30, 2019 and 2018

(8) Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General information About the Pension Plan, continued:

- If the member is an employee at his date of death and a spouse or beneficiary survives, the total death benefits payable shall be the actuarial equivalent of the greater of 3 times the member's average annual salary or the member's present value of accrued benefits.

Upon the death of a member or former member before commencement of his normal, early, or late retirement benefit or disability retirement benefit leaving no persons eligible for survivor benefits, the following shall be payable:

- If the former member is not an employee at the date of death, a refund of the total amount of contributions made by the member.
- If the member was an employee at the date of death and had completed one year of total service, the estate of the member shall be entitled to a death benefit equal to the greater of three times the member's annual salary or the present value of the member's accrued benefit payable in the form of a single lump sum payment.

Any member who is not otherwise eligible to receive normal, early or late retirement benefits, who shall become totally and permanently disabled for service regardless of how or where the disability occurred, shall be entitled to a disability retirement annuity, provided that he or she is not receiving disability payments from the United States Government or its agencies for substantially the same ailment, and further provided that to be eligible for a disability retirement annuity from a cause unrelated to service, the member shall have had at least ten (10) years of total service credited. The amount of disability retirement annuity from a cause unrelated to service, the member shall have had at least ten (10) years of total service credited. The amount of disability retirement annuity shall be an amount equal to the actuarial equivalent at the attained age of the member's present value of accrued benefit and shall be paid in the same form as a normal retirement benefit.

Any special compensation allowance received or payable to any member because of disability resulting from accidental causes while in the performance of a specific act or acts of duty shall be deducted from the disability annuity payable by the Plan on account of the same disability.

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

Notes to Combined Financial Statements
September 30, 2019 and 2018

(8) Employees' Retirement Plan, continued

A. General information About the Pension

Contributions. Member contribution rates are established by RPPL No. 2-26 at six percent of total payroll and are deducted from the member's salary and remitted by participating employers. Upon complete separation from service, a member with less than (15) fifteen years membership service may elect to receive a refund of all his or her contributions. Subsequent changes in the percentage contributed by members may be made through and amendment of the Trust Fund Operation Plan subject to the requirements of Title 6 of the Palau National Code. RPPL 9-2 requires each employee of the National Government and all State Governments, without regard to whether the employee of the National Government and all State Governments, without regard to whether the employee is employed part-time or on a temporary basis, seasonal or an impermanent basis, to contribute to the Plan through payroll deduction.

Employers are required to contribute an amount equal to that contributed by employees. Pursuant to RPPL No. 2-26 and RPPL No. 3-21, the Government of the Republic OF Palau must from time to time contribute additional sums to the Plan in order to keep the Plan on a sound actuarial basis. RPPL 9-2 requires the Government of ROP to make regular contributions to the Plan equal to the amount contributed by each and every employee of ROP. Additionally, an excise tax of four percent (4%) is levied against each non-citizen person transferring money out of ROP. The money transfer tax must be remitted to the Plan.

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

Notes to Combined Financial Statements
September 30, 2019 and 2018

(8) Retirement Plan, continued

Defined Benefit Plan, Continued

A. General information About the Pension Plan, continued:

Actuarial Assumptions. The total pension liability was determined by an actuarial valuation as of September 30, 2018, for the measurement date, using the following actuarial assumptions:

| Actuarial Cost Method: | Normal costs are calculated under entry age normal method | | | | | | | | | | | | | | | | | | |
|-----------------------------------|--|------------|-------------------|----|-------|----|-------|----|-------|----|-------|----|-------|----|-------|----|-------|----|-------|
| Amortization Method: | Level dollar, open with remaining amortization period of 30 years | | | | | | | | | | | | | | | | | | |
| Asset Valuation Method: | Market Value of Assets | | | | | | | | | | | | | | | | | | |
| Investment Income: | 7.5% per year | | | | | | | | | | | | | | | | | | |
| Inflation: | 3.0% | | | | | | | | | | | | | | | | | | |
| Interest on Member Contributions: | 5.0% per year | | | | | | | | | | | | | | | | | | |
| Salary Increase: | 3.0% per year | | | | | | | | | | | | | | | | | | |
| Expenses: | \$300,000 each year | | | | | | | | | | | | | | | | | | |
| Mortality: | RP 2000 Combined Healthy Mortality Table, set forward four years for all members except disability recipients, except the table is set forward ten years | | | | | | | | | | | | | | | | | | |
| Termination of Employment: | 5% for ages 20 to 39; non for all other ages | | | | | | | | | | | | | | | | | | |
| Disability: | <table> <thead> <tr> <th><u>Age</u></th> <th><u>Disability</u></th> </tr> </thead> <tbody> <tr> <td>25</td> <td>0.21%</td> </tr> <tr> <td>30</td> <td>0.18%</td> </tr> <tr> <td>35</td> <td>0.25%</td> </tr> <tr> <td>40</td> <td>0.35%</td> </tr> <tr> <td>45</td> <td>0.50%</td> </tr> <tr> <td>50</td> <td>0.76%</td> </tr> <tr> <td>55</td> <td>1.43%</td> </tr> <tr> <td>60</td> <td>2.12%</td> </tr> </tbody> </table> | <u>Age</u> | <u>Disability</u> | 25 | 0.21% | 30 | 0.18% | 35 | 0.25% | 40 | 0.35% | 45 | 0.50% | 50 | 0.76% | 55 | 1.43% | 60 | 2.12% |
| <u>Age</u> | <u>Disability</u> | | | | | | | | | | | | | | | | | | |
| 25 | 0.21% | | | | | | | | | | | | | | | | | | |
| 30 | 0.18% | | | | | | | | | | | | | | | | | | |
| 35 | 0.25% | | | | | | | | | | | | | | | | | | |
| 40 | 0.35% | | | | | | | | | | | | | | | | | | |
| 45 | 0.50% | | | | | | | | | | | | | | | | | | |
| 50 | 0.76% | | | | | | | | | | | | | | | | | | |
| 55 | 1.43% | | | | | | | | | | | | | | | | | | |
| 60 | 2.12% | | | | | | | | | | | | | | | | | | |
| Retirement Age: | 100% at age 60 | | | | | | | | | | | | | | | | | | |
| Form of Payment: | Single: Straight life annuity; Married 100% joint and survivor | | | | | | | | | | | | | | | | | | |

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

Notes to Combined Financial Statements
September 30, 2019 and 2018

(8) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General information About the Pension Plan, Continued:

| | |
|--------------------------------------|---|
| Marriage Assumption: | 80% of the workers are assumed to be married and males are assumed to be 3 years older than their spouses. Beneficiaries are assumed to be the opposite gender of the member. |
| Duty vs Non-duty related disability: | 100% Duty related. |
| Refund of Contributions: | 80% of terminated vested members elect a refund of contributions |
| Final Average Earnings: | Deferred vested members missing data for their final average earnings amount are assumed to receive the average benefit of current retirees or beneficiaries, respectively. |

Investment Rate of Return

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

As of September 30, 2018, the geometric mean rates of return for each major investment class are as follows:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Expected Rate of Return</u> |
|-----------------------------|--------------------------|--------------------------------|
| U.S. Large Cap Equity | 20% | 8.70% |
| U.S. Small/Mid Cap Equity | 5% | 9.13% |
| International Equity | 15% | 9.19% |
| Emerging Markets | 10% | 12.52% |
| U.S. Aggregate Fixed Income | 35% | 3.82% |
| Global Broad Fixed Income | 10% | 3.40% |
| Global REIT | <u>10%</u> | 8.33% |
| | <u>100%</u> | |

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

Notes to Combined Financial Statements
September 30, 2019 and 2018

(8) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

Discount Rate

The discount rate used to measure the total pension liability was 4.16% at the current measurement date and 3.62% at the prior measurement date. The discount rate was determined using the current assumed rate of return until the point where the plan fiduciary net position is negative. Using the current contribution rates, a negative position happens in 2023 for the 2018 measurement date. For years after 2023, a discount rate of 4.09% is used. This rate is based on the Bond Buyer General Obligation 20-year Municipal Bond Index.

Sensitivity of Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the Authority as of September 30, 2018, calculated using the discount rate of 4.16%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (3.16%) or 1.00% higher (5.16%) from the current rate.

| <u>1% Decrease 3.16%</u> | <u>Current Single Discount Rate Assumption 4.16%</u> | <u>1% Increase 5.16%</u> |
|--------------------------|--|--------------------------|
| \$360,950 | \$313,849 | \$274,569 |

B. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension Liability. At September 30, 2019 and 2018, the Authority reported a liability of \$313,849 and \$360,660, respectively, for its proportionate share of the net pension liability. The Authority's proportion of the net pension liability was based on the projection of the Authority's long-term share of contributions to the Plan relative to the projected contributions of Republic of Palau, Republic of Palau's component units and other Government agencies, actuarially determined. At September 30, 2019 and 2018, the Authority's proportion was 0.1251% and 0.1390%, respectively.

Pension Expense. For the years ended September 30, 2019 and 2018, the Authority recognized pension expense of \$8,618 and \$14,371, respectively.

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

Notes to Combined Financial Statements
September 30, 2019 and 2018

(8) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

Deferred Outflows and Inflows of Resources. At September 30, 2019 and 2018, the Authority reported total deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | 2019 | | 2018 | |
|---|--------------------------------------|-------------------------------------|--------------------------------------|-------------------------------------|
| | Deferred Outflows of Resources | Deferred Inflows of Resources | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Differences between expected and actual experience | \$ 24,750 | \$ 4,687 | \$ 33,201 | \$ 7,049 |
| Net difference between projected and actual earnings on pension plan investments | 893 | 1,368 | 1,986 | 1,762 |
| Change in assumptions | 28,062 | 43,320 | 42,172 | 34,166 |
| Authority contributions subsequent to the measurement date | - | - | - | - |
| Changes in proportion and difference between the Authority contributions and proportionate share of contributions | 11 | 54,483 | 1,297 | 35,509 |
| Total | \$ 53,716 | \$ 103,858 | \$ 78,656 | \$ 78,486 |

Deferred outflows resulting from contributions subsequent to measurement date will be recognized as a reduction of the net pension liability in the following year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions at September 30, 2019 will be recognized in pension expense as follows:

| <u>Year ending September 30,</u> | |
|----------------------------------|-------------|
| 2020 | \$ (8,056) |
| 2021 | (8,932) |
| 2022 | (8,535) |
| 2023 | (7,093) |
| 2024 | (9,166) |
| Thereafter | (8,360) |
| | \$ (50,142) |

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

Notes to Combined Financial Statements
September 30, 2019 and 2018

(9) Risk Management

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

(10) Commitments and Contingencies

Litigation

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

(11) National Government Contributions

For the years ended September 30, 2019 and 2018, the Republic of Palau appropriated and contributed the following to the Authority:

| | <u>2019</u> | <u>2018</u> |
|------------------------------------|------------------|------------------|
| For operational costs of employees | \$ <u>70,000</u> | \$ <u>70,000</u> |
| | <u>\$ 70,000</u> | <u>\$ 70,000</u> |

(12) Impairment of Fixed Assets

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

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

Notes to Combined Financial Statements
September 30, 2019 and 2018

(13) Reclassifications

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

(14) Subsequent Events

The Authority has evaluated subsequent events from October 1, 2019 through January 22, 2021, the date the financial statements were available to be issued. The Authority did not note any subsequent events requiring disclosure or adjustment to the accompanying financial statements.

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

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

| | 2018 | 2017 | 2016 | 2015 | 2014 |
|--|----------------|----------------|----------------|----------------|----------------|
| Civil Service Pension Trust Fund (Plan) total net pension liability | \$ 250,868,784 | \$ 259,395,005 | \$ 249,453,960 | \$ 215,546,176 | \$ 204,281,232 |
| The Authority's proportionate share of the net pension liability | \$ 313,849 | \$ 360,660 | \$ 360,301 | \$ 327,702 | \$ 323,173 |
| The Authority's proportionate share of the net pension liability | 0.125% | 0.139% | 0.144% | 0.152% | 0.158% |
| The Authority's covered-employee payroll** | \$ 73,400 | \$ 80,550 | \$ 76,479 | \$ 73,732 | \$ 74,360 |
| The Authority's proportionate share of the net pension liability as a percentage of its covered employee payroll | 427.59% | 447.75% | 471.11% | 444.45% | 434.61% |
| Plan Fiduciary net position as a percentage of the total pension liability | 10.24% | 10.18% | 10.55% | 11.54% | 14.01% |

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

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

See accompanying Independent Auditors' Report.

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

Required Supplemental Information (Unaudited)
Schedule of Pension Contributions
Last 10 Fiscal Years*

| | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|---|------------------|------------------|------------------|------------------|------------------|
| Actuarially determined contribution | \$ 21,658 | \$ 23,879 | \$ 20,819 | \$ 16,571 | \$ 16,804 |
| Contribution in relation to the actuarially determined contribution | <u>4,404</u> | <u>4,833</u> | <u>4,527</u> | <u>4,394</u> | <u>4,379</u> |
| Contribution (excess) deficiency | <u>\$ 17,254</u> | <u>\$ 19,046</u> | <u>\$ 16,292</u> | <u>\$ 12,177</u> | <u>\$ 12,425</u> |
| Authority's covered-employee payroll | <u>\$ 73,400</u> | <u>\$ 80,550</u> | <u>\$ 76,479</u> | <u>\$ 73,732</u> | <u>\$ 74,360</u> |
| Contribution as a percentage of covered-employee payroll | 6.00% | 6.00% | 5.92% | 5.96% | 5.89% |

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

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

See accompanying Independent Auditors' Report.

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

Schedule of Investments
September 30, 2019

| <u>Cash and Money Market Funds</u> | <u>Cost</u> | <u>Fair Value</u> |
|---|---------------------|---------------------|
| Cash and equivalents | \$ 524,382 | \$ 524,382 |
| Total Cash and Money Market Funds | <u>524,382</u> | <u>524,382</u> |
| <u>Exchange-traded and Closed-in Funds:</u> | | |
| <u>Equities</u> | | |
| Ishares TR Core S&P 500 ETF | 788,000 | 973,175 |
| Ishares TR RUS MID CAP 500 ETF | 192,469 | 194,147 |
| Ishares TR RUSSELL 2000 ETF | 113,680 | 109,721 |
| Ishares TR U.S. ES ETF | 132,422 | 143,116 |
| DBX ETF Trust X-Trackers MSC | 213,567 | 223,146 |
| Ishares TR Core MSCI EAFE | 253,929 | 253,441 |
| Ishares Inc Core MSCI | 144,115 | 139,707 |
| Ishares TR Core US AGGBD | 84,817 | 88,273 |
| Ishares TR SH TR CRPORT | 250,854 | 254,932 |
| Ishares TR ULTR SH TRM | 252,099 | 252,454 |
| Primco EFT Trust | <u>87,918</u> | <u>87,290</u> |
| Total | <u>2,513,870</u> | <u>2,719,402</u> |
| Total Cash and Equities | <u>\$ 3,038,252</u> | <u>\$ 3,243,784</u> |

See accompanying Independent Auditors's Report.

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

Combining Statements of Net Position
September 30, 2019

(With comparative totals as of September 30, 2018)

| | Major Enterprise Funds | | | | | Eliminations | Total 2019 | Total 2018 |
|--|------------------------|---|--------------------------------|---|---------------------------------|---------------------|---------------------|---------------------|
| | Operation Fund | Home Rehabilitation Loan Program | Low-Cost Housing Program | Emergency Housing Loan Revolving Program | Non-Major Enterprise Fund | | | |
| Assets and Deferred Outflows of Resources | | | | | | | | |
| Current assets: | | | | | | | | |
| Cash and cash equivalents | \$ 135,884 | \$ 522,280 | \$ 87,018 | \$ 29,614 | \$ 92,828 | \$ - | \$ 867,624 | 1,464,575 |
| Investments | - | 3,243,784 | - | - | - | - | 3,243,784 | 3,520,430 |
| Notes receivable, current portion | - | 152,945 | 21,346 | 25,862 | 22,552 | - | 222,705 | 204,284 |
| Allowance for loan losses | - | (69,442) | (18,552) | - | (22,552) | - | (110,546) | (87,994) |
| | - | 83,503 | 2,794 | 25,862 | - | - | 112,159 | 116,290 |
| Accounts receivable, net | 157 | - | - | - | - | - | 157 | 157 |
| Interest receivable | - | 10,062 | 1,798 | 1,956 | - | - | 13,816 | 9,588 |
| Other receivables | - | 4,943 | - | - | - | - | 4,943 | 4,943 |
| Due from other funds | - | 368,500 | 108 | 133,932 | - | (502,540) | - | 212,216 |
| Total current assets | 136,041 | 4,233,072 | 91,718 | 191,364 | 92,828 | (502,540) | 4,242,483 | 5,328,199 |
| Noncurrent assets: | | | | | | | | |
| Notes receivable, net of current portion | - | 2,732,815 | 98,578 | 119,433 | - | - | 2,950,826 | 2,959,565 |
| Capital assets, net | 422,627 | 24,769 | - | - | 7,599 | - | 454,995 | 147,776 |
| Total noncurrent assets | 422,627 | 2,757,584 | 98,578 | 119,433 | 7,599 | - | 3,405,821 | 3,107,341 |
| Deferred outflows of resources related to pension | 53,716 | - | - | - | - | - | 53,716 | 78,656 |
| Total Assets and Deferred Outflows of Resources | \$ 612,384 | \$ 6,990,656 | \$ 190,296 | \$ 310,797 | \$ 100,427 | \$ (502,540) | \$ 7,702,020 | \$ 8,514,196 |
| Liabilities, Deferred Inflows of Resources and Net Position | | | | | | | | |
| Current liabilities: | | | | | | | | |
| Current port of long-term debt | \$ - | \$ 142,857 | \$ - | \$ - | \$ - | \$ - | \$ 142,857 | \$ - |
| Accounts payable and accrued expenses | 8,079 | 8,203 | - | - | - | - | 16,282 | 31,695 |
| Due to other funds | 502,429 | 111 | - | - | - | (502,540) | - | 207,908 |
| 111+305712 | | | | | | | | |
| Total current liabilities | 510,508 | 151,171 | - | - | - | (502,540) | 159,139 | 239,603 |
| Long-term liabilities: | | | | | | | | |
| Note payable, net of current portion | - | 4,714,286 | - | - | - | - | 4,714,286 | 5,000,000 |
| Net pension liability | 313,849 | - | - | - | - | - | 313,849 | 360,660 |
| Total long-term liabilities | 313,849 | 4,714,286 | - | - | - | - | 5,028,135 | 5,360,660 |
| Total liabilities | 824,357 | 4,865,457 | - | - | - | (502,540) | 5,187,274 | 5,600,263 |
| Deferred inflows of resources related to pension | 103,858 | - | - | - | - | - | 103,858 | 78,486 |
| Net position: | | | | | | | | |
| Invested in capital assets | 103,858 | - | - | - | - | - | 103,858 | 147,775 |
| Restricted | - | 3,191,472 | 119,924 | 145,294 | - | - | 3,456,690 | 3,075,855 |
| Unrestricted | (738,458) | (1,091,042) | 70,372 | 165,503 | 92,828 | - | (1,500,797) | (388,183) |
| Total net position | (634,600) | 2,100,430 | 190,296 | 310,797 | 92,828 | - | 2,059,751 | 2,835,447 |
| Total Liabilities, Deferred Inflows of Resources and Net Position | \$ 293,615 | \$ 6,965,887 | \$ 190,296 | \$ 310,797 | \$ 92,828 | \$ (502,540) | \$ 7,350,883 | \$ 8,514,196 |

See accompanying Independent Auditors' Report.

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

Combining Statements of Revenues, Expenses and Changes in Net Position
Year Ended September 30, 2019

(With comparative totals as of September 30, 2018)

| | Major Enterprise Funds | | | | | Eliminations | Total 2019 | Total 2018 |
|---|------------------------|---|--------------------------------|---|---------------------------------|--------------|---------------|---------------|
| | Operation Fund | Home Rehabilitation Loan Program | Low-Cost Housing Program | Emergency Housing Loan Revolving Program | Non-Major Enterprise Fund | | | |
| Operating revenues: | | | | | | | | |
| Interest on loans | \$ - | \$ 129,954 | \$ 3,660 | \$ 6,204 | \$ - | \$ - | \$ 139,818 | \$ 112,008 |
| Other | 8 | 2,462 | - | - | - | - | 2,470 | 2,082 |
| Total operating revenues | 8 | 132,416 | 3,660 | 6,204 | - | - | 142,288 | 114,090 |
| Net operating revenues | 8 | 132,416 | 3,660 | 6,204 | - | - | 142,288 | 114,090 |
| Operating expenses: | | | | | | | | |
| Interest expense on borrowing | - | 179,176 | - | - | - | - | 179,176 | 125,120 |
| Salaries and wages | 58,362 | 30,418 | - | - | - | - | 88,780 | 75,642 |
| Rent expense | 5,250 | 2,250 | - | - | - | - | 7,500 | 9,000 |
| Employee benefits | 11,153 | 8,898 | - | - | - | - | 20,051 | 21,557 |
| Repairs and maintenance | 1,851 | 2,573 | - | - | - | - | 4,424 | 4,890 |
| Travel | 4,687 | 11,582 | - | - | - | - | 16,269 | 9,252 |
| Office supplies | 4,814 | 1,815 | - | - | - | - | 6,629 | 4,743 |
| Communication | 2,730 | 1,632 | - | - | - | - | 4,362 | 3,794 |
| Utilities | 1,434 | 1,200 | - | - | - | - | 2,634 | 2,470 |
| Depreciation | 1,173 | 1,425 | - | - | 1,675 | - | 4,273 | 6,187 |
| Insurance | - | 2,555 | - | - | - | - | 2,555 | 1,064 |
| Professional fees | 150 | 2,970 | - | - | - | - | 3,120 | - |
| Miscellaneous | 6,412 | 30,337 | 477 | - | - | - | 37,226 | 4,485 |
| Total operating expenses | 98,016 | 276,831 | 477 | - | 1,675 | - | 376,999 | 268,204 |
| Operating income (loss) | (98,008) | (144,415) | 3,183 | 6,204 | (1,675) | - | (234,711) | (154,114) |
| Non-operating revenue (expense): | | | | | | | | |
| Republic of Palau appropriation | 70,000 | - | - | - | - | - | 70,000 | 70,000 |
| Interest income | 188 | 816 | 90 | 182 | 136 | - | 1,412 | 5,972 |
| Net (decrease) increase in fair value of investments | - | (276,646) | - | - | - | - | (276,646) | 260,534 |
| Other income | - | 6,412 | 343 | 3,687 | 4,944 | - | 15,386 | 6,872 |
| Total non-operating revenue | 70,188 | (269,418) | 433 | 3,869 | 5,080 | - | (189,848) | 343,378 |
| Change in net assets | (27,820) | (413,833) | 3,616 | 10,073 | 3,405 | - | (424,559) | 189,264 |
| Total net assets at beginning of year | (288,011) | 2,539,032 | 186,680 | 300,724 | 97,022 | - | 2,835,447 | 2,646,183 |
| Total net assets at end of year | \$ (315,831) | \$ 2,125,199 | \$ 190,296 | \$ 310,797 | \$ 100,427 | \$ - | \$ 2,410,888 | \$ 2,835,447 |

See accompanying Independent Auditors' Report.

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

INDEPENDENT AUDITORS' REPORT ON
INTERNAL CONTROL AND ON COMPLIANCE

Year Ended September 30, 2019



INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Directors
Palau Housing Authority:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Palau Housing Authority (the Authority), which comprise the statement of net position as of September 30, 2019, 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 January 22, 2021.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in black ink that reads "Bryan Comer Magliani". The signature is written in a cursive style with a large initial 'B'.

January 22, 2021

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

STATISTICAL SECTION

Year Ended September 30, 2019

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

NET POSITION
Last Ten Fiscal Years Ending September 30

| | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 Restated | 2013 | 2012 | 2011 | 2010 |
|----------------------------|--------------|--------------|--------------|--------------|--------------|------------------|--------------|--------------|--------------|--------------|
| Invested in capital assets | \$ 454,995 | \$ 147,775 | \$ 10,112 | \$ 11,787 | \$ 14,363 | \$ 15,663 | \$ 23,383 | \$ 10,558 | \$ 13,449 | \$ 23,552 |
| Restricted | 3,456,690 | 3,075,855 | 2,428,218 | 2,339,989 | 2,275,930 | 2,095,405 | 1,923,639 | 1,981,793 | 1,785,948 | 1,839,988 |
| Unrestricted | (1,500,797) | (388,183) | 207,853 | 269,893 | 325,003 | 450,009 | 921,999 | 840,204 | 1,004,620 | 944,339 |
| Total Net Position | \$ 2,410,888 | \$ 2,835,447 | \$ 2,646,183 | \$ 2,621,669 | \$ 2,615,296 | \$ 2,561,077 | \$ 2,869,021 | \$ 2,832,555 | \$ 2,804,017 | \$ 2,807,879 |

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

See Independent Auditors' Report.

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

CHANGES IN NET POSITION
Last Ten Fiscal Years Ending September 30

| | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 Restated | 2013 | 2012 | 2011 | 2010 |
|--|--------------|------------|-----------|-----------|-----------|------------------|-----------|-----------|------------|-----------|
| Operating revenues | | | | | | | | | | |
| Republic of Palau appropriation | \$ 70,000 | \$ 70,000 | \$ 70,000 | \$ 70,000 | \$ 70,000 | \$ 70,000 | \$ 59,000 | \$ 58,990 | \$ 64,000 | \$ 60,000 |
| Interest on loans | 139,818 | 112,008 | 93,606 | 88,863 | 80,844 | 77,172 | 76,509 | 82,507 | 76,955 | 88,600 |
| Other operating revenues | 2,470 | 2,082 | 12,563 | 11,832 | 20,764 | 8,067 | 18,418 | 7,796 | 4,549 | 15,605 |
| Section 8 income | - | - | - | - | - | - | - | - | 6,000 | 13,550 |
| National treasury income | - | - | - | - | - | - | - | - | 9,000 | 9,000 |
| Provision for loan losses | - | - | - | - | - | - | - | - | - | (17,052) |
| Total operating revenues, net | 212,288 | 184,090 | 176,169 | 170,695 | 171,608 | 155,239 | 153,927 | 149,293 | 160,504 | 169,703 |
| Operating expenses | | | | | | | | | | |
| Salaries and wages | 88,780 | 75,642 | 77,970 | 75,456 | 70,468 | 71,692 | 65,335 | 60,600 | 64,422 | 65,458 |
| Interest expense | 179,176 | 125,120 | 105,918 | - | - | - | - | - | - | - |
| Rent expense | 7,500 | 9,000 | 9,000 | 12,681 | 12,975 | 12,975 | 10,894 | 10,200 | 10,480 | 11,320 |
| Employee benefits | 20,051 | 21,557 | 34,728 | 12,262 | 6,723 | 23,425 | 9,155 | 7,587 | 8,248 | 6,693 |
| Depreciation | 4,273 | 6,187 | 4,329 | 2,576 | 2,865 | 7,109 | 8,290 | 2,891 | 10,103 | 14,549 |
| Travel | 16,269 | 9,252 | 8,524 | 5,481 | 3,697 | 4,827 | 3,557 | 4,402 | 3,412 | 2,848 |
| Communication | 4,362 | 3,794 | 4,057 | 4,836 | 5,314 | 4,664 | 4,658 | 4,600 | 3,667 | 2,722 |
| Professional fees | 3,120 | - | 390 | - | 1,650 | 1,900 | 4,000 | 10,500 | 10,525 | 12,000 |
| Repairs and maintenance | 4,424 | 4,890 | 154,326 | 5,640 | 1,458 | 1,573 | 1,007 | 2,844 | 3,460 | 2,710 |
| Labor and materials | - | - | - | 29,814 | - | - | - | - | 18,787 | - |
| Provision for bad debts | - | - | - | - | - | - | - | 8,551 | 22,631 | - |
| Other operating expenses | 49,044 | 12,762 | 18,103 | 18,081 | 13,070 | 15,950 | 14,766 | 9,553 | 9,469 | 9,105 |
| Total operating expenses | 376,999 | 268,204 | 417,345 | 166,827 | 118,220 | 144,115 | 121,662 | 121,728 | 165,204 | 127,405 |
| Operating income (loss) | (164,711) | (84,114) | (241,176) | 3,868 | 53,388 | 11,124 | 32,265 | 27,565 | (4,700) | 42,298 |
| Nonoperating revenues (expenses) | | | | | | | | | | |
| Investment income earned | 1,412 | 5,972 | 5,429 | 855 | 831 | 1,174 | 1,201 | 973 | 838 | 940 |
| Net change in fair value of investments | (276,646) | 260,534 | 259,896 | - | - | - | - | - | - | - |
| Other income (expense) | 15,386 | 6,872 | 365 | 1,650 | - | (367) | 3,000 | - | - | (43,041) |
| Total non-operating revenues, net | (259,848) | 273,378 | 265,690 | 2,505 | 831 | 807 | 4,201 | 973 | 838 | (42,101) |
| Change in net position | \$ (424,559) | \$ 189,264 | \$ 24,514 | \$ 6,373 | \$ 54,219 | \$ 11,931 | \$ 36,466 | \$ 28,538 | \$ (3,862) | \$ 197 |

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

See Independent Auditors' Report.

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

REVENUES BY SOURCE
Last Ten Fiscal Years Ending September 30

| Function | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 |
|--------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| ROP Appropriations | \$ 70,000 | \$ 70,000 | \$ 70,000 | \$ 70,000 | \$ 70,000 | \$ 59,000 | \$ 58,990 | \$ 64,000 | \$ 88,600 | \$ 66,645 |
| Interest on loans | 139,818 | 112,008 | 93,606 | 80,844 | 77,172 | 76,509 | 82,507 | 76,955 | 60,000 | 74,975 |
| Section 8 income | - | - | - | - | - | - | - | 6,000 | 13,550 | 16,200 |
| National treasury income | - | - | - | - | - | - | - | 9,000 | 9,000 | 9,000 |
| Other operating revenues | 2,470 | 2,082 | 12,563 | 20,764 | 8,067 | 18,418 | 7,796 | 4,549 | 15,605 | 11,856 |
| Total Revenues | \$ 212,288 | \$ 184,090 | \$ 176,169 | \$ 171,608 | \$ 155,239 | \$ 153,927 | \$ 149,293 | \$ 160,504 | \$ 186,755 | \$ 178,676 |

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

See Independent Auditors' Report.

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

SCHEDULE OF EXPENSES

Last Ten Fiscal Years Ending September 30

| Function | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 |
|--------------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Salaries and wages | 88,780 | 75,642 | \$ 77,970 | \$ 75,456 | \$ 70,468 | \$ 71,692 | \$ 65,335 | \$ 60,600 | \$ 64,422 | \$ 65,458 |
| Interest expense | 179,176 | 125,120 | 105,918 | - | - | - | - | - | - | - |
| Rent expense | 7,500 | 9,000 | 9,000 | 12,681 | 12,975 | 12,975 | 10,894 | 10,200 | 10,480 | 11,320 |
| Employee benefits | 20,051 | 21,557 | 34,728 | 12,262 | 6,723 | 23,425 | 9,155 | 7,587 | 8,248 | 6,693 |
| Depreciation | 4,273 | 6,187 | 4,329 | 2,576 | 2,865 | 7,109 | 8,290 | 2,891 | 10,103 | 14,549 |
| Travel | 16,269 | 9,252 | 8,524 | 5,481 | 3,697 | 4,827 | 3,557 | 4,402 | 3,412 | 2,848 |
| Communication | 4,362 | 3,794 | 4,097 | 4,836 | 5,314 | 4,664 | 4,658 | 4,600 | 3,667 | 2,722 |
| Professional fees | 3,120 | - | 390 | - | 1,650 | 1,900 | 4,000 | 10,500 | 10,525 | 12,000 |
| Repairs and maintenance | 4,424 | 4,890 | 154,326 | 5,640 | 1,458 | 1,573 | 1,007 | 2,844 | 3,460 | 2,710 |
| Provision for bad debts | - | - | - | - | - | - | - | 8,551 | 22,631 | - |
| Labor and materials | - | - | - | 29,814 | - | - | - | - | 18,787 | - |
| Other operating expenses | 49,044 | 12,762 | 18,063 | 18,081 | 13,070 | 15,950 | 14,766 | 9,553 | 9,469 | 9,105 |
| Total Expenses | \$ 376,999 | \$ 268,204 | \$ 417,345 | \$ 166,827 | \$ 118,220 | \$ 144,115 | \$ 121,662 | \$ 121,728 | \$ 165,204 | \$ 127,405 |

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

See Independent Auditors' Report.