

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

**INDEPENDENT AUDITORS' REPORT  
AND  
FINANCIAL STATEMENTS**

**Years Ended September 30, 2017 and 2016**

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

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SEPTEMBER 30, 2017 and 2016

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**INDEPENDENT AUDITORS' REPORT**

To the Board of Directors  
Palau Housing Authority

***Report on the Financial Statements***

We have audited the accompanying combined financial statements of Palau Housing Authority (the Authority), a component unit of the Republic of Palau as of September 30, 2017 and 2016, and for the years then ended and the related notes to the financial statements, which collectively comprise the financial statements as listed in the table of contents. The prior year summarized comparative information has been derived from the Authority's 2016 financial statements and, in our report dated May 24, 2017, we expressed an unmodified opinion on those financial statements.

***Management's Responsibility for the Financial Statements***

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

***Auditors' Responsibility***

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

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

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Palau Housing Authority. as of September 30, 2017 and 2016, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

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

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

#### ***Other Financial Information***

Our audit was conducted for the purpose of forming an opinion on the Authority's basic financial statements as a whole. The schedule of investments as of September 30, 2017 on page 52 and the statistical section on pages 49 through 52 is presented for purposes of additional analysis and is not a required part of the financial statements. The schedule of investments and statistical section are the responsibility of management. The schedule of investments and the statistical section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

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

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated April 18, 2018 on our consideration of the Palau Housing Authority's internal control over financial reporting and our tests of its compliance with certain provision of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.



Koror, Republic of Palau  
April 18, 2018

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

Management's Discussion and Analysis  
September 30, 2017

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, 2017. We encourage readers to consider the information presented in conjunction with the Authority's financial statements and accompanying notes to the financial statements on pages 17 through 48.

**Financial Highlights**

- The assets of the Authority exceeded its liabilities at September 30, 2017 and 2016 by \$2,646,183 and \$2,621,669, respectively. The Authority's net position (assets less liabilities) increased by \$24,514 from the previous year. The increase in net assets is a result of excess of revenues earned over expenses.
- The Authority's cash and cash equivalents at September 30, 2017 and 2016 was \$2,389,073 and \$3,193,179, respectively, representing an decrease of \$804,106; however, the Authority received the remaining Mega Bank loan proceeds totaling \$2,500,000 from Republic of Palau and \$3 million was invested in mutual funds and equities whose current fair market value was \$3,259,896 as of September 30, 2017.
- The Authority had operating revenues of \$176,169 and \$170,695 and operating expenses of \$311,427 and \$166,827 for the years ended September 30, 2017 and 2016, respectively. Operating expenses increased by \$144,600 primarily due to the increase in repair and maintenance costs incurred for the demolition of the old Airai Elementary School.

**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, 2017, 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, 2017

**Overview of the Financial Statements, Continued**

***AUTHORITY-WIDE FINANCIAL STATEMENTS, Continued***

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

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

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

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

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

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

***NOTES TO THE FINANCIAL STATEMENTS***

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

**PALAU HOUSING AUTHORITY**  
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Management's Discussion and Analysis  
September 30, 2017

**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 2017 is the fifteenth 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, 2017

**Authority-Wide Financial Analysis, Continued**

**Statements of Net Position**  
**As of September 30, 2017, 2016, and 2015**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b>Assets and Deferred Outflows of Resources</b>			
Current assets:			
Cash and cash equivalents	\$ 2,389,073	\$ 3,193,179	\$ 650,117
Investments	3,259,896	-	-
Notes receivable, current portion	204,284	191,334	255,489
Allowance for doubtful accounts	<u>(87,994)</u>	<u>(87,994)</u>	<u>(87,994)</u>
	<u>116,290</u>	<u>103,340</u>	<u>167,495</u>
Receivable from Republic of Palau	-	2,500,000	-
Other receivables	1,786	497	1,017
Due from grantor agency	-	-	-
Interest receivable	9,589	-	9,593
Due from other fund	<u>4,351</u>	<u>-</u>	<u>65</u>
Total current assets	<u>5,780,985</u>	<u>5,797,016</u>	<u>828,287</u>
Notes receivable, net of current portion	2,223,934	2,148,655	2,108,435
Capital assets, net	<u>25,153</u>	<u>11,787</u>	<u>14,363</u>
Total assets	<u>2,249,087</u>	<u>2,160,442</u>	<u>2,122,798</u>
Deferred outflows of resources related to pension	<u>60,897</u>	<u>41,886</u>	<u>29,910</u>
<b>Total Assets and Deferred Outflows of Resources</b>	<u>\$ 8,090,969</u>	<u>\$ 7,999,344</u>	<u>\$ 2,980,995</u>

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

Management's Discussion and Analysis  
September 30, 2017

**Authority-Wide Financial Analysis, Continued**

**Statements of Net Position**  
As of September 30, 2017, 2016, and 2015

	2017	2016	2015
<b>Liabilities, Deferred Inflows of Resources and Net Position</b>			
Current Liabilities:			
Accrued expenses	\$ 33,421	\$ 6,751	\$ 6,751
Due to other fund	-	-	-
Total current liabilities	33,421	6,751	6,751
Long-term Liabilities:			
Notes payable	5,000,000	5,000,000	-
Net pension liability	360,301	333,670	323,173
Total long-term liabilities	5,360,301	5,333,670	323,173
Total liabilities	5,393,722	5,340,421	329,924
Deferred inflows of resources related to pension	51,064	37,254	35,775
Total liabilities and deferred inflows of resources	5,444,786	5,377,675	365,699
<b>Net Position</b>			
Invested in capital assets	10,112	11,787	14,363
Restricted	2,428,218	2,339,989	2,275,930
Unrestricted	207,853	269,893	325,003
Total net position	2,646,183	2,621,669	2,615,296
<b>Total Liabilities, Deferred Inflows of Resources and Net Position</b>	<b>\$ 8,090,969</b>	<b>\$ 7,999,344</b>	<b>\$ 2,980,995</b>

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

**PALAU HOUSING AUTHORITY**  
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Management's Discussion and Analysis  
September 30, 2017

**Authority-Wide Financial Analysis, Continued**

Total assets and deferred outflows of resources totaled \$8.09 million at September 30, 2017. This balance is relatively the same as compared to 2016; however, when compared to 2015, it reflects \$2.5 million increase associated with loan proceeds received from the Republic of Palau (ROP) during 2016 and the increase in accounts receivable from ROP in the amount of \$2.5 million. The receivable amount of \$2.5 million was received during 2017. The Authority through the Republic of Palau obtained a \$5 million loan from Mega International Commercial Bank Co. Ltd. The loan is to be used to finance housing which includes displaced Palauan residents.

There were five (5) new loans approved in FY 2017 totaling \$25,000 sourced from the HIRAP Loan Program. There were twelve (12) new loans totaling \$305,921, sourced from the Rehabilitation Loan Program and four (4) new loans totaling \$117,990, sourced from the Rehabilitation Loan Displaced Program approved in FY 2017.

As noted earlier, net position may serve over time as a useful indicator of an entity's financial position. In the case of the Authority, assets exceeded liabilities by \$2,646,183 as of September 30, 2017.

**Operating Revenues for the Years Ended  
September 30, 2017, 2016 and 2015**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Operating revenues:			
Republic of Palau appropriations	\$ 70,000	\$ 70,000	\$ 70,000
Interest on loans	93,606	88,863	80,844
Other	<u>12,563</u>	<u>11,832</u>	<u>20,764</u>
 Total operating revenues	 <u>\$ 176,169</u>	 <u>\$ 170,695</u>	 <u>\$ 171,608</u>

The above schedule indicates total revenues realized by the Authority in FY 2017 totaling \$176,169. The OEK contributed \$70,000 through cost reimbursement grants during FY 2017. The Authority draws down monies from the grant awards for allowable program expenses, except for non-cash transactions, such as depreciation expense and changes in compensated absences. The Authority's intergovernmental revenues and charges for services were sufficient to cover all expenses incurred during the year.

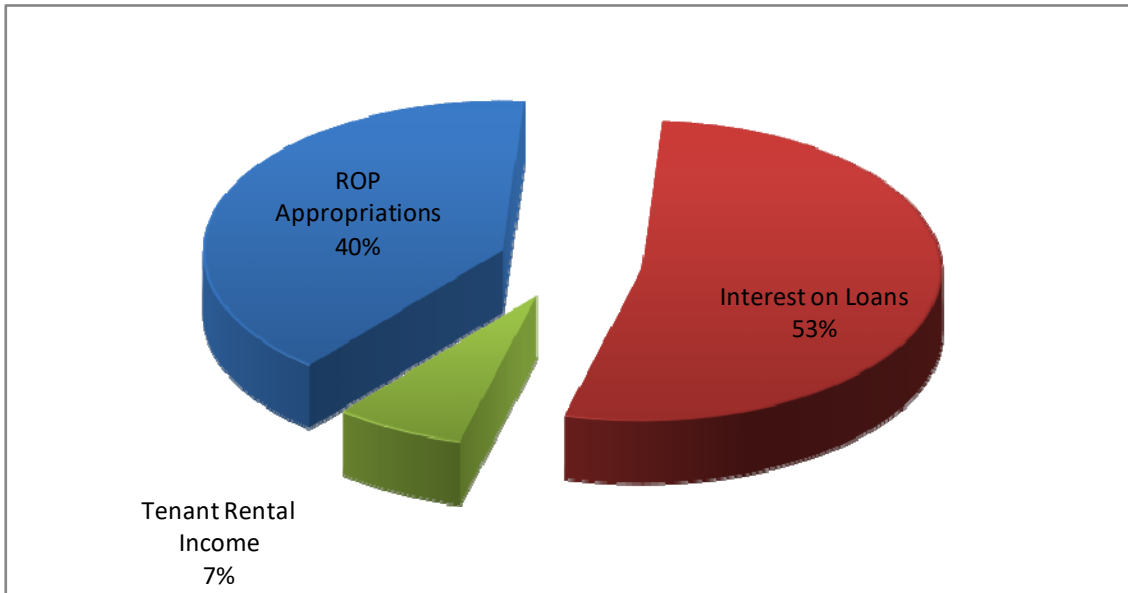
**PALAU HOUSING AUTHORITY**  
(A Component Unit of the Republic of Palau)

Management's Discussion and Analysis  
September 30, 2017

**Authority-Wide Financial Analysis, Continued**

The following chart exhibits the breakdown of revenues for Palau Housing Authority in FY 2017.

Operating Revenues Breakdown



**PALAU HOUSING AUTHORITY**  
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Management's Discussion and Analysis  
September 30, 2017

**Authority-Wide Financial Analysis, Continued**

**Operating Expenses for the Years Ended  
September 30, 2017, 2016 and 2015**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Operating expenses:			
Salaries and wages	\$ 77,970	\$ 75,456	\$ 70,468
Labor and materials	-	29,814	-
Rent expense	9,000	12,681	12,975
Employee benefits	34,728	12,262	6,723
Communication	4,057	4,836	5,314
Travel	8,524	5,481	3,697
Utilities	2,289	2,834	3,159
Depreciation	4,329	2,576	2,865
Professional fees	390	-	1,650
Repairs and maintenance	154,326	5,640	1,458
Insurance	1,077	1,039	-
Miscellaneous	<u>14,737</u>	<u>14,208</u>	<u>9,911</u>
 Total operating revenues	 <u>\$ 311,427</u>	 <u>\$ 166,827</u>	 <u>\$ 118,220</u>

The above schedule shows total operating expenses of \$311,427 in FY 2017.

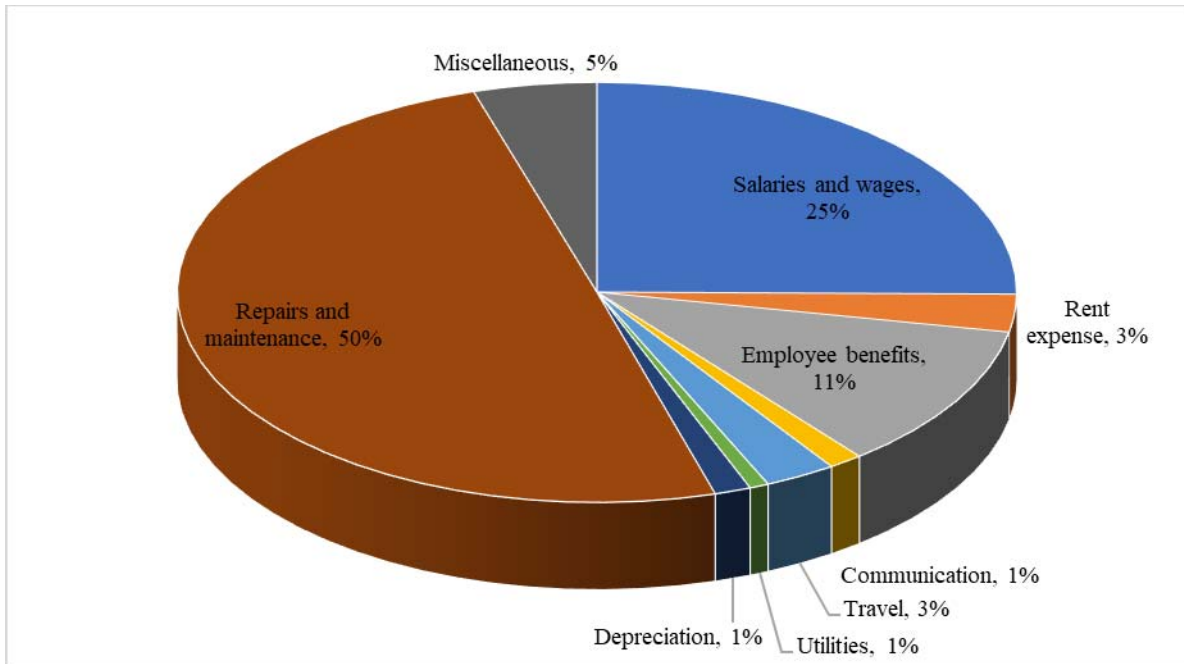
The Authority's operating expenses increased by \$144,600 in FY 2017 primarily due to repair and maintenance costs incurred under the Home Rehabilitation Loan Program for the demolition of the old Airai Elementary School.

**PALAU HOUSING AUTHORITY**  
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Management's Discussion and Analysis  
September 30, 2017

**Authority-Wide Financial Analysis, Continued**

Expense Breakdown  
For Year Ended September 30, 2017



The two largest expenditures in FY 2017 were for repairs and maintenance and for employee salaries and wages totaling \$154,326 and \$77,970, respectively. Repairs and maintenance costs incurred for the demolition of the old Airai Elementary School which totaled \$147,580. For comparison purposes, the FY 2017 salaries and wages totaled \$77,970, thus representing a nominal increase of \$2,514 or 3% for FY 2017 and covering four (4) full-time employees.

**PALAU HOUSING AUTHORITY**  
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Management's Discussion and Analysis  
September 30, 2017

**Authority-Wide Financial Analysis, Continued**

CAPITAL ASSETS

As of September 30, 2017, 2016 and 2015, the Authority's investment in capital assets (net of accumulated depreciation) for its business-type activities is as reflected in the following schedule:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Furniture, fixtures, and equipment	\$ 21,240	\$ 21,240	\$ 21,240
Vehicles	<u>62,962</u>	<u>45,267</u>	<u>45,267</u>
	84,202	66,507	66,507
Accumulated depreciation	<u>(59,049)</u>	<u>(54,720)</u>	<u>(52,144)</u>
	<u>\$ 25,153</u>	<u>\$ 11,787</u>	<u>\$ 14,363</u>

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

FUND BALANCE

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

As of September 30, 2017, 2016 and 2015, the Authority's fund balance is as reflected in the following schedule:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Net investment in capital assets	\$ 10,112	\$ 11,787	\$ 14,363
Restricted	2,428,218	2,339,989	2,275,930
Unrestricted	<u>207,853</u>	<u>269,893</u>	<u>325,003</u>
Total net position	<u>\$ 2,646,183</u>	<u>\$ 2,621,669</u>	<u>\$ 2,615,296</u>

**PALAU HOUSING AUTHORITY**  
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Management's Discussion and Analysis  
September 30, 2017

**Authority-Wide Financial Analysis, Continued**

BUDGETARY INFORMATION

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

	Budgeted Amounts		Actual Amounts	(Unfavorable)
	<u>Original</u>	<u>Final</u>		<u>Variance</u>
Operating revenues	\$ 144,100	\$ 144,100	\$ 176,169	\$ 32,069
Operating expenses	<u>(144,100)</u>	<u>(144,100)</u>	<u>(311,427)</u>	<u>(167,327)</u>
Operating income (loss)	-	-	(135,258)	(135,258)
Investment income earned	-	-	265,325	265,325
Other income (expense), net	<u>-</u>	<u>-</u>	<u>(105,553)</u>	<u>(105,553)</u>
Increase in net assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 24,514</u>	<u>\$ 24,514</u>

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



**PALAU HOUSING AUTHORITY**  
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Management's Discussion and Analysis  
September 30, 2017

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

The following factors were considered in preparing the Authority's budget for the 2018 fiscal year:

- An increase in the collections of loan payments;
- The number of loans to be disbursed will be increased due to funding availability;
- An increase in interest income, due to loan disbursed from previous year;
- Appropriation from the Palau National Government applicable to administrative and operation expenditures;
- \$5 million loan from Mega Bank, Taiwan;
- Interest payment of the Mega Bank loan and other fees and charges; and
- Permanent PHA Office Building.

**Future Events that will Financially Impact the Authority**

- The Authority will be able continue and expand its housing loan programs;
- Public Housing Program – Rental;
- Subdivision - Relocation to Babeldaob;
- Leased parcel of land has been secured in Melekeok State and the construction of a permanent office building for the Authority will commence in May 2018;
- Repayment of principal and interest on the \$5 million loan - Mega Bank; and
- Employee - Capacity building.

**PALAU HOUSING AUTHORITY**  
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Management's Discussion and Analysis  
September 30, 2017

**Contacting the Authority's Financial Management**

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

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

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

Combined Statements of Net Position  
September 30, 2017

(With comparative totals as of September 30, 2016)

	Major Enterprise Funds					Total 2017	Total 2016
	Operation Fund	Home Rehabilitation Loan Program	Low-Cost Housing Program	Emergency Housing Loan Revolving Program	Non-Major Enterprise Fund		
<b>Assets and Deferred Outflows of Resources</b>							
Current assets:							
Cash and cash equivalents (Notes 1 and 2)	\$ 83,148	\$ 2,035,785	\$ 56,019	\$ 124,002	\$ 90,119	\$ 2,389,073	\$ 3,193,179
Investments	-	3,259,896	-	-	-	3,259,896	-
Notes receivable, current portion (Notes 1 and 3)	-	150,123	26,196	27,965	-	204,284	191,334
Allowance for loan losses (Notes 1 and 3)	-	(69,442)	(18,552)	-	-	(87,994)	(87,994)
	-	80,681	7,644	27,965	-	116,290	103,340
Accounts receivable, net	157	-	-	-	-	157	2,500,497
Due from grantor agency	-	-	-	-	-	-	-
Interest receivable	-	7,791	1,798	-	-	9,589	-
Other receivables	-	1,629	-	-	-	1,629	-
Due from other fund (Note 4)	-	4,242	109	-	-	4,351	-
Total current assets	83,305	5,390,024	65,570	151,967	90,119	5,780,985	5,797,016
Noncurrent assets:							
Notes receivable, net of current portion (Note 1 and 3)	-	1,962,642	117,082	144,210	-	2,223,934	2,148,655
Capital assets, net (Notes 1 and 5)	-	15,041	-	-	10,112	25,153	11,787
Total noncurrent assets	-	1,977,683	117,082	144,210	10,112	2,249,087	2,160,442
Deferred outflows of resources related to pension	60,897	-	-	-	-	60,897	41,886
<b>Total Assets and Deferred Outflows of Resources</b>	<b>\$ 144,202</b>	<b>\$ 7,367,707</b>	<b>\$ 182,652</b>	<b>\$ 296,177</b>	<b>\$ 100,231</b>	<b>\$ 8,090,969</b>	<b>\$ 7,999,344</b>

See accompanying notes to the basic financial statements.

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

Combined Statements of Net Position, Continued  
September 30, 2017

(With comparative totals as of September 30, 2016)

	Major Enterprise Funds					Total 2017	Total 2016
	Operation Fund	Home Rehabilitation Loan Program	Low-Cost Housing Program	Emergency Housing Loan Revolving Program	Non-Major Enterprise Fund		
<b>Liabilities, Deferred Inflows of Resources and Net Position</b>							
Current liabilities:							
Accrued expenses (Note 1)	\$ 6,751	\$ 25,000	\$ -	\$ -	\$ 1,670	\$ 33,421	\$ 6,751
Total current liabilities	6,751	25,000	-	-	1,670	33,421	6,751
Long-term liabilities:							
Note payable (Notes 6 and 7)	-	5,000,000	-	-	-	5,000,000	5,000,000
Net pension liability (Notes 6 and 8)	360,301	-	-	-	-	360,301	333,670
Total long-term liabilities	360,301	5,000,000	-	-	-	5,360,301	5,333,670
Total liabilities	367,052	5,025,000	-	-	1,670	5,393,722	5,340,421
Deferred inflows of resources							
related to pension	51,064	-	-	-	-	51,064	37,254
Net position (Note 1)							
Invested in capital assets	-	-	-	-	10,112	10,112	11,787
Restricted	-	2,112,765	143,278	172,175	-	2,428,218	2,339,989
Unrestricted	(273,914)	229,942	39,374	124,002	88,449	207,853	269,893
Total net position	(273,914)	2,342,707	182,652	296,177	98,561	2,646,183	2,621,669
<b>Total Liabilities, Deferred Inflows of Resources and Net Position</b>							
	\$ 144,202	\$ 7,367,707	\$ 182,652	\$ 296,177	\$ 100,231	\$ 8,090,969	\$ 7,999,344

See accompanying notes to the basic financial statements.

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

Combined Statements of Revenues, Expenses and Changes in Net Position  
Year Ended September 30, 2017

(With comparative totals as of September 30, 2016)

	Major Enterprise Funds				Non-Major Enterprise Fund	Total 2017	Total 2016
	Operation Fund	Home Rehabilitation Loan Program	Low-Cost Housing Program	Emergency Housing Loan Revolving Program			
Operating revenues:							
Interest on loans	\$ -	\$ 84,632	\$ 3,779	\$ 5,195	\$ -	\$ 93,606	\$ 88,863
Republic of Palau appropriation	70,000	-	-	-	-	70,000	70,000
Other	11	11,486	410	656	-	12,563	11,832
<b>Total operating revenues</b>	<b>70,011</b>	<b>96,118</b>	<b>4,189</b>	<b>5,851</b>	<b>-</b>	<b>176,169</b>	<b>170,695</b>
<b>Net operating revenues</b>	<b>70,011</b>	<b>96,118</b>	<b>4,189</b>	<b>5,851</b>	<b>-</b>	<b>176,169</b>	<b>170,695</b>
Operating expenses:							
Salaries and wages	50,583	21,599	-	5,788	-	77,970	75,456
Labor and materials	-	-	-	-	-	-	29,814
Rent expense	6,000	2,250	-	750	-	9,000	12,681
Employee benefits	29,193	4,813	-	722	-	34,728	12,262
Repairs and maintenance	694	151,674	-	1,958	-	154,326	5,640
Travel	1,646	6,496	-	382	-	8,524	5,481
Communication	1,700	2,016	-	341	-	4,057	4,836
Utilities	1,154	904	-	231	-	2,289	2,834
Depreciation	-	2,654	-	-	1,675	4,329	2,576
Insurance	-	1,077	-	-	-	1,077	1,039
Professional fees	390	-	-	-	-	390	-
Miscellaneous	4,027	9,508	-	1,139	63	14,737	14,208
<b>Total operating expenses</b>	<b>95,387</b>	<b>202,991</b>	<b>-</b>	<b>11,311</b>	<b>1,738</b>	<b>311,427</b>	<b>166,827</b>
<b>Operating income (loss)</b>	<b>(25,376)</b>	<b>(106,873)</b>	<b>4,189</b>	<b>(5,460)</b>	<b>(1,738)</b>	<b>(135,258)</b>	<b>3,868</b>
Non-operating revenue (expense):							
Interest income	105	4,932	80	179	133	5,429	855
Interest expense	-	(105,918)	-	-	-	(105,918)	-
Net (decrease) increase in fair value of investments	-	259,896	-	-	-	259,896	-
Other income	-	-	-	3	362	365	1,650
<b>Total non-operating revenue</b>	<b>105</b>	<b>158,910</b>	<b>80</b>	<b>182</b>	<b>495</b>	<b>159,772</b>	<b>2,505</b>
<b>Change in net assets</b>	<b>(25,271)</b>	<b>52,037</b>	<b>4,269</b>	<b>(5,278)</b>	<b>(1,243)</b>	<b>24,514</b>	<b>6,373</b>
Total net assets at beginning of year	(248,643)	2,290,670	178,383	301,455	99,804	2,621,669	2,615,296
<b>Total net assets at end of year</b>	<b>\$ (273,914)</b>	<b>\$ 2,342,707</b>	<b>\$ 182,652</b>	<b>\$ 296,177</b>	<b>\$ 98,561</b>	<b>\$ 2,646,183</b>	<b>\$ 2,621,669</b>

See accompanying notes to the basic financial statements.

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

Combined Statements of Cash Flows  
September 30, 2017

(With comparative totals as of September 30, 2016)

	Major Enterprise Funds					Total 2017	Total 2016
	Operation Fund	Home Rehabilitation Loan Program	Low-Cost Housing Program	Emergency Housing Loan Revolving Program	Non-Major Enterprise Fund		
Cash flows from operating activities:							
Receipts from customers, net	\$ 116	\$ 96,118	\$ 11,792	\$ 32,503	\$ -	\$ 140,529	\$ 349,148
Receipts from ROP appropriation	70,000	-	-	-	-	70,000	70,000
Payments to suppliers	(23,139)	(300,404)	-	(5,523)	(63)	(329,129)	(303,135)
Payments to employees	(50,583)	(21,599)	-	(5,788)	-	(77,970)	(75,456)
Net cash provided by (used in) operating activities	(3,606)	(225,885)	11,792	21,192	(63)	(196,570)	40,557
Cash flows from investing activities:							
Acquisition of capital assets	-	(17,695)	-	-	-	(17,695)	-
Purchase of investments	-	(3,000,000)	-	-	-	(3,000,000)	-
Interest and dividends	105	4,932	80	170	133	5,420	855
Other income	-	-	-	3	2,032	2,035	1,650
Net cash provided by (used in) investing activities	105	(3,012,763)	80	173	2,165	(3,010,240)	2,505
Cash flows from financing activities:							
Proceeds from note payable	-	2,500,000	-	-	-	2,500,000	2,500,000
Increase (decrease) in due from funds	-	(96,906)	(390)	-	-	(97,296)	-
Net cash provided by (used in) financing activities	-	2,403,094	(390)	-	-	2,402,704	2,500,000
Net increase (decrease) in cash and cash equivalents	(3,501)	(835,554)	11,482	21,365	2,102	(804,106)	2,543,062
Cash and cash equivalents at beginning of year	86,649	2,871,339	44,537	102,637	88,017	3,193,179	650,117
Cash and cash equivalents at end of year	\$ 83,148	\$ 2,035,785	\$ 56,019	\$ 124,002	\$ 90,119	\$ 2,389,073	\$ 3,193,179

See accompanying notes to the basic financial statements.

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

Combined Statements of Cash Flows, Continued  
September 30, 2017

(With comparative totals as of September 30, 2016)

	Major Enterprise Funds					Total 2017	Total 2016
	Operation Fund	Home Rehabilitation Loan Program	Low-Cost Housing Program	Emergency Housing Loan Revolving Program	Non-Major Enterprise Fund		
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:							
Operating income (loss)	\$ (25,376)	\$ (106,873)	\$ 4,189	\$ (5,460)	\$ (1,738)	\$ (135,258)	\$ 3,868
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities							
Depreciation	-	2,654	-	-	1,675	4,329	2,576
Pension recovery	-	-	-	-	-	-	-
(Increase) decrease in assets:							
Accounts receivable	340	(1,629)	-	-	-	(1,289)	520
Notes receivable	-	(26,131)	9,401	26,643	-	9,913	23,935
Interest receivable	-	(7,791)	(1,798)	-	-	(9,589)	9,593
Deferred outflows	(19,011)	-	-	-	-	(19,011)	(11,976)
Increase (decrease) in liabilities:							
Accrued expenses	-	(81,873)	-	-	-	(81,873)	-
Net pension liability	26,631	-	-	-	-	26,631	10,497
Deferred inflows	13,810	-	-	-	-	13,810	1,479
Due to other funds	-	(4,242)	-	9	-	(4,233)	65
Net cash provided by (used in) operating activities	<u>\$ (3,606)</u>	<u>\$ (225,885)</u>	<u>\$ 11,792</u>	<u>\$ 21,192</u>	<u>\$ (63)</u>	<u>\$ (196,570)</u>	<u>\$ 40,557</u>

See accompanying notes to the basic financial statements.

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

Notes to Combined Financial Statements  
September 30, 2017 and 2016

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

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, 2017 and 2016

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

Major Enterprise Funds, Continued

*Low-Cost Housing Program*

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

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

Emergency Housing Revolving Loan Program

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

Non-Major Enterprise Funds

The following funds was determined to be non-major enterprise funds for the fiscal year ended September 30, 2017:

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

Notes to Combined Financial Statements  
September 30, 2017 and 2016

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

*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, 2017 and 2016

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

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

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

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

Deferred Outflows of Resources

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

Deferred Inflows of Resources

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

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

Notes to Combined Financial Statements  
September 30, 2017 and 2016

**(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 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68 and Amendments to Certain Provisions of GASB Statement 67 and 68*, which aligns the reporting requirements for pensions and pension plan not covered in GASB Statements 67 and 68 with the reporting requirements in Statement 68. The provisions in Statement No. 73 are effective for fiscal years beginning after June 15, 2015, with the exception of the provisions that address employers and governmental non-employer contributing entities for pensions that are not within the scope of Statement 68, which are effective for fiscal years beginning after June 15, 2016. Management has not evaluated the impact that the implementation of this statements will have on the financial statements.

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

Notes to Combined Financial Statements  
September 30, 2017 and 2016

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

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

*New Accounting Standards, Continued*

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which replaces Statements No. 43, *Financial Reporting for Postemployment Benefits Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and addresses financial reporting requirements for governments whose employees are provided with postemployment benefits other than pensions (other postemployment benefits or OPEB). The provisions in Statement No. 74 are effective for fiscal years beginning after June 15, 2016. Management has not evaluated the impact that the implementation of this statement will have on the financial statements.

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

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements. The provisions in Statement No. 77 are effective for fiscal years beginning after December 31, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In December 2015, GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, which addresses a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The provisions in Statement No. 78 are effective for fiscal years beginning after December 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

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

Notes to Combined Financial Statements  
September 30, 2017 and 2016

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

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

*New Accounting Standards, Continued*

In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units- an amendment of GASB Statement No. 14*, which improves financial reporting by clarifying the financial statement presentation requirements for certain component units. The provisions in Statement No. 80 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*, which improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The provisions in Statement No. 81 are effective for fiscal years beginning after December 15, 2016. Management does not believe that the implementation of this Statement will have a material effect on the financial statements.

In March 2016, GASB issued Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*, which addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The provisions in Statement No. 82 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in- substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. The provisions of GASB Statement No. 86 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

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

Notes to Combined Financial Statements  
September 30, 2017 and 2016

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

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

*New Accounting Standards, Continued*

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. GASB Statement No. 87 will be effective for the Corporation for fiscal year ending September 30, 2021. Management does not believe that the implementation of this statement will have a material effect on the 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, 2017 and 2016

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

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

*Lending Policy*

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

*Cash and Cash Equivalents*

For the purposes of the Statement of Net 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, 2017 and 2016, respectively, with the remaining balance exceeding insurable limits. The Authority's cash equivalents, on the other hand, are with a financial institution that is not covered by the Federal Deposit Insurance Corporation (FDIC). The Authority does not require collateralization of its bank accounts and, therefore, amounts in excess of insurable limits are uncollateralized. Deposits in excess of federal depository insurance are considered uncollateralized by GASB Statement No. 40. Custodial credit risk for deposits is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Authority's cash and cash equivalents exceeding FDIC insurable limits is \$1,378,328 and \$2,696,132 as of September 30, 2017 and 2016, 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.



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

Notes to Combined Financial Statements  
September 30, 2017 and 2016

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

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

Investments, continued

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. GASB Statement No. 40 requires disclosure by issuer and amount of investments that represents five percent (5%) or more of total investments of the Authority. As of September 30, 2017 and 2016, the following fixed income securities and exchange-traded and closed-end funds constituted more than 5% of the Authority's total investments:

	2017	2016
Exchange-traded and Closed-in Funds:		
Mutual funds:		
Ishares TR Core S&P 500 ETF	39%	0%
Ishares TR Core MNSCI EAFE	9%	0%
Ishares Inc Core MSCI EMKT	8%	0%
Ishares TR Core S&P MCP ETF	6%	0%
Morgan Stanley INSTL FD TRUS	6%	0%
Goldman Sachs ERMG Markerts	5%	0%
Equities:		
DBX ETF Trust X-Trackers MSC	9%	0%

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

General:

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

**PALAU HOUSING AUTHORITY**  
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Notes to Combined Financial Statements  
September 30, 2017 and 2016

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

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

Investments, continued

4. Holdings of any issuer shall constitute no more than 5% of the outstanding securities of such issuer.
5. Investments in a registered mutual fund managed by the Investment Manager are subject to the prior approval of the Board of Directors.
6. The following securities and transactions are not authorized without prior written Board of Director's approval: letter stock and other unregistered securities; non-negotiable securities; commodities or other commodity contracts; options; futures; short sale; and margin transactions.

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.

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

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

Investments, continued

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.

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.

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

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

Investments, continued

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, 2017 and 2016.

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

The Authority values its investments at fair value in accordance with GASB Statement 31. The Authority's investments as of September 30, 2017 and 2016 are as follows:

<u>Investment Type</u>	<u>Fair Value</u>	
	<u>2017</u>	<u>2016</u>
Cash and money market funds	\$ 14,467	\$ -
Mutual funds	2,654,430	-
Equities	<u>590,999</u>	<u>-</u>
	<u>\$ 3,259,896</u>	<u>\$ -</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.

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

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

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.

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:

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

**PALAU HOUSING AUTHORITY**  
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Notes to Combined Financial Statements  
September 30, 2017 and 2016

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

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

*Custodial credit risk*

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, the Authority will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The Authority's investments are held and administered by trustees in accordance with negotiated trust and custody agreements. Based on those agreements, all of these investments were held in the Authority's name by the custodial financial institutions at September 30, 2017 and 2016.

*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, 2017 and 2016, the Center did not have investments in foreign currency.

Investment income

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

*Interest Rate Risk*

Interest rate risk is the risk that changes in interest rates will adversely affect an investment's value. The Authority does not have a formal policy regarding interest rate risk. At September 30, 2017 and 2016, the Authority did not have any investments in debt securities.

**PALAU HOUSING AUTHORITY**  
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Notes to Combined Financial Statements  
September 30, 2017 and 2016

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

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

*Loans and Allowance for Loan Losses*

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

*Capital Assets*

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

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

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

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

**PALAU HOUSING AUTHORITY**  
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Notes to Combined Financial Statements  
September 30, 2017 and 2016

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

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

*Compensated Absences*

Compensated absences are those absences for which employees will be paid, such as vacation and sick leave. Employees are credited 104, 156 or 208 hours per fiscal year, based on their lengths of service. The accumulation of vacation leave credits is limited to 360 at fiscal year-end while that of sick leave credits is unlimited. Both are convertible to pay upon termination of employment. The Authority recognizes as a liability all vested vacation and sick leave benefits accrued by its employees. When the employees use vacation and sick leave benefits, the liability account is reduced accordingly. At September 30, 2017 and 2016, compensated absences payable to employees were \$6,751 in each year and are recorded as a component of accrued expenses in the accompanying Combined Statement of Net Position. At September 30, 2017 and 2016, all compensated absences are current.

*Income Tax*

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

*Net Position*

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

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

Restricted component of net position is reported when constraints are imposed by third parties, grantors or enabling legislation. At September 30, 2017 and 2016, the Authority's restricted net position includes grants from HUD, USDA, and contributions received from the Trust Territory of the Pacific Islands for the establishment of the Home Rehabilitation Revolving Loan Program and the Low-Cost Housing Revolving Loan Program, respectively. It also includes contributions received from the Republic of Palau National Government for the establishment of Emergency Loan Program to assist victims of typhoon, earthquakes and other natural disasters.



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

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

*Net Position, continued*

The Authority's restricted component of net position is expendable which is subject to externally imposed stipulations that can be fulfilled by actions of the Authority pursuant to those stipulations or that expire with the passage of time. At September 30, 2017 and 2016, the Authority had no expendable net position.

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

*Classification of Revenues*

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

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

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

*Advertising*

For the fiscal years ending September 30, 2017 and 2016, the Authority incurred advertising costs totaling \$486 and \$779, respectively. These costs primarily relate to construction bids and related procurement solicitation costs.

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

Cash and cash equivalents at September 30, 2017 and 2016 consist of the following:

	2017	2016
Cash	\$ 2,375,266	\$ 3,179,379
Time certificates of deposit	13,807	13,800
	\$ 2,389,073	\$ 3,193,179

**(3) Notes Receivable**

A summary of notes receivable at September 30, 2017 and 2016 consists of the following:

	2017	2016
Home Rehabilitation loans	\$ 2,112,765	\$ 1,988,773
Emergency Loan Revolving Fund loans	172,175	198,818
Low-Cost Housing loans	143,278	152,398
	2,428,218	2,339,989
Current portion	(204,284)	(191,334)
Long-term notes receivable, net of current portion	\$ 2,223,934	\$ 2,148,655
Allowance for loan losses	\$ (87,994)	\$ (87,994)

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

	2017	2016
Balance at beginning of year	\$ 87,994	\$ 87,994
Additions to provision for loan loss	-	-
Loans charged-off	-	-
Recoveries of loans charged-off	-	-
Balance at end of year	\$ 87,994	\$ 87,994

**PALAU HOUSING AUTHORITY**  
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Notes to Combined Financial Statements  
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**(4) Interfunds**

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

**(5) Capital Assets**

A schedule of changes in capital assets for the fiscal years ended September 30, 2017 and 2016 is shown below:

Capital assets activity for the fiscal year ended September 30, 2017:

	Balance 09/30/16	Additions	Disposal/ Adjustment	Balance 09/30/17
Furniture, fixtures, and equipment	\$ 21,240	\$ -	\$ -	\$ 21,240
Vehicles	45,267	17,695	-	62,962
	66,507	17,695	-	84,202
Accumulated depreciation	(54,720)	(4,329)	-	(59,049)
	<u>\$ 11,787</u>	<u>\$ 13,366</u>	<u>\$ -</u>	<u>\$ 25,153</u>

Capital assets activity for the fiscal year ended September 30, 2016:

	Balance 09/30/15	Additions	Disposal/ Adjustment	Balance 09/30/16
Furniture, fixtures, and equipment	\$ 21,240	\$ -	\$ -	\$ 21,240
Vehicles	45,267	-	-	45,267
	66,507	-	-	66,507
Accumulated depreciation	(52,144)	(2,576)	-	(54,720)
	<u>\$ 14,363</u>	<u>\$ (2,576)</u>	<u>\$ -</u>	<u>\$ 11,787</u>

Depreciation expense for the years ended September 30, 2017 and 2016 was \$4,329 and \$2,576, respectively.

**PALAU HOUSING AUTHORITY**  
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Notes to Combined Financial Statements  
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**(6) Noncurrent Liabilities**

A summary of changes in noncurrent liabilities during fiscal year ended September 30, 2017 and 2016 is as follows:

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

	Outstanding October 1, 2015	Increases	Decreases	Outstanding September 30, 2016	Current	Noncurrent
Notes Payable	\$ -	\$ 5,000,000	\$ -	\$ 5,000,000	\$ -	\$ 5,000,000
Net Pension Liability	<u>323,173</u>	<u>10,497</u>	<u>-</u>	<u>333,670</u>	<u>-</u>	<u>333,670</u>
	<u>\$ 323,173</u>	<u>\$ 5,010,497</u>	<u>\$ -</u>	<u>\$ 5,333,670</u>	<u>\$ -</u>	<u>\$ 5,333,670</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 LIBOR plus one percent (1%) per annum. If Republic of Palau fails to repay any installment payment on the due date, the borrower shall pay interest on the amount of overdue payment at the rate of ten percent (10%) per annum or six (months) LIBOR plus five percent (5%), whichever is higher.

As of September 30, 2016, Palau Housing Authority received from the Republic of Palau \$2,500,000 of the \$5,000,000 loan. During the year ended September 30, 2017, the Authority received the remaining \$2,500,000 of the loan. The Authority paid interest expense on the loan totaling \$105,873 for the year ended September 30, 2017.

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**(8) Retirement Plan**

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

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

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

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

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

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

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

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

Accrued liability as of October 1, 2015 for:

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

A. General information About the Pension Plan

*Investment Rate of Return*

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

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

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

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

*Discount Rate*

The discount rate used to measure the total pension liability was 2.98% at the current measurement date and 3.83% at the prior measurement date. The discount rate was determined using the current assumed rate of return until the point where the plan fiduciary net position is negative. Using the current contribution rates, a negative position happens in 2019 for the 2019 measurement date. For years on or after 2019, a discount rate of 2.93% is used. This rate is based on the Bond Buyer General Obligation 20-year Municipal Bond Index.

*Sensitivity of Net Pension Liability to Changes in the Discount Rate*

The following presents the net pension liability of the Authority, calculated using the discount rate of 2.98%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (1.98%) or 1.00% higher (3.98%) from the current rate.

1% Decrease 1.98%	Current Single Discount Rate Assumption 2.98%	1% Increase 3.98%
\$418,083	\$360,301	\$312,467

*Pension Liability.* At September 30, 2017 and 2016, the Authority reported a liability of \$360,301 and \$333,670, 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, 2017 and 2016, the Center's proportion was 0.144% and 0.152%, respectively.

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

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

*Deferred Outflows and Inflows of Resources:* As of September 30, 2017 and 2016, the Authority reported total deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2017		2016	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 9,235	\$ 34,473	\$ -
Net difference between projected and actual earnings on pension plan investments	3,094	700	-	37,254
Change in assumptions	55,220	8,521	-	-
Authority contributions subsequent to the measurement date	-	-	3,870	-
Changes in proportion and difference between the the Authority contributions and proportionate share of contributions	2,583	32,608	3,543	-
Total	<u>\$ 60,897</u>	<u>\$ 51,064</u>	<u>\$ 41,886</u>	<u>\$ 37,254</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.



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Notes to Combined Financial Statements  
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**(10) Commitments and Contingencies**

*Litigation*

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

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

**(11) National Government Contributions**

For the years ended September 30, 2017 and 2016, the Republic of Palau appropriated and contributed the following to the Authority:

	<u>2017</u>	<u>2016</u>
For operational costs of employees	<u>\$ 70,000</u>	<u>\$ 70,000</u>
	<u>\$ 70,000</u>	<u>\$ 70,000</u>

**(12) Economic Dependency**

The Authority receives a substantial amount of its support from interests received from private sector and government donors. A significant reduction in the level of this support, if this were to occur, may have an adverse effect on the Authority's programs and activities. As of September 30, 2017 and 2016, the Authority received 60% and 59% of its support from the interests received from private sector, and 40% and 41% in from government donors, respectively.

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Notes to Combined Financial Statements  
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**(13) 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.

**(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, 2017 through April 24, 2018, 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**  
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Supplementary Statements of Revenues, Expenses, and Changes in Net Assets - Budget and Actual  
Year Ended September 30, 2017

	Budgeted Amounts			Actual Amounts	(Unfavorable) Variance
	<u>Original</u>	<u>Revision</u>	<u>Final</u>		
Operating revenues	\$ 144,100	\$ -	\$ 144,100	\$ 176,169	\$ 32,069
Operating expenses:					
Salaries and wages including employee benefits	96,695	-	96,695	112,698	(16,003)
Rent expense	8,975	-	8,975	9,000	(25)
Communication	4,000	-	4,000	4,057	(57)
Professional fees	3,500	-	3,500	390	3,110
Travel	3,600	-	3,600	8,524	(4,924)
Utilities	3,700	-	3,700	2,289	1,411
Repairs and maintenance	1,500	-	1,500	154,326	(152,826)
Office equipment	10,000	-	10,000	-	10,000
Depreciation	-	-	-	4,329	(4,329)
Miscellaneous	12,130	-	12,130	15,814	(3,684)
Total operating expenses	<u>144,100</u>	<u>-</u>	<u>144,100</u>	<u>311,427</u>	<u>(167,327)</u>
Operating income (loss)	<u>-</u>	<u>-</u>	<u>-</u>	<u>(135,258)</u>	<u>(135,258)</u>
Non-operating revenues:					
Investment income earned	-	-	-	259,896	259,896
Interest income (expense), net	-	-	-	(100,489)	(100,489)
Other income (expense), net	-	-	-	365	365
Total non-operating revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>159,772</u>	<u>159,772</u>
Change in net assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 24,514</u>	<u>\$ 24,514</u>

**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\*

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

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

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

See Accompanying Independent Auditors' Report.

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

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

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

<u>Cash and Money Market Funds</u>	<u>Cost</u>	<u>Fair Value</u>
Cash equivalents	\$ 14,467	\$ 14,467
Total Cash and Money Market Funds	<u>14,467</u>	<u>14,467</u>
 <u>Exchange-traded and Closed-in Funds:</u>		
<u>Mutual Funds</u>		
Alliance FDS Multi-Strategy T	142,646	142,371
Goldman Sachs ERMG Markerts	171,614	176,299
Ishares Inc Core MSCI EMKT	231,297	254,920
Ishares TR Core MNSCI EAFE	253,023	280,487
Ishares TR Core S&P MCP ETF	197,649	209,850
Ishares TR Core S&P 500 ETF	1,173,071	1,269,962
JPMorgan TR 1 Global Bond I	126,213	128,130
Morgan Stanley INSTL FD TRUS	<u>189,237</u>	<u>192,411</u>
Total Mutual Funds	<u>2,484,750</u>	<u>2,654,430</u>
 <u>Equities</u>		
DBX ETF Trust X-Trackers MSC	261,392	275,950
Fidelity INVT TR	1	133,531
Ishares Europe ETF	82,343	90,599
Ishares IINC SMCI	<u>85,261</u>	<u>90,919</u>
Total Equities	<u>428,997</u>	<u>590,999</u>
 Total Exchange-traded and Closed-in Funds	 <u>2,913,747</u>	 <u>3,245,429</u>
-		
Total Cash, Mutual Funds, and Equities	<u>\$ 2,928,214</u>	<u>\$ 3,259,896</u>

See Accompanying Independent Auditors's Report.

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

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

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**Year Ended September 30, 2017**



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

Board of Directors  
Palau Housing Authority

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Palau Housing Authority (the Authority), which comprise the statement of net position as of September 30, 2017, and the related statements of revenues, expenses and changes in net position and the statement of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 18, 2018.

**Internal Control over Financial Reporting**

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

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

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

### **Compliance and Other Matters**

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

### **Purpose of this Report**

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



Koror, Republic of Palau  
April 18, 2018

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

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**STATISTICAL SECTION**

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**Year Ended September 30, 2017**

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

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

	2017	2016	2015	2014 Restated	2013	2012	2011	2010	2009	2008
Invested in capital assets	\$ 10,112	\$ 11,787	\$ 14,363	\$ 15,663	\$ 23,383	\$ 10,558	\$ 13,449	\$ 23,552	\$ 39,555	\$ 22,424
Restricted	2,428,218	2,339,989	2,275,930	2,095,405	1,923,639	1,981,793	1,785,948	1,839,988	2,374,498	2,344,123
Unrestricted	207,853	269,893	325,003	450,009	921,999	840,204	1,004,620	944,339	393,629	345,529
Total Net Position	\$ 2,646,183	\$ 2,621,669	\$ 2,615,296	\$ 2,561,077	\$ 2,869,021	\$ 2,832,555	\$ 2,804,017	\$ 2,807,879	\$ 2,807,682	\$ 2,712,076

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

See Independent Auditors' Report.

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

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

	2017	2016	2015	2014 Restated	2013	2012	2011	2010	2009	2008
<b>Operating revenues</b>										
Republic of Palau appropriation	\$ 70,000	\$ 70,000	\$ 70,000	\$ 70,000	\$ 59,000	\$ 58,990	\$ 64,000	\$ 60,000	\$ 66,645	\$ 67,000
Interest on loans	93,606	88,863	80,844	77,172	76,509	82,507	76,955	88,600	74,975	63,740
Other operating revenues	12,563	11,832	20,764	8,067	18,418	7,796	4,549	15,605	11,856	6,387
Section 8 income	-	-	-	-	-	-	6,000	13,550	16,200	16,400
National treasury income	-	-	-	-	-	-	9,000	9,000	9,000	8,500
Provision for loan losses	-	-	-	-	-	-	-	(17,052)	-	-
<b>Total operating revenues, net</b>	<b>176,169</b>	<b>170,695</b>	<b>171,608</b>	<b>155,239</b>	<b>153,927</b>	<b>149,293</b>	<b>160,504</b>	<b>169,703</b>	<b>178,676</b>	<b>162,027</b>
<b>Operating expenses</b>										
Salaries and wages	77,970	75,456	70,468	71,692	65,335	60,600	64,422	65,458	64,122	63,552
Rent expense	9,000	12,681	12,975	12,975	10,894	10,200	10,480	11,320	11,320	11,890
Employee benefits	34,728	12,262	6,723	23,425	9,155	7,587	8,248	6,693	6,549	6,373
Depreciation	4,329	2,576	2,865	7,109	8,290	2,891	10,103	14,549	14,153	8,265
Travel	8,524	5,481	3,697	4,827	3,557	4,402	3,412	2,848	2,559	2,887
Communication	4,057	4,836	5,314	4,664	4,658	4,600	3,667	2,722	5,312	3,446
Professional fees	390	-	1,650	1,900	4,000	10,500	10,525	12,000	9,000	9,000
Repairs and maintenance	154,326	5,640	1,458	1,573	1,007	2,844	3,460	2,710	2,610	2,699
Labor and materials	-	29,814	-	-	-	-	18,787	-	-	-
Provision for bad debts	-	-	-	-	-	8,551	22,631	-	-	-
Other operating expenses	18,103	18,081	13,070	15,950	14,766	9,553	9,469	9,105	14,424	11,490
<b>Total operating expenses</b>	<b>311,427</b>	<b>166,827</b>	<b>118,220</b>	<b>144,115</b>	<b>121,662</b>	<b>121,728</b>	<b>165,204</b>	<b>127,405</b>	<b>130,049</b>	<b>119,602</b>
<b>Operating income (loss)</b>	<b>(135,258)</b>	<b>3,868</b>	<b>53,388</b>	<b>11,124</b>	<b>32,265</b>	<b>27,565</b>	<b>(4,700)</b>	<b>42,298</b>	<b>48,627</b>	<b>42,425</b>
<b>Non-operating revenues (expenses)</b>										
Investment income earned	5,429	855	831	1,174	1,201	973	838	940	16,604	19,218
Interest expense	(105,918)	-	-	-	-	-	-	-	-	-
Net change in fair value of investments	259,896	-	-	-	-	-	-	-	-	-
Other income (expense)	365	1,650	-	(367)	3,000	-	-	(43,041)	-	-
<b>Total non-operating revenues, net</b>	<b>159,772</b>	<b>2,505</b>	<b>831</b>	<b>807</b>	<b>4,201</b>	<b>973</b>	<b>838</b>	<b>(42,101)</b>	<b>16,604</b>	<b>19,218</b>
<b>Change in net position</b>	<b>\$ 24,514</b>	<b>\$ 6,373</b>	<b>\$ 54,219</b>	<b>\$ 11,931</b>	<b>\$ 36,466</b>	<b>\$ 28,538</b>	<b>\$ (3,862)</b>	<b>\$ 197</b>	<b>\$ 65,231</b>	<b>\$ 61,643</b>

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 Six Fiscal Years Ending September 30

Function	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
ROP Appropriations	\$ 70,000	\$ 70,000	\$ 70,000	\$ 70,000	\$ 59,000	\$ 58,990	\$ 64,000	\$ 88,600	\$ 66,645	\$ 67,000
Interest on loans	93,606	88,863	80,844	77,172	76,509	82,507	76,955	60,000	74,975	63,740
Section 8 income	-	-	-	-	-	-	6,000	13,550	16,200	16,400
National treasury income	-	-	-	-	-	-	9,000	9,000	9,000	8,500
Other operating revenues	12,563	11,832	20,764	8,067	18,418	7,796	4,549	15,605	11,856	6,387
Total Revenues	\$ 176,169	\$ 170,695	\$ 171,608	\$ 155,239	\$ 153,927	\$ 149,293	\$ 160,504	\$ 186,755	\$ 178,676	\$ 162,027

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

See Independent Auditors' Report.

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

**SCHEDULE OF EXPENSES**

**Last Six Fiscal Years Ending September 30**

Function	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Salaries and wage:	\$ 77,970	\$ 75,456	\$ 70,468	\$ 71,692	\$ 65,335	\$ 60,600	\$ 64,422	\$ 65,458	\$ 64,122	\$ 63,552
Rent expense	9,000	12,681	12,975	12,975	10,894	10,200	10,480	11,320	11,320	11,890
Employee benefits	34,728	12,262	6,723	23,425	9,155	7,587	8,248	6,693	6,549	6,373
Depreciation	4,329	2,576	2,865	7,109	8,290	2,891	10,103	14,549	14,153	8,265
Travel	8,524	5,481	3,697	4,827	3,557	4,402	3,412	2,848	2,559	2,887
Communicator	4,097	4,836	5,314	4,664	4,658	4,600	3,667	2,722	5,312	3,446
Professional fees	390	-	1,650	1,900	4,000	10,500	10,525	12,000	9,000	9,000
Repairs and maintenance	154,326	5,640	1,458	1,573	1,007	2,844	3,460	2,710	2,610	2,699
Provision for bad debt:	-	-	-	-	-	8,551	22,631	-	-	-
Labor and material:	-	29,814	-	-	-	-	18,787	-	-	-
Other operating expense:	18,063	18,081	13,070	15,950	14,766	9,553	9,469	9,105	14,424	11,490
<b>Total Expenses</b>	<b>\$ 311,427</b>	<b>\$ 166,827</b>	<b>\$ 118,220</b>	<b>\$ 144,115</b>	<b>\$ 121,662</b>	<b>\$ 121,728</b>	<b>\$ 165,204</b>	<b>\$ 127,405</b>	<b>\$ 130,049</b>	<b>\$ 119,602</b>

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

See Independent Auditors' Report.