

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

**INDEPENDENT AUDITORS' REPORT
AND
FINANCIAL STATEMENTS**

Years Ended September 30, 2021 and 2020

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

TABLE OF CONTENTS
SEPTEMBER 30, 2021

<u>Item</u>	<u>Page No.</u>
I. FINANCIAL SECTION	
Independent Auditors' Report on Financial Statements	1
Management's Discussion and Analysis	4
Financial Statements:	
Statements of Net Position	17
Statements of Revenues, Expenses and Changes in Net Position	18
Statements of Cash Flows	19
Notes to Financial Statements	20
Required Supplementary Information:	
Schedule of Proportional Share of the Net Pension Liability	53
Schedule of Pension Contributions	54
Other Supplementary Information:	
Schedule of Investments	55
Combining Statements of Net Position	56
Combining Statements of Revenues, Expenses and Changes in Net Position	57
II. STATISTICAL SECTION	
Net Position	58
Changes in Net Position	59
Revenues by Source	60
Schedule of Expenses	61



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INDEPENDENT AUDITORS' REPORT

Board of Directors
Palau Housing Authority:

Report on the Financial Statements

We have audited the accompanying financial statements of net position of Palau Housing Authority (the Authority), a component unit of the Republic of Palau, as of September 30, 2021 and 2020, and 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, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

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.

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, 2021 and 2020, 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.

Emphasis of a Matter

As discussed in Note 13 to the financial statements, the Authority's operations have been affected by the recent and ongoing outbreak of the coronavirus disease. As a result of the spread of the COVID-19 coronavirus, governments worldwide implemented actions to restrict travel and economic activities. The ultimate disruption which may be caused by the outbreak is uncertain, therefore, the actual impact on the Authority's business, results of operations, and financial position for the year 2022 and beyond is currently not determinable. Our conclusion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (MD&A) on pages 4 through 16, the Schedule of Proportional Share of the Net Pension Liability on page 53, and the Schedule of Pension Contributions on page 54 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. This supplementary information is the responsibility of the Authority's management. 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 Supplementary 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 56 and 57 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, 2021 on page 55 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 August 30, 2024 on our consideration of the 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 on internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.



Koror, Republic of Palau
August 30, 2024

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

Management's Discussion and Analysis
September 30, 2021

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, 2021. 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 52.

Financial Highlights

- The assets of the Authority exceeded its liabilities at September 30, 2021 and 2020 by \$8,039,258 and \$5,326,767, respectively. The Authority's net position (assets less liabilities) increased by \$2,755,871 over the previous year. The increase in net assets is a result of capital contributions from the Republic of Palau for the Housing Development Loan Program (HDLP) approximating \$2.7 million.
- The Authority's cash and cash equivalents at September 30, 2021 and 2020 was \$3,261,866 and \$2,984,048, respectively, representing an increase of \$277,818 which was primarily from HDLP subsidies received.
- The Authority had operating revenues and annual appropriations of \$316,413 and \$303,245 and operating expenses of \$395,428 and \$375,719 for the years ended September 30, 2021 and 2020, respectively. Operating expenses remained relatively the same with a nominal increase of \$19,709 or 5.2% while interest income from loans increased by \$14,428 or approximately 9.6% over the prior year.

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, 2020, 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, 2021

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 17 through 52 of this report.

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

Management's Discussion and Analysis
September 30, 2021

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 2021 is the nineteenth 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, 2021

Authority-Wide Financial Analysis, Continued

**Statements of Net Position
September 30, 2021, 2020, 2019**

	2021	2020	2019
Assets and Deferred Outflows of Resources			
Current assets:			
Cash and cash equivalents	\$ 3,261,866	\$ 2,984,048	\$ 867,624
Investments	<u>3,282,377</u>	<u>2,888,992</u>	<u>3,243,784</u>
	<u>6,544,243</u>	<u>5,873,040</u>	<u>4,111,408</u>
Notes receivable, current portion	359,227	343,141	222,705
Allowance for doubtful accounts	<u>(109,755)</u>	<u>(109,806)</u>	<u>(110,546)</u>
	<u>249,472</u>	<u>233,335</u>	<u>112,159</u>
Other receivables	<u>262,207</u>	<u>81,069</u>	<u>18,916</u>
Total current assets	<u>7,055,922</u>	<u>6,187,444</u>	<u>4,242,483</u>
Notes receivable, net of current portion	5,298,453	3,696,124	2,950,826
Capital assets, net	<u>496,587</u>	<u>466,767</u>	<u>454,995</u>
Total assets	<u>12,850,962</u>	<u>10,350,335</u>	<u>7,648,304</u>
Deferred outflows of resources related to pension	<u>174,083</u>	<u>153,965</u>	<u>53,716</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 13,025,045</u>	<u>\$ 10,504,300</u>	<u>\$ 7,702,020</u>

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

Management's Discussion and Analysis
September 30, 2021

Authority-Wide Financial Analysis, Continued

**Statements of Net Position
September 30, 2021, 2020, 2019**

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Liabilities, Deferred Inflows of Resources and Net Position			
Current Liabilities:			
Current portion of long-term debt	\$ 285,714	\$ 284,714	\$ 142,857
Accrued expenses	<u>12,374</u>	<u>10,188</u>	<u>16,282</u>
Total current liabilities	<u>298,088</u>	<u>294,902</u>	<u>159,139</u>
Notes payable	4,000,001	4,285,715	4,714,286
Net pension liability	<u>513,615</u>	<u>441,951</u>	<u>313,849</u>
Total liabilities	4,811,704	5,022,568	5,187,274
Deferred inflows of resources related to pension	<u>76,067</u>	<u>99,329</u>	<u>103,858</u>
Total liabilities and deferred inflows of resources	<u>4,887,771</u>	<u>5,121,897</u>	<u>5,291,132</u>
Net Position			
Invested in capital assets	496,587	466,767	454,995
Restricted	5,657,680	4,039,265	3,456,690
Unrestricted	<u>1,983,007</u>	<u>875,371</u>	<u>(1,500,797)</u>
Total net position	<u>8,137,274</u>	<u>5,381,403</u>	<u>2,410,888</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 13,025,045</u>	<u>\$ 10,503,300</u>	<u>\$ 7,702,020</u>

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
(A Component Unit of the Republic of Palau)

Management's Discussion and Analysis
September 30, 2021

Authority-Wide Financial Analysis, Continued

Total assets and deferred outflows of resources from pension approximated \$13 million at September 30, 2021. This balance as compared to September 30, 2020 reflects an increase approximating \$2.5 million associated with and net increase of \$393,385 or 13.6% in fair value of investments.

During the fiscal year ending September 30, 2021, the Authority approved fifty-eight (58) loans totaling \$2.1 million 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 \$8,039,258 as of September 30, 2021.

**Operating Revenues and Appropriations for the Years Ended
September 30, 2021, 2020 and 2019**

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Operating revenues and appropriations:			
Republic of Palau appropriations	\$ 150,000	\$ 150,000	\$ 70,000
Interest on loans	164,148	149,720	139,818
Other	<u>2,265</u>	<u>3,525</u>	<u>2,470</u>
 Total operating revenues	 <u>\$ 316,413</u>	 <u>\$ 303,245</u>	 <u>\$ 212,288</u>

The above Schedule indicates total revenues and operating appropriations realized by the Authority in FY 2021 totaling \$316,413 or a 3.4% over the prior year. The OEK contributed \$150,000 for operations during FY 2021. 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.

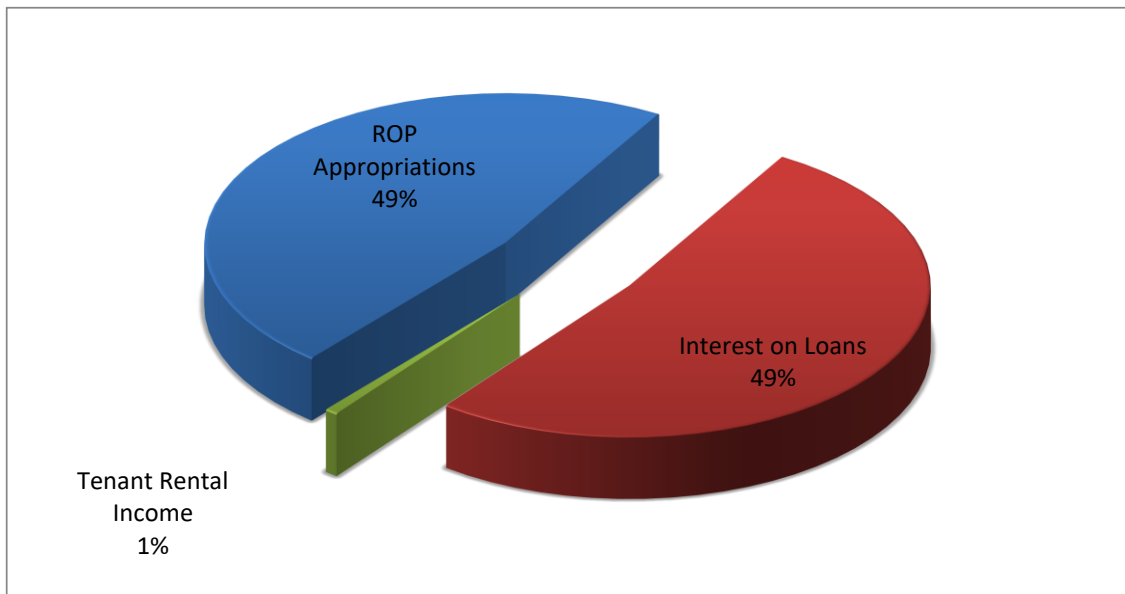
PALAU HOUSING AUTHORITY
(A Component Unit of the Republic of Palau)

Management's Discussion and Analysis
September 30, 2021

Authority-Wide Financial Analysis, Continued

The following chart exhibits the breakdown of revenues and appropriations for Palau Housing Authority in FY 2021.

Operating Revenues Breakdown



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

Management's Discussion and Analysis
September 30, 2021

Authority-Wide Financial Analysis, Continued

**Operating Expenses for the Years Ended
September 30, 2021, 2020 and 2019**

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Operating expenses:			
Salaries and wages	\$ 143,620	\$ 92,539	\$ 88,780
Interest expense	105,923	160,728	179,176
Bad debts	37,122	-	-
Repairs and maintenance	21,754	7,541	4,424
Depreciation	16,993	28,101	4,273
Employee benefits	15,784	39,200	20,051
Travel	9,098	9,011	16,269
Insurance	5,464	1,109	2,555
Communication	4,124	4,438	4,362
Utilities	2,544	3,799	2,634
Professional fees	1,209	3,923	3,120
Rent expense	-	-	7,500
Miscellaneous	31,793	25,330	43,855
Total operating expenses	<u>\$ 395,428</u>	<u>\$ 375,719</u>	<u>\$ 376,999</u>

The above schedule shows total operating expenses of \$395,428 in FY 2021.

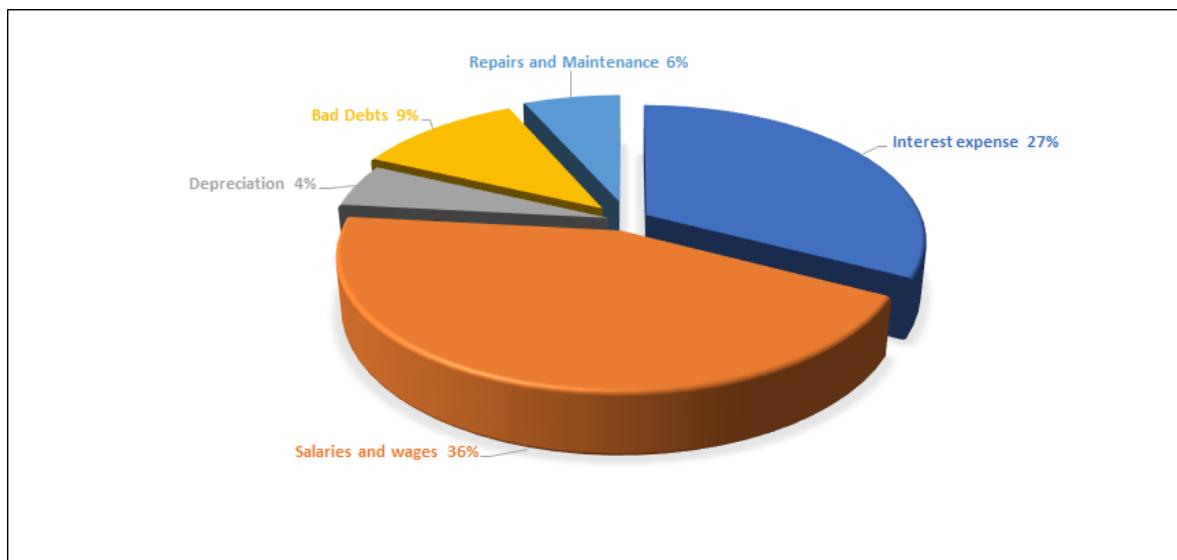
The Authority's operating expenses reflects a nominal increase of \$19,709 in FY 2021. However, it is worth noting that interest expense on borrowings decreased \$54,805; employee salaries and benefits increased by approximately \$51,081 or 55.2% primarily as a result of pension costs and salary adjustments. Depreciation expense of \$16,993 is a result of the new office building depreciated for the entire year of fiscal year 2021.

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

Management's Discussion and Analysis
September 30, 2021

Authority-Wide Financial Analysis, Continued

Expense Breakdown
For Year Ended September 30, 2021



The two largest expenditures in FY 2021 were for interest expense and employee salaries and wages totaling \$105,923 and \$143,620, respectively. It is worth noting that the Authority incurred bad debts totaling \$37,122 during FY 2021. Expenses representing less than 2% were not presented in the above table. For comparison purposes, the FY 2020 interest expense totaled \$160,728 and salaries and wages totaled \$92,539.

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

Management's Discussion and Analysis
September 30, 2021

Authority-Wide Financial Analysis, Continued

CAPITAL ASSETS

As of September 30, 2021, 2020 and 2019, the Authority's investment in capital assets (net of accumulated depreciation) for its business-type activities is as reflected in the following schedule:

	2021	2020	2019
Building	\$ 492,047	\$ 480,175	\$ 440,302
Furniture, fixtures, and equipment	34,699	21,240	21,240
Vehicles	84,444	62,962	62,962
	611,190	564,377	524,504
Accumulated depreciation	(114,603)	(97,610)	(69,509)
	<u>\$ 496,587</u>	<u>\$ 466,767</u>	<u>\$ 454,995</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, 2021, 2020 and 2019, the Authority's fund balance is as reflected in the following schedule:

	2021	2020	2019
Net investment in capital assets	\$ 496,587	\$ 466,767	\$ 454,995
Restricted	5,657,680	4,039,265	3,456,690
Unrestricted	1,983,007	875,371	(1,500,797)
Total net position	<u>\$ 8,137,274</u>	<u>\$ 5,381,403</u>	<u>\$ 2,410,888</u>

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

Management's Discussion and Analysis
September 30, 2021

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	(Unfavorable)
	Original	Final	Amounts	Variance
Operating revenues	\$ -	\$ -	\$ 166,413	\$ 166,413
Operating expenses	<u>(184,000)</u>	<u>(184,000)</u>	<u>(395,428)</u>	<u>(211,428)</u>
Operating loss	(184,000)	(184,000)	(229,015)	(45,015)
Investment income earned	-	-	393,385	393,385
ROP appropriations	-	-	150,000	150,000
Other income, net and contributions	<u>-</u>	<u>-</u>	<u>2,441,501</u>	<u>2,441,501</u>
Change in net assets	<u>\$ (184,000)</u>	<u>\$ (184,000)</u>	<u>\$ 2,755,871</u>	<u>\$ 2,939,871</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
(A Component Unit of the Republic of Palau)

Management's Discussion and Analysis
September 30, 2021

2021 ECONOMIC OUTLOOK

The construction and housing sector in the Republic of Palau is expected to see a moderate recovery in Fiscal Year 2021 after the economic downturn in 2020 due to the COVID-19 pandemic. The government's renewed focus on infrastructure development and public works projects is anticipated to drive growth in the construction industry. Residential housing construction is also projected to increase as consumer confidence and disposable incomes improve. However, the pace of recovery will likely be gradual, constrained by continued uncertainty around the pandemic's trajectory and its impact on tourism, a key driver of Palau's economy. Material shortages and supply chain disruptions may also pose challenges for construction activity. Overall, the economic outlook for the construction and housing sector in Palau is cautiously optimistic, with growth expected to be positive but moderate compared to pre-pandemic levels.

The Palau Housing Authority continued to show strong performance carried forward from previous year due to the availability of loan funding from Mega International Commercial Bank Co., Ltd Loan and the Housing Development Loan Program. The total loans approved in 2021 were 58 loans at \$2,129,990.63 compared to 50 loans at \$2,489,948 in 2020. The continuous increase is derived from the Mega International Commercial Bank Co., Ltd loan and the Housing Development Loan Program. PHA received funds from Mega International Commercial Bank Co., Ltd, however the loan imposes a financial burden due to its repayment terms, which include the LIBOR rate plus 1. Additionally, PHA received funds through the Housing Development Loan Program under RPPL 10-39, which offers interest rates of 1% and 3%. These factors create challenges for PHA in fulfilling its financial commitments and poses a potential threat to its overall financial stability in the upcoming years.

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 will impact PHA's long-term sustainability.

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

Management's Discussion and Analysis
September 30, 2021

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 Melekeok, 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, 2021 and 2020

<u>ASSETS AND</u> <u>DEFERRED OUTFLOWS OF RESOURCES</u>	2021	2020
Current assets:		
Cash and cash equivalents	\$ 3,261,866	\$ 2,984,048
Investments	3,282,377	2,888,992
Receivables, net:		
Notes receivable - current	359,227	343,141
Accounts receivable	43,157	66,537
Interest receivable	9,589	9,589
Other receivables	209,461	4,943
Due from other funds	-	-
	<u>621,434</u>	<u>424,210</u>
Less allowance for doubtful accounts	(109,755)	(109,806)
Total receivables, net	<u>511,679</u>	<u>314,404</u>
Total current assets	<u>7,055,922</u>	<u>6,187,444</u>
Noncurrent assets:		
Notes receivable, net of current portion	5,298,453	3,696,124
Capital assets, net	<u>496,587</u>	<u>466,767</u>
Total noncurrent assets	<u>5,795,040</u>	<u>4,162,891</u>
Total assets	12,850,962	10,350,335
Deferred outflows of resources from pension	<u>174,083</u>	<u>153,965</u>
Total assets and deferred outflows of resources	<u>\$ 13,025,045</u>	<u>\$ 10,504,300</u>
 <u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES</u> <u>AND NET POSITION</u>		
Current liabilities:		
Current portion of note payable	\$ 285,714	\$ 285,714
Accounts payable and accrued expenses	12,374	10,188
Due to other funds	-	-
Total current liabilities	<u>298,088</u>	<u>295,902</u>
Noncurrent liabilities:		
Note payable, net of current portion	4,000,001	4,285,715
Net pension liability	<u>513,615</u>	<u>441,951</u>
Total noncurrent liabilities	<u>4,513,616</u>	<u>4,727,666</u>
Total liabilities	<u>4,811,704</u>	<u>5,023,568</u>
Deferred inflows of resources from pension	<u>76,067</u>	<u>99,329</u>
Net position:		
Invested in capital assets	496,587	466,767
Restricted	5,657,680	4,039,265
Unrestricted	<u>1,983,007</u>	<u>875,371</u>
Total net position	<u>8,137,274</u>	<u>5,381,403</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 13,025,045</u>	<u>\$ 10,504,300</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, 2021 and 2020

	2021	2020
Operating revenues:		
Interest on loans	\$ 164,148	\$ 149,720
Other	2,265	3,525
Total operating revenues	<u>166,413</u>	<u>153,245</u>
Operating expenses:		
Salaries	143,620	92,539
Interest on borrowing	105,923	160,728
Bad debts	37,122	-
Repairs and maintenance	21,754	7,541
Depreciation	16,993	28,101
Office supplies	16,021	20,013
Employee benefits	15,784	39,200
Travel	9,098	9,011
Insurance	5,464	1,109
Communications	4,124	4,438
Utilities	2,544	3,799
Advertising	1,515	2,408
Professional services	1,209	3,923
Miscellaneous	14,257	2,909
Total operating expenses	<u>395,428</u>	<u>375,719</u>
Operating loss	<u>(229,015)</u>	<u>(222,474)</u>
Nonoperating revenues (expenses), net:		
Republic of Palau Appropriations	150,000	150,000
Unrealized gain (loss) on investments	393,385	(145,209)
Interest income	19,384	428
Other income (expense)	291,744	467,511
Total nonoperating revenues (expenses), net	<u>854,513</u>	<u>472,730</u>
Capital Contribution:		
Capital contributions from Republic of Palau	<u>2,130,373</u>	<u>2,720,259</u>
Change in net position	2,755,871	2,970,515
Net position at beginning of year	<u>5,381,403</u>	<u>2,410,888</u>
Net position at end of year	<u>\$ 8,137,274</u>	<u>\$ 5,381,403</u>

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, 2021 and 2020

	2021	2020
Cash flows from operating activities:		
Receipts from customers, net	\$ 189,793	\$ 157,472
Cash payments to suppliers for goods and services	(89,584)	(231,755)
Cash payments to employees	<u>(143,620)</u>	<u>(108,415)</u>
Net cash used in operating activities	<u>(43,411)</u>	<u>(182,698)</u>
Cash flows from capital and related financing activities:		
Appropriations	<u>150,000</u>	<u>150,000</u>
Net cash provided by noncapital financing activities	<u>150,000</u>	<u>150,000</u>
Cash flows from capital and related financing activities:		
Capital assets acquisitions	(39,626)	(39,873)
Principal payments on note payable	(285,714)	(285,714)
Interest paid on long-term debt	<u>(105,923)</u>	<u>(160,728)</u>
Net cash used in capital and related financing activities	<u>(431,263)</u>	<u>(486,315)</u>
Cash flows from investing activities:		
Loan originations, net	(1,995,208)	(424,684)
Interest received on interest bearing accounts	19,384	428
Unrealized gain (loss) on investments	393,385	(220,525)
Proceeds from sale of investment securities	300,000	660,728
Other income (expense)	<u>291,744</u>	<u>(100,769)</u>
Net cash provided by (used in) investing activities	<u>(1,527,881)</u>	<u>(84,822)</u>
Cash flows from noncapital financing activities:		
Capital contributions from the Republic of Palau	<u>2,130,373</u>	<u>2,720,259</u>
Net cash provided by noncapital financing activities	<u>2,130,373</u>	<u>2,720,259</u>
Net change in cash	277,818	2,116,424
Cash at beginning of year	<u>2,984,048</u>	<u>867,624</u>
Cash at end of year	<u>\$ 3,261,866</u>	<u>\$ 2,984,048</u>
Reconciliation of operating loss to net cash provided by (used in) operating activities:		
Operating loss	\$ (229,015)	\$ (222,474)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	16,993	28,101
Noncash pension costs	28,284	23,324
Bad debts	37,122	-
(Increase) decrease in assets:		
Accounts receivable	23,380	(66,380)
Other receivables	(204,518)	-
Notes receivables	(1,329,690)	(865,734)
Interest receivable	-	4,227
Due from other funds	1,611,847	910,144
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	2,186	6,094
Due to other funds	<u>-</u>	<u>-</u>
Net cash provided by (used in) operating activities	<u>\$ (43,411)</u>	<u>\$ (182,698)</u>

See accompanying notes to financial statements.

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

Notes to Combined Financial Statements
September 30, 2021 and 2020

(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, 2021 and 2020

(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 \$60,000, with repayment terms ranging from 3-to 30 years at an interest rate of 1% per annum.

Housing Development Loan Program

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, 2021 and 2020

(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, 2021:

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, 2021 and 2020

(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, 2021 and 2020

(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.

New Accounting Standards

In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and as inflows of resources or outflows of resources recognized based on the payment provisions of the contract. The adoption of GASB Statement No. 87 did not have an effect on beginning net position.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. Pursuant to GASB Statement No. 95, GASB Statement No. 89 will be effective for the year ended September 30, 2022. 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, 2021 and 2020

(1) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method for reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. GASB Statement No. 91 will be effective for fiscal year ending September 30, 2023.

In January 2020, GASB issued Statement No. 92, *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the effective date of Statement No. 87, Leases, and Implementation Guide No. 2019-3, Leases, for interim financial reports, the terminology used to refer to derivative instruments and the applicability of certain requirements of Statement No. 84, Fiduciary Activities, to postemployment benefits.

In April 2020, GASB is issued Statement No. 93, *Replacement of Interbank Offered Rates (IBOR)*. The primary objective of this Statement is to address those and other accounting and financial reporting implications of the replacement of IBOR. Pursuant to GASB Statement No. 95, GASB Statement No. 93 will be effective for the year ended September 30, 2022. Management does not believe that the implementation of this Statement will have a material effect on the Authority's financial statements.

In March 2020, GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction.

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

Notes to Combined Financial Statements
September 30, 2021 and 2020

(1) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

Some PPPs meet the definition of a service concession arrangement (SCA), which the Board defines in this Statement as a PPP in which (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement. GASB Statement No. 94 will be effective for fiscal year ending September 30, 2023.

In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended. GASB Statement No. 96 will be effective for fiscal year ending September 30, 2023.

In June 2020, GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans - an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans.

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

Notes to Combined Financial Statements
September 30, 2021 and 2020

(1) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In October 2021, GASB issued Statement No. 98, The Annual Comprehensive Financial Report. This Statement establishes the term annual comprehensive financial report and its acronym ACFR. That new term and acronym replace instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments.

The adoption of these GASB Statements did not have a material effect on the financial statements.

Upcoming Accounting Pronouncements

In April 2022, GASB issued Statement No. 99, *Omnibus 2022*. The requirements of this Statement will enhance comparability in the application of accounting and financial reporting requirements and will improve the consistency of authoritative literature. Consistent authoritative literature enables governments and other stakeholders to locate and apply the correct accounting and financial reporting provisions, which improves the consistency with which such provisions are applied more easily. The comparability of financial statements also will improve as a result of this Statement. Better consistency and comparability improve the usefulness of information for users of local government financial statements. GASB Statement No. 99 will be effective for fiscal year ending September 30, 2023.

In June 2022, GASB issues Statement No. 100, *Accounting Changes and Error Corrections – An Amendment of GASB Statement No. 62*. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent and comparable information for making decisions or assessing accountability. The requirements of this Statement will improve the clarity of the accounting and financial reporting requirements for accounting changes and error corrections, which will result in greater consistency in application in practice. In turn, more understandable, reliable, relevant, consistent, and comparable information will be provided to financial statement users for making decisions or assessing accountability. In addition, the display and note disclosure requirements will result in more consistent, decision useful, understandable, and comprehensive information for users about accounting changes and error corrections. GASB Statement No. 100 will be effective for fiscal year ending September 30, 2024.

In June 2022, GASB issued Statement No. 101, *Compensated Absences*. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The unified recognition and measurement model in this Statement will result in a liability for compensated absences that more appropriately reflects when a government incurs an obligation.

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

Notes to Combined Financial Statements
September 30, 2021 and 2020

(1) Summary of Significant Accounting Policies, Continued

Upcoming Accounting Pronouncements, Continued

In addition, the model can be applied consistently to any type of compensated absence and will eliminate potential comparability issues between governments that offer different types of leave. The model also will result in a more robust estimate of the amount of compensated absences that a government will pay or settle, which will enhance the relevance and reliability of information about the liability for compensated absences. This Statement will be effective for fiscal years ending September 30, 2025.

The Authority is currently evaluating the effects the above upcoming accounting pronouncements might have on its financial statements.

Budgets

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

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

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

Management's Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

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

Notes to Combined Financial Statements
September 30, 2021 and 2020

(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, 2021 and 2020, 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 \$2,790,053 and \$1,267,485 as of September 30, 2021 and 2020, 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 amounts 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, 2021 and 2020

(1) Summary of Significant Accounting Policies, Continued

Investments, Continued

As of September 30, 2021 and 2020, the following fixed income securities and exchange-traded and closed-end funds constituted more than 5% of the Authority's total investments:

	<u>2021</u>	<u>2020</u>
Exchange-traded and Closed-in Funds:		
Equities:		
Ishares TR Core S&P 500 ETF	36%	38%
Ishares TR Core US AGGBD	16%	11%
Ishares Inc Core MSCI	20%	0%
Ishares TR RUS MID CAP 500 ETF	6%	6%
Ishares Inc Core MSCI EMKT	7%	7%
Ishares TR Core MSCI EAFE	0%	10%
Ishares TR SH TR CRPORT	0%	9%
DBX ETF Trust X-Trackers MSC	0%	7%

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, 2021 and 2020

(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, 2021 and 2020

(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, 2021 and 2020.

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, 2021 and 2020

(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, 2021 and 2020 are as follows:

Investment Type	Fair Value	
	2021	2020
Cash and money market funds	\$ 12,368	\$ 23,603
Equities	2,471,623	2,194,073
Fixed income	798,386	671,316
	<u>\$ 3,282,377</u>	<u>\$ 2,888,992</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, 2021 and 2020

(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:

Investments by fair value level	2021	Fair Value Measurement Using		
		Level 1	Level 2	Level 3
Exchange traded funds and closed-end funds				
Equities	\$ 3,270,009	\$ 3,270,009	\$ -	\$ -
Total investments by fair value level	<u>\$ 3,270,009</u>	<u>\$ 3,270,009</u>	<u>\$ -</u>	<u>\$ -</u>

Investments measured at cost based measure:

 Cash and cash equivalents \$ 12,368

Investments by fair value level	2020	Fair Value Measurement Using		
		Level 1	Level 2	Level 3
Exchange traded funds and closed-end funds				
Equities	\$ 2,865,389	\$ 2,865,389	\$ -	\$ -
Total investments by fair value level	<u>\$ 2,865,389</u>	<u>\$ 2,865,389</u>	<u>\$ -</u>	<u>\$ -</u>

Investments measured at cost based measure:

 Cash and cash equivalents \$ 23,603

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, 2021 and 2020.

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

Notes to Combined Financial Statements
September 30, 2021 and 2020

(1) Summary of Significant Accounting Policies, Continued

Fair Value Measurement of the Investments, Continued

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, 2021 and 2020, 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, 2021 and 2020, the Authority did not have any investments in debt securities.

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.

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

Notes to Combined Financial Statements
September 30, 2021 and 2020

(1) Summary of Significant Accounting Policies, Continued

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.

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, 2021 and 2020, compensated absences payable to employees was \$4,785 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, 2021 and 2020, 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.

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

Notes to Combined Financial Statements
September 30, 2021 and 2020

(1) Summary of Significant Accounting Policies, Continued

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, 2021 and 2020, 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.

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, 2021 and 2020, 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*.

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

Notes to Combined Financial Statements
September 30, 2021 and 2020

(1) Summary of Significant Accounting Policies, Continued

Advertising

For the fiscal years ending September 30, 2021 and 2020, the Authority incurred advertising costs totaling \$1,515 and \$2,408, respectively. These costs primarily relate to construction bids and related procurement solicitation costs.

(2) Cash and cash equivalents

Cash and cash equivalents at September 30, 2021 and 2020 consist of the following:

	2021	2020
Cash	\$ 3,248,038	\$ 2,670,222
Time certificates of deposit	13,828	313,826
	<u>\$ 3,261,866</u>	<u>\$ 2,984,048</u>

(3) Notes Receivable

A summary of notes receivable at September 30, 2021 and 2020 consists of the following:

	2021	2020
Home Rehabilitation loans	\$ 3,504,130	\$ 3,502,385
Housing Development Loan Program	1,910,764	279,244
Emergency Loan Revolving Fund loans	84,523	121,243
Low-Cost Housing Loans	136,451	114,581
Section 8 Housing	21,812	21,812
	5,657,680	4,039,265
Current portion	<u>(359,227)</u>	<u>(343,141)</u>
Long-term notes receivable, net of current portion	<u>\$ 5,298,453</u>	<u>\$ 3,696,124</u>

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

	2021	2020
Balance at beginning of year	\$ 109,806	\$ 110,546
Additions to provisions for loan loss	37,071	-
Loan charged-off	(37,122)	-
Recoveries of loans charged-off	-	(740)
	<u>\$ 109,755</u>	<u>\$ 109,806</u>

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

Notes to Combined Financial Statements
September 30, 2021 and 2020

(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, 2021 and 2020 is shown below:

	Balance 10/01/2020	Additions	Transfers/ Disposals	Balance 09/30/2021
Building	\$ 480,175	\$ 11,872	\$ -	\$ 492,047
Furniture, fixtures and equipment	21,240	13,459	-	34,699
Vehicles	62,962	14,295	7,187	84,444
	564,377	39,626	7,187	611,190
Accumulated depreciation	(97,610)	(16,993)	-	(114,603)
Net depreciable assets	466,767	22,633	7,187	496,587
Construction in-progress	-	-	-	-
Net capital assets	<u>\$ 466,767</u>	<u>\$ 22,633</u>	<u>\$ 7,187</u>	<u>\$ 496,587</u>

	Balance 10/01/2019	Additions	Transfers/ Disposals	Balance 09/30/2020
Building	\$ 440,302	\$ 39,873	\$ -	\$ 480,175
Furniture, fixtures and equipment	21,240	-	-	21,240
Vehicles	62,962	-	-	62,962
	524,504	39,873	-	564,377
Accumulated depreciation	(69,509)	(28,101)	-	(97,610)
Net depreciable assets	454,995	11,772	-	466,767
Construction in-progress	-	-	-	-
Net capital assets	<u>\$ 454,995</u>	<u>\$ 11,772</u>	<u>\$ -</u>	<u>\$ 466,767</u>

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

Notes to Combined Financial Statements
September 30, 2021 and 2020

(5) Capital Assets, Continued

Depreciation expense for the years ended September 30, 2021 and 2020 was \$16,993 and \$28,101, respectively.

(6) Noncurrent Liabilities

A summary of changes in noncurrent liabilities during fiscal year ended September 30, 2021 and 2020 is as follows:

	Outstanding October 1, 2020	Increases	Decreases	Outstanding September 30, 2021	Current	Noncurrent
Notes Payable	\$ 4,571,429	\$ -	\$ 285,714	\$ 4,285,715	\$ 285,714	\$ 4,000,001
Net Pension Liability	441,951	71,664	-	513,615	-	513,615
	<u>\$ 5,013,380</u>	<u>\$ 71,664</u>	<u>\$ 285,714</u>	<u>\$ 4,799,330</u>	<u>\$ 285,714</u>	<u>\$ 4,513,616</u>

	Outstanding October 1, 2019	Increases	Decreases	Outstanding September 30, 2020	Current	Noncurrent
Notes Payable	\$ 4,857,143	\$ -	\$ 285,714	\$ 4,571,429	\$ 285,714	\$ 4,285,715
Net Pension Liability	313,849	128,102	-	441,951	-	441,951
	<u>\$ 5,170,992</u>	<u>\$ 128,102</u>	<u>\$ 285,714</u>	<u>\$ 5,013,380</u>	<u>\$ 285,714</u>	<u>\$ 4,727,666</u>

(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 SOFR plus one percent (1%) per annum (effective interest rates were 3.07200% and 3.06438% as of September 30, 2021 and 2020, 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 loan agreement does not include a provision on acceleration clause in the event of loan default. The outstanding balance is \$4,571,429 and \$4,857,143 at September 30, 2021 and 2020, respectively.

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

Notes to Combined Financial Statements
September 30, 2021 and 2020

(7) Notes Payable, Continued

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>
2022	\$ 285,714	\$ 140,434	\$ 426,148
2023	285,714	131,657	417,371
2024	285,714	122,880	408,594
2025	285,714	114,103	399,817
2026	285,714	105,326	391,040
2027 - 2031	1,428,570	96,549	1,525,119
2031 - 2036	<u>1,428,575</u>	<u>52,663</u>	<u>1,481,238</u>
	<u>\$ 4,285,715</u>	<u>\$ 763,612</u>	<u>\$ 5,049,327</u>

The Authority paid interest expense on the loan totaling \$105,923 and \$160,728, respectively, for the years ended September 30, 2021 and 2020.

(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, RPPL 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.

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

Notes to Combined Financial Statements
September 30, 2021 and 2020

(8) Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

Plan Membership. The ROP National Government, ROP State Governments and ROP public corporations, quasi-governmental organizations and other public entities of the National and State Governments of ROP, are participating in the Fund. Membership consists of the following as of October 1, 2019 (the valuation date):

Inactive members currently receiving benefits	1,629
Inactive members entitled to but not receiving benefits	1,252
Active members	<u>3,480</u>
Total members	<u><u>6,361</u></u>

Summary of the Principal Provisions of the Plan:

Effective date: October 1, 1987

Plan Year: October 1, through September 30

Eligibility to Participate

All persons becoming full-time employees of a participating agency before attaining the age of sixty shall become members as a condition of employment.

Service:

Vesting Service: Includes membership service and prior service credit.

Membership Service: A year of membership service is earned for a year of service rendered at a participating agency. Years of membership shall be rounded to the nearest one year. Membership includes accumulated sick leave and vacation leave.

Prior Service Credit: Persons becoming members of the Plan on October 1, 1987 are entitled to Prior Year Service Credit for services rendered as an employee of participating agencies, the Trust Territory of the Pacific Islands (TTPI), and the United States Naval Government after World War II and before the establishment of the TTPI.

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

Notes to Combined Financial Statements
September 30, 2021 and 2020

(8) Retirement Plan, Continued

Defined Benefit Plan, Continued

B. 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 RPPL 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 after the member begins receiving benefits under the Fund. Additionally, a member should not receive benefits during the time the member is re-employed subsequent to retirement.

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

Notes to Combined Financial Statements
September 30, 2021 and 2020

(8) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General information About the Pension Plan, Continued:

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.

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:

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

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

Notes to Combined Financial Statements
September 30, 2021 and 2020

(8) Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General information About the Pension Plan, Continued:

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.
- 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.

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

Notes to Combined Financial Statements
September 30, 2021 and 2020

(8) Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General information About the Pension Plan, continued:

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.

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.

Actuarial Assumptions. The total pension liability was determined by an actuarial valuation as of October 1, 2019, rolled forward on year to September 30, 2020, using the following actuarial assumptions and other inputs:

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
Long-term Expected Rate of Return:	6.74% per year, net of investment expenses, including inflation
Municipal Bond Index Rate:	2.22%

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

Notes to Combined Financial Statements
September 30, 2021 and 2020

(8) Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General information About the Pension Plan, continued:

Year fiduciary net position is projected to be depleted	2025																		
Price Inflation:	2.5%																		
Interest on Member Contributions:	5.0% per year																		
Salary Increase:	3.0% per year																		
Expenses:	\$300,000 per year, net of investment expenses																		
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; none for all other ages																		
Disability:	<table> <tr> <th><u>Age</u></th><th><u>Disability</u></th></tr> <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> </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																		
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																		

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

Notes to Combined Financial Statements
September 30, 2021 and 2020

(8) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General information About the Pension Plan, Continued:

Investment Rate of Return

The long-term expected rate of return on the Plan's investments of 6.74% was determined using log-normal distribution analysis, creating a best-estimate range for each asset class. As of September 30, 2020, the arithmetic real 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 Value Equity	10%	8.70%
U.S. Large Cap Growth Equity	10%	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>	

Discount Rate

The discount rate used to measure the total pension liability was 2.28% at the current measurement date and 2.85% at the prior measurement date. The discount rate was determined using the current assumed rate of return of 6.74% until the point where the plan fiduciary net position is negative. Using the current contribution rates, a negative position happens in 2025. For years on or after 2025, the Municipal Bond Index Rate of 2.22% was used. The Municipal Bond Index Rate from the prior measurement date was 2.18%.

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, 2020, calculated using the discount rate of 2.28%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (1.28%) or 1.00% higher (3.28%) from the current rate.

<u>1% Decrease 1.28%</u>	<u>Current Single Discount Rate Assumption 2.28%</u>	<u>1% Increase 3.28%</u>
\$599,396	\$513,615	\$442,861

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

Notes to Combined Financial Statements
September 30, 2021 and 2020

(8) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

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

Pension Liability. At September 30, 2021 and 2020, the Authority reported a liability of \$513,615 and \$441,951, 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, 2021 and 2020, the Authority's proportion was 0.149% and 0.135%, respectively.

Pension Expense. For the years ended September 30, 2021 and 2020, the Authority recognized pension expense of \$28,460 and \$7,885, respectively.

Deferred Outflows and Inflows of Resources. At September 30, 2021 and 2020, the Authority reported total deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2021		2020	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 17,288	\$ 13,586	\$ 22,475	\$ 17,230
Net difference between projected and actual earnings on pension plan investments	960	657	1,229	1,049
Change in assumptions	110,214	32,285	91,719	40,291
Authority contributions subsequent to the measurement date	-	-	-	-
Changes in proportion and difference between the Authority contributions and proportionate share of contributions	45,621	29,539	38,542	40,759
Total	<u>\$ 174,083</u>	<u>\$ 76,067</u>	<u>\$ 153,965</u>	<u>\$ 99,329</u>

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

Notes to Combined Financial Statements
September 30, 2021 and 2020

(8) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

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, 2021 will be recognized in pension expense as follows:

<u>Year ending September 30,</u>	
2021	\$ 16,811
2022	18,164
2023	15,256
2024	15,910
2025	24,452
Thereafter	<u>7,423</u>
	<u>\$ 98,016</u>

(9) Risk Management

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

(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.

Memorandum of Understanding

The Authority administers a subdivision housing program under the Housing Development Loan Program (HDLP). The Authority provides project financing, management and overall technical assistance for the construction of the housing units proposed under the subdivision housing program. During September 2019, Airai State and the Airai State Public Lands Authority (ASPLA) signed Memorandums of Understanding with the Authority whereby ASPLA will grant a Land-Use Right Agreement to the Authority to develop in a housing subdivision.

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

Notes to Combined Financial Statements
September 30, 2021 and 2020

(10) Commitments and Contingencies, Continued

Memorandum of Understanding, Continued

Upon completion of the housing subdivision project, the Authority will release and return the land back to ASPLA and each lot will be awarded to families who meet all of the ASPLA lease requirements as well as the Authority's housing loan requirements under the Housing Development Loan Program. The Airai State Government will clear the land and provide road accessibility. The Authority will provide financing and project management and will be responsible for obtaining all permits, building plans and project management. Airai's Yelch subdivision is seeking \$1.9 million for road, power, and water infrastructure for a subdivision with 12 houses. As of September 30, 2021 and 2020, no costs have been incurred.

(11) 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.

(12) National Government Contributions

For the years ended September 30, 2021 and 2020, the Republic of Palau appropriated and contributed the following to the Authority:

	<u>2021</u>	<u>2020</u>
For operational costs of employees	\$ 150,000	\$ 70,000
	<u>\$ 150,000</u>	<u>\$ 70,000</u>

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

Notes to Combined Financial Statements
September 30, 2021 and 2020

(13) COVID-19

In December 2019, an outbreak of a novel strain of coronavirus (COVID-19) originated in Wuhan, China and has since spread to other countries, including the U.S and throughout Micronesia. On March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic. In addition, multiple jurisdictions in the U.S. have declared a state of emergency. It is anticipated that these impacts will continue for some time. Future potential impacts may include disruptions on the Authority's employees' ability to work or supply chain disruptions. Changes to the operating environment may increase operating costs. Additional impacts may include the ability of borrowers to continue making loan payments as a result of job loss or other pandemic related issues. The future effects of these issues are unknown.

(14) 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.

(15) Subsequent Events

The Authority has evaluated subsequent events from October 1, 2020 through August 30, 2024, 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*

	2020	2019	2018	2017	2016	2015	2014
Civil Service Pension Trust Fund (Plan) total net pension liability	\$344,384,167	\$308,480,463	\$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	\$ 513,615	\$ 414,951	\$ 313,849	\$ 360,660	\$ 360,301	\$ 327,702	\$ 323,173
The Authority's proportionate share of the net pension liability	0.149%	0.135%	0.125%	0.139%	0.144%	0.152%	0.158%
The Authority's covered-employee payroll**	\$ 91,467	\$ 85,617	\$ 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	561.53%	484.66%	427.59%	447.75%	471.11%	444.45%	434.61%
Plan Fiduciary net position as a percentage of the total pension liability	8.26%	8.26%	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*

	2020	2019	2018	2017	2016	2015	2014
Actuarially determined contribution	\$ 23,491	\$ 20,187	\$ 21,658	\$ 23,879	\$ 20,819	\$ 16,571	\$ 16,804
Contribution in relation to the actuarially determined contribution	<u>5,488</u>	<u>5,137</u>	<u>4,404</u>	<u>4,833</u>	<u>4,527</u>	<u>4,394</u>	<u>4,379</u>
Contribution (excess) deficiency	<u>\$ 18,003</u>	<u>\$ 15,050</u>	<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>\$ 91,467</u>	<u>\$ 85,617</u>	<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%	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, 2021

<u>Cash and Money Market Funds</u>	<u>Cost</u>	<u>Fair Value</u>
Cash and equivalents	\$ 12,368	\$ 12,368
Total Cash and Money Market Funds	<u>12,368</u>	<u>12,368</u>
<u>Exchange-traded and Closed-in Funds:</u>		
<u>Equities</u>		
Ishares TR Core S&P 500 ETF	665,051	1,184,755
Ishares TR RUS MID CAP 500 ETF	144,210	203,372
Ishares TR RUSSELL 2000 ETF	124,740	175,000
Ishares TR CORE U.S. AGGBD ETF	536,942	533,960
Ishare TR IBOXX HI YD ETF	100,379	103,238
Ishares TR SH TR CRPORT	155,939	161,188
Ishares Inc Core MSCI	579,877	668,250
ISHARE INC Core MSCI EMKT	196,521	240,246
Total	<u>2,503,659</u>	<u>3,270,009</u>
Total Cash and Equities	<u>\$ 2,516,027</u>	<u>\$ 3,282,377</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, 2021

(With comparative totals as of September 30, 2020)

	Operation Fund	Home Rehabilitation Loan Program	Low-Cost Housing Program	Emergency Housing Loan Revolving Program	Section 8 Loan Fund	Eliminations	Total 2021	Total 2020
Assets and Deferred Outflows of Resources								
Current assets:								
Cash and cash equivalents	\$ 70,950	\$ 3,040,053	\$ 49,947	\$ 69,961	\$ 30,955	\$ -	\$ 3,261,866	2,984,048
Investments	-	3,282,377	-	-	-	-	3,282,377	2,888,992
Notes receivable, current portion	-	298,699	23,633	15,083	21,812	-	359,227	343,141
Allowance for loan losses	-	(69,442)	(18,501)	-	(21,812)	-	(109,755)	(109,806)
	-	<u>229,257</u>	<u>5,132</u>	<u>15,083</u>	<u>-</u>	<u>-</u>	<u>249,472</u>	<u>233,335</u>
Accounts receivable	3,157	40,000	-	-	-	-	43,157	66,537
Interest receivable	-	7,791	1,798	-	-	-	9,589	9,589
Other receivables	-	209,461	-	-	-	-	209,461	4,943
Due from other funds	-	<u>1,305,200</u>	<u>50,000</u>	<u>50,000</u>	<u>60,000</u>	<u>(1,465,200)</u>	<u>-</u>	<u>-</u>
Total current assets	<u>74,107</u>	<u>8,114,139</u>	<u>106,877</u>	<u>135,044</u>	<u>90,955</u>	<u>(1,465,200)</u>	<u>7,055,922</u>	<u>6,187,444</u>
Noncurrent assets:								
Notes receivable, net of current portion	-	5,116,195	112,818	69,440	-	-	5,298,453	3,696,124
Capital assets, net	-	<u>465,427</u>	<u>-</u>	<u>-</u>	<u>31,160</u>	<u>-</u>	<u>496,587</u>	<u>466,767</u>
Total noncurrent assets	<u>-</u>	<u>5,581,622</u>	<u>112,818</u>	<u>69,440</u>	<u>31,160</u>	<u>-</u>	<u>5,795,040</u>	<u>4,162,891</u>
Deferred outflows of resources related to pension	<u>174,083</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>174,083</u>	<u>153,965</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 248,190</u>	<u>\$ 13,695,761</u>	<u>\$ 219,695</u>	<u>\$ 204,484</u>	<u>\$ 122,115</u>	<u>\$ (1,465,200)</u>	<u>\$ 13,025,045</u>	<u>\$ 10,504,300</u>
Liabilities, Deferred Inflows of Resources and Net Position								
Current liabilities:								
Current port of long-term debt	\$ -	\$ 285,714	\$ -	\$ -	\$ -	\$ -	\$ 285,714	\$ 285,714
Accounts payable and accrued expenses	6,523	5,111	-	-	740	-	12,374	\$ 10,188
Due to other funds	-	<u>1,381,000</u>	<u>60,000</u>	<u>-</u>	<u>24,200</u>	<u>(1,465,200)</u>	<u>-</u>	<u>-</u>
Total current liabilities	<u>6,523</u>	<u>1,671,825</u>	<u>60,000</u>	<u>-</u>	<u>24,940</u>	<u>(1,465,200)</u>	<u>298,088</u>	<u>295,902</u>
Long-term liabilities:								
Note payable, net of current portion	-	4,000,001	-	-	-	-	4,000,001	4,285,715
Net pension liability	<u>513,615</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>513,615</u>	<u>441,951</u>
Total long-term liabilities	<u>513,615</u>	<u>4,000,001</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,513,616</u>	<u>4,727,666</u>
Total liabilities	<u>520,138</u>	<u>5,671,826</u>	<u>60,000</u>	<u>-</u>	<u>24,940</u>	<u>(1,465,200)</u>	<u>4,811,704</u>	<u>5,023,568</u>
Deferred inflows of resources related to pension	<u>76,067</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>76,067</u>	<u>99,329</u>
Net position:								
Invested in capital assets	-	465,427	-	-	31,160	-	496,587	466,767
Restricted	-	5,414,894	136,451	84,523	21,812	-	5,657,680	4,039,265
Unrestricted	<u>(348,015)</u>	<u>2,143,614</u>	<u>23,244</u>	<u>119,961</u>	<u>44,203</u>	<u>-</u>	<u>1,983,007</u>	<u>875,371</u>
Total net position	<u>(348,015)</u>	<u>8,023,935</u>	<u>159,695</u>	<u>204,484</u>	<u>97,175</u>	<u>-</u>	<u>8,137,274</u>	<u>5,381,403</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 248,190</u>	<u>\$ 13,695,761</u>	<u>\$ 219,695</u>	<u>\$ 204,484</u>	<u>\$ 122,115</u>	<u>\$ (1,465,200)</u>	<u>\$ 13,025,045</u>	<u>\$ 10,504,300</u>

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, 2021

(With comparative totals as of September 30, 2020)

	Operation Fund	Home Rehabilitation Loan Program	Low-Cost Housing Program	Emergency Housing Loan Revolving Program	Section 8 Loan Fund	Eliminations	Total 2021	Total 2020
Operating revenues:								
Interest on loans	\$ -	\$ 157,973	\$ 3,296	\$ 2,879	\$ -	\$ -	\$ 164,148	\$ 149,720
Other	33	1,933	209	90	-	-	2,265	3,525
Total operating revenues	33	159,906	3,505	2,969	-	-	166,413	153,245
Net operating revenues	33	159,906	3,505	2,969	-	-	166,413	153,245
Operating expenses:								
Interest expense on borrowing	-	105,923	-	-	-	-	105,923	160,728
Salaries and wages	120,063	19,983	-	-	3,574	-	143,620	92,539
Bad debts	-	7,124	29,998	-	-	-	37,122	-
Rent expense	-	-	-	-	-	-	-	-
Employee benefits	15,230	-	-	-	554	-	15,784	39,200
Repairs and maintenance	6,739	14,924	-	-	91	-	21,754	7,541
Travel	7,423	1,330	-	-	345	-	9,098	9,011
Office supplies and equipment	13,753	2,200	-	-	68	-	16,021	20,013
Advertising	1,289	226	-	-	-	-	1,515	2,408
Communication	3,019	1,105	-	-	-	-	4,124	4,438
Utilities	1,649	698	-	-	197	-	2,544	3,799
Depreciation	264	15,612	-	-	1,117	-	16,993	28,101
Insurance	5,434	30	-	-	-	-	5,464	-
Professional fees	390	819	-	-	-	-	1,209	3,923
Miscellaneous	4,714	8,284	270	331	658	-	14,257	4,018
Total operating expenses	179,967	178,258	30,268	331	6,604	-	395,428	375,719
Operating income (loss)	(179,934)	(18,352)	(26,763)	2,638	(6,604)	-	(229,015)	(222,474)
Nonoperating revenue (expense), net:								
Republic of Palau appropriation	138,107	6,751	-	-	5,142	-	150,000	150,000
Interest income	20	19,311	20	21	12	-	19,384	428
Net (decrease) increase in fair value of investments	-	393,385	-	-	-	-	393,385	(145,209)
Other income (expense), net	-	321,325	(6,970)	(22,611)	-	-	291,744	467,511
Total nonoperating revenue (expense), net	138,127	740,772	(6,950)	(22,590)	5,154	-	854,513	472,730
Capital Contributions:								
Capital contributions from Republic of Palau	-	2,130,373	-	-	-	-	2,130,373	2,720,259
Change in net position	(41,807)	2,852,793	(33,713)	(19,952)	(1,450)	-	2,755,871	2,970,515
Net position at the beginning of year	(306,208)	5,171,142	193,408	224,436	98,625	-	5,381,403	2,410,888
Net position at the end of year	\$ (348,015)	\$ 8,023,935	\$ 159,695	\$ 204,484	\$ 97,175	\$ -	\$ 8,137,274	\$ 5,381,403

See accompanying Independent Auditors' Report.

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

STATISTICAL SECTION

Year Ended September 30, 2021

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

NET POSITION
Last Ten Fiscal Years Ending September 30

	2021	2020	2019	2018	2017	2016	2015	2014 Restated	2013	2012
Invested in capital assets	\$ 496,587	\$ 466,767	\$ 454,995	\$ 147,775	\$ 10,112	\$ 11,787	\$ 14,363	\$ 15,663	\$ 23,383	\$ 10,558
Restricted	5,657,680	4,039,265	3,456,690	3,075,855	2,428,218	2,339,989	2,275,930	2,095,405	1,923,639	1,981,793
Unrestricted	1,983,007	875,371	(1,500,797)	(388,183)	207,853	269,893	325,003	450,009	921,999	840,204
Total Net Position	\$ 8,137,274	\$ 5,381,403	\$ 2,410,888	\$ 2,835,447	\$ 2,646,183	\$ 2,621,669	\$ 2,615,296	\$ 2,561,077	\$ 2,869,021	\$ 2,832,555

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

	2021	2020	2019	2018	2017	2016	2015	2014 Restated	2013	2012
Operating revenues										
Republic of Palau appropriation	\$ 150,000	\$ 150,000	\$ 70,000	\$ 70,000	\$ 70,000	\$ 70,000	\$ 70,000	\$ 70,000	\$ 59,000	\$ 58,990
Interest on loans	164,148	149,720	139,818	112,008	93,606	88,863	80,844	77,172	76,509	82,507
Other operating revenues	2,265	3,525	2,470	2,082	12,563	11,832	20,764	8,067	18,418	7,796
Section 8 income	-	-	-	-	-	-	-	-	-	-
National treasury income	-	-	-	-	-	-	-	-	-	-
Total operating revenues, net	316,413	303,245	212,288	184,090	176,169	170,695	171,608	155,239	153,927	149,293
Operating expenses										
Salaries and wages	143,620	92,539	88,780	75,642	77,970	75,456	70,468	71,692	65,335	60,600
Interest expense	105,923	160,728	179,176	125,120	105,918	-	-	-	-	-
Rent expense	-	-	7,500	9,000	9,000	12,681	12,975	12,975	10,894	10,200
Employee benefits	15,784	39,200	20,051	21,557	34,728	12,262	6,723	23,425	9,155	7,587
Bad Debts	37,122	-	-	-	-	-	-	-	-	-
Depreciation	16,993	28,101	4,273	6,187	4,329	2,576	2,865	7,109	8,290	2,891
Travel	9,098	9,011	16,269	9,252	8,524	5,481	3,697	4,827	3,557	4,402
Communication	4,124	4,438	4,362	3,794	4,057	4,836	5,314	4,664	4,658	4,600
Professional fees	1,209	3,923	3,120	-	390	-	1,650	1,900	4,000	10,500
Repairs and maintenance	21,754	7,541	4,424	4,890	154,326	5,640	1,458	1,573	1,007	2,844
Labor and materials	-	-	-	-	-	29,814	-	-	-	-
Provision for bad debts	-	-	-	-	-	-	-	-	-	8,551
Other operating expenses	39,801	30,238	49,044	12,762	18,103	18,081	13,070	15,950	14,766	9,553
Total operating expenses	395,428	375,719	376,999	268,204	417,345	166,827	118,220	144,115	121,662	121,728
Operating income (loss)	(79,015)	(72,474)	(164,711)	(84,114)	(241,176)	3,868	53,388	11,124	32,265	27,565
Nonoperating revenues (expenses)										
Investment income earned	19,384	428	1,412	5,972	5,429	855	831	1,174	1,201	973
Net change in fair value of investments	393,385	(145,209)	(276,646)	260,534	259,896	-	-	-	-	-
Other income (expense), net	291,744	467,511	15,386	6,872	365	1,650	-	(367)	3,000	-
Total non-operating revenues, net	704,513	322,730	(259,848)	273,378	265,690	2,505	831	807	4,201	973
Capital Contribution from Republic of Palau	2,130,373	2,720,259	-	-	-	-	-	-	-	-
Change in net position	\$ 2,755,871	\$ 2,970,515	\$ (424,559)	\$ 189,264	\$ 24,514	\$ 6,373	\$ 54,219	\$ 11,931	\$ 36,466	\$ 28,538

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	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
ROP Appropriations	\$ 150,000	\$ 150,000	\$ 70,000	\$ 70,000	\$ 70,000	\$ 70,000	\$ 70,000	\$ 59,000	\$ 58,990	\$ 64,000
Interest on loans	164,148	149,720	139,818	112,008	93,606	80,844	77,172	76,509	82,507	76,955
Section 8 income	-	-	-	-	-	-	-	-	-	6,000
National treasury income	-	-	-	-	-	-	-	-	-	9,000
Other operating revenues	2,265	3,525	2,470	2,082	12,563	20,764	8,067	18,418	7,796	4,549
Total Revenues	\$ 316,413	\$ 303,245	\$ 212,288	\$ 184,090	\$ 176,169	\$ 171,608	\$ 155,239	\$ 153,927	\$ 149,293	\$ 160,504

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	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Salaries and wages	\$ 143,620	\$ 92,539	88,780	75,642	\$ 77,970	\$ 75,456	\$ 70,468	\$ 71,692	\$ 65,335	\$ 60,600
Interest expense	105,923	160,728	179,176	125,120	105,918	-	-	-	-	-
Rent expense	-	-	7,500	9,000	9,000	12,681	12,975	12,975	10,894	10,200
Employee benefits	15,784	39,200	20,051	21,557	34,728	12,262	6,723	23,425	9,155	7,587
Depreciation	16,993	28,101	4,273	6,187	4,329	2,576	2,865	7,109	8,290	2,891
Travel	9,098	9,011	16,269	9,252	8,524	5,481	3,697	4,827	3,557	4,402
Communication	4,124	4,438	4,362	3,794	4,097	4,836	5,314	4,664	4,658	4,600
Professional fees	1,209	3,923	3,120	-	390	-	1,650	1,900	4,000	10,500
Repairs and maintenance	21,754	7,541	4,424	4,890	154,326	5,640	1,458	1,573	1,007	2,844
Bad debts	37,122	-	-	-	-	-	-	-	-	8,551
Labor and materials	-	-	-	-	-	29,814	-	-	-	-
	39,801									
Other operating expenses	-	30,238	49,044	12,762	18,063	18,081	13,070	15,950	14,766	9,553
Total Expenses	\$ 395,428	\$ 375,719	\$ 376,999	\$ 268,204	\$ 417,345	\$ 166,827	\$ 118,220	\$ 144,115	\$ 121,662	\$ 121,728

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

See Independent Auditors' Report.