

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

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**INDEPENDENT AUDITOR'S REPORT**  
**And**  
**FINANCIAL STATEMENTS**

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**Years Ended September 30, 2012 and 2011**

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

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SEPTEMBER 30, 2012 and 2011

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**INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors  
Palau District Housing Authority

I have audited the accompanying combined financial statements of Palau District Housing Authority (the Authority), a component unit of the Republic of Palau, as set forth in Section I of the foregoing Table of Contents, as of September 30, 2012 and 2011, and for the years then ended. These financial statements are the responsibility of the Authority's management. My responsibility is to express an opinion on these financial statements based on my audits. The prior year summarized comparative information has been derived from the Authority's 2011 financial statements and, in my report dated January 13, 2012, I expressed an unqualified opinion on those financial statements.

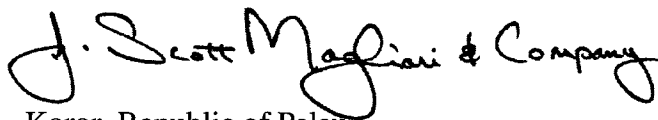
I conducted my audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, I do not express such an opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audits provide a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Palau District Housing Authority as of September 30, 2012 and 2011, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated January 14, 2013 on my consideration of Palau District Housing Authority's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts, grants and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audits.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 15 and page 41, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the *Governmental Accounting Standards Board*, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I 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 I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Palau District Housing Authority's financial statements as a whole. The statistical section on pages 44 through 47 is presented for purposes of additional analysis and is not a required part of the financial statements. The statistical section is the responsibility of management. The statistical section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I do not express an opinion or provide any assurance on them.



Koror, Republic of Palau  
May 10, 2013

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

Management's Discussion and Analysis  
September 30, 2012

As management of the Palau District Housing Authority (the Authority), a component unit of the Republic of Palau (ROP), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended September 30, 2012. 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 16 through 40.

**Financial Highlights**

- The assets of the Authority exceeded its liabilities at September 30, 2012 and 2011 by \$2,832,555 and \$2,804,017, respectively. The Authority's net assets (assets less liabilities) increased by \$28,538 from the previous year. The increase in net assets is a result of excess of revenues earned over expenses incurred.
- The Authority's cash and cash equivalents at September 30, 2012 and 2011 was \$833,400 and \$1,014,213, respectively, representing a decrease of \$180,813 due primarily to increased loan disbursements. In FY2012, there were fifteen (15) new loan applications approved with approximate disbursements of \$370,000 as September 30, 2012.
- The Authority had net operating revenues of \$149,293 and \$160,504 and operating expenses of \$121,728 and \$165,204 for the years ended September 30, 2012 and 2011, respectively. The net decrease of \$11,211 in net operating revenues is attributable by the decreased appropriation from ROP and contribution from National Treasury totaling \$14,010; a decrease in Section 8 rental income of \$6,000 due to demolition of Section 8 housing units in fiscal year 2011; and an increase in interest earned on loans and other fees by \$8,799 over prior year. Operating expenses, on the other hand, decreased by \$43,476 primarily due to a decrease in the provision for bad debts by \$14,080 on Section 8 receivables; a decrease in salaries and benefits totaling \$4,483; and the prior year demolition cost of \$18,787 for Section 8 housing units.

**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.

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

Management's Discussion and Analysis  
September 30, 2012

**Overview of the Financial Statements, Continued**

***AUTHORITY-WIDE FINANCIAL STATEMENTS***

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

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

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

The authority-wide financial statements report on the function of the Authority that is principally supported by intergovernmental revenues. The Authority's function is to develop and administer low-cost housing projects and to assist in correcting housing conditions endangering the health, safety, and welfare of the people residing in the Republic of Palau, which 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 16 through 20 of this report.

***NOTES TO THE FINANCIAL STATEMENTS***

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the authority-wide financial statements. The notes to the financial statements can be found on pages 21 through 40 of this report.

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

Management's Discussion and Analysis  
September 30, 2012

**Overview of the Financial Statements, Continued**

***FUND FINANCIAL STATEMENTS***

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

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

**Authority-Wide Financial Analysis**

Fiscal year 2012 is the tenth 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 focus on both the gross costs and the net costs of Authority activities which are supported mainly by appropriations from Palau National Congress (Olbiil Era Kelulau or OEK) and by other revenues. This approach is intended to summarize and simplify the user's analysis of cost of Authority services to the general public of the ROP.

**PALAU DISTRICT HOUSING AUTHORITY**  
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Management's Discussion and Analysis  
September 30, 2012

**Authority-Wide Financial Analysis, Continued**

**Statements of Net Assets**  
**As of September 30, 2012, 2011 and 2010**

	2012	2011	2010
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 833,400	\$ 1,014,213	\$ 971,330
Notes receivable, current portion	238,746	296,825	208,450
Allowance for doubtful accounts	(87,994)	(87,994)	(87,994)
	150,752	208,831	120,456
Accounts receivable, net	5,684	13,115	36,431
Due from grantor agency	30,375	30,375	30,375
Interest receivable	9,590	9,590	9,590
Due from other fund	-	55,375	55,000
	1,029,801	1,331,499	1,223,182
Total current assets			
Noncurrent assets:			
Notes receivable, net of current portion	1,799,406	1,534,549	1,631,538
Capital assets, net	10,558	13,449	23,552
	1,809,964	1,547,998	1,655,090
Total noncurrent assets			
<b>Total Assets</b>	<b>\$ 2,839,765</b>	<b>\$ 2,879,497</b>	<b>\$ 2,878,272</b>



**PALAU DISTRICT HOUSING AUTHORITY**  
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Management's Discussion and Analysis  
September 30, 2012

**Authority-Wide Financial Analysis, Continued**

**Statements of Net Assets**  
**As of September 30, 2012, 2011 and 2010**

	<u>2012</u>	<u>2011</u>	<u>2010</u>
<b>Liabilities</b>			
Current Liabilities:			
Due to other fund	\$ -	\$ 55,375	\$ 55,000
Accrued expenses	<u>7,210</u>	<u>20,105</u>	<u>15,393</u>
 Total liabilities	 <u>7,210</u>	 <u>75,480</u>	 <u>70,393</u>
 <b>Net Assets</b>			
Invested in capital assets	10,558	13,449	23,552
Restricted	1,981,793	1,785,948	1,839,988
Unrestricted	<u>840,204</u>	<u>1,004,620</u>	<u>944,339</u>
 Total net assets	 <u>2,832,555</u>	 <u>2,804,017</u>	 <u>2,807,879</u>
 <b>Total Liabilities and Net Assets</b>	 <u><u>\$ 2,839,765</u></u>	 <u><u>\$ 2,879,497</u></u>	 <u><u>\$ 2,878,272</u></u>

This schedule is prepared from the Authority's Statement of Net Assets, 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.

Total net assets were \$2.80 million as of FY 2012 and \$2.81 million as of FY 2011. There were fifteen (15) new loans approved in FY 2012 totaling \$370,000, of which fourteen (14) loans of new construction and renovations were 100% completed as of September 30, 2012, and one loan was in construction in progress as of September 30, 2012.

**PALAU DISTRICT HOUSING AUTHORITY**  
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Management's Discussion and Analysis  
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**Authority-Wide Financial Analysis, Continued**

Noncurrent assets increased from \$1.55 million in FY 2011 to \$1.81 million in FY 2012. The increase is attributed by the increase in notes receivable. Of the total outstanding notes receivable, \$1,854,899 pertains to the Home Rehabilitation Loan Program as of September 30, 2012.

As noted earlier, net assets may serve over time as a useful indicator of an entity's financial position. In the case of the Authority, total assets exceeded liabilities by \$2,832,555 as of September 30, 2012.

**Operating Revenues for the Years Ended  
September 30, 2012, 2011 and 2010**

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Operating revenues:			
Interest on loans	\$ 82,507	\$ 76,955	\$ 88,600
Republic of Palau appropriations	58,990	64,000	60,000
Tenant rental income	-	6,000	13,550
National Treasury income	-	9,000	9,000
Other	<u>7,796</u>	<u>4,549</u>	<u>15,605</u>
Total operating revenues	149,293	160,504	186,755
Provision for loan loss	<u>-</u>	<u>-</u>	<u>(17,052)</u>
Total net operating revenues	<u>\$ 149,293</u>	<u>\$ 160,504</u>	<u>\$ 169,703</u>

The above schedule indicates total revenues realized by the Authority in FY 2012 totaled \$149,293. The OEK contributed \$58,990 through cost reimbursement grants during FY 2012. 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.

The Authority's net operating revenues decreased by \$11,211 in FY 2012 mainly attributable to an 8% decline in OEK appropriation compared to FY 2011 and from ceased rental operation of Section 8 housing units due to demolition in FY 2011. The Authority recorded a provision for bad debts arising from Section 8 uncollectable account in the amount of \$8,551 for FY 2012.

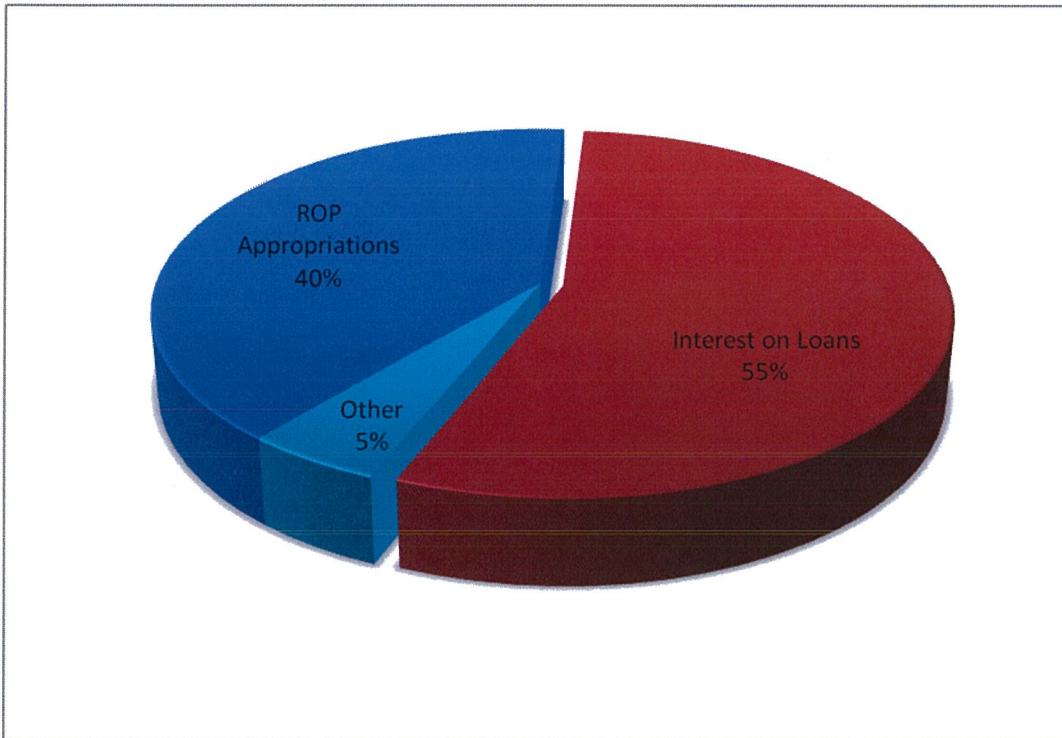
**PALAU DISTRICT HOUSING AUTHORITY**  
(A Component Unit of the Republic of Palau)

Management's Discussion and Analysis  
September 30, 2012

**Authority-Wide Financial Analysis, Continued**

The following chart exhibits the breakdown of revenues for Palau District Housing Authority in FY 2012.

Operating Revenues Breakdown



**PALAU DISTRICT HOUSING AUTHORITY**  
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Management's Discussion and Analysis  
September 30, 2012

**Operating Expenses for the Years Ended  
September 30, 2012, 2011 and 2010**

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Operating expenses:			
Salaries and wages	\$ 60,600	\$ 64,422	\$ 65,458
Professional fees	10,500	10,525	12,000
Rent expense	10,200	10,480	11,320
Provision for bad debts	8,551	22,631	-
Employee benefits	7,587	8,248	6,693
Communication	4,600	3,667	2,710
Travel	4,402	3,412	2,722
Depreciation	2,891	10,103	14,549
Repairs and maintenance	2,844	3,460	2,848
Labor and materials	-	18,787	-
Miscellaneous	<u>9,553</u>	<u>9,469</u>	<u>9,105</u>
 Total operating revenues	 <u>\$ 121,728</u>	 <u>\$ 165,204</u>	 <u>\$ 127,405</u>

The above schedule shows total operating expenses of \$121,728 in FY 2012.

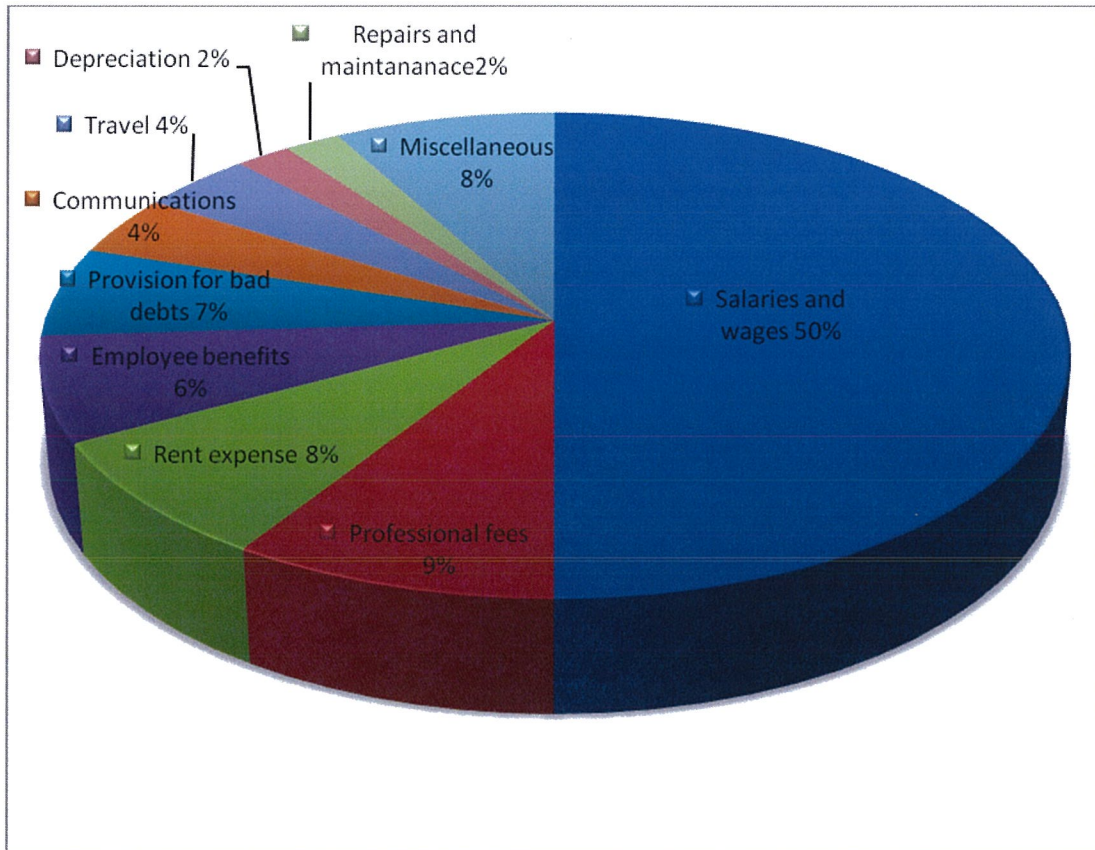
The Authority's operating expenses decreased by \$43,476 in FY 2012 due primarily to prior year Section 8 housing units' demolition cost of \$18,787, and the related provision of uncollectable accounts of \$22,631 from Section 8 accounts receivable.

**PALAU DISTRICT HOUSING AUTHORITY**  
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Management's Discussion and Analysis  
September 30, 2012

**Authority-Wide Financial Analysis, Continued**

Expense Breakdown  
For Year Ended September 30, 2012



The largest expenditure in FY 2012 was for employees' salaries and wages totaling \$60,600 covering four (4) full-time employees. For comparison purposes, the FY 2011 salaries and wages totaled \$64,422, thus representing a decrease in current year salaries and wages of \$3,822 or 6% attributed by decrease in usage of compensated leave absence in FY 2012.

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Management's Discussion and Analysis  
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**Authority-Wide Financial Analysis, Continued**

**CAPITAL ASSETS**

As of September 30, 2012, 2011 and 2010, the Authority's investment in capital assets (net of accumulated depreciation) for its business-type activities is as reflected in the following schedule:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Residential units	\$ -	\$ -	\$ 213,431
Furniture, fixtures, and equipment	21,012	37,328	37,328
Vehicles	<u>45,979</u>	<u>45,979</u>	<u>45,979</u>
	66,991	83,307	296,738
Accumulated depreciation	<u>(56,433)</u>	<u>(69,858)</u>	<u>(273,186)</u>
	<u>\$ 10,558</u>	<u>\$ 13,449</u>	<u>\$ 23,552</u>

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

**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, 2012, 2011 and 2010, the Authority's fund balance is as reflected in the following schedule:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Invested in capital assets	\$ 10,558	\$ 13,449	\$ 23,552
Restricted	1,981,793	1,785,948	1,839,988
Unrestricted	<u>840,204</u>	<u>1,004,620</u>	<u>944,339</u>
Total net assets	<u>\$ 2,832,555</u>	<u>\$ 2,804,017</u>	<u>\$ 2,807,879</u>

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

Management's Discussion and Analysis  
September 30, 2012

**Authority-Wide Financial Analysis, Continued**

**BUDGETARY INFORMATION**

Budgetary financial statements is an analysis of significant variations between original and final budget amounts and between final budget amounts and actual budget results, including reasons for those variations that are expected to have a significant effect on future services or liquidity. At September 30, 2012 the Authority's budget and actual is reflected in the following schedule:

	Budgeted Amounts		Actual Amounts	(Unfavorable) Variance
	Original	Final		
Operating revenues	\$ 111,589	\$ 111,589	\$ 149,293	\$ 37,704
Operating expenses	<u>(111,589)</u>	<u>(111,589)</u>	<u>(121,728)</u>	<u>(10,139)</u>
Operating income	-	-	27,565	27,565
Investment income earned	<u>-</u>	<u>-</u>	<u>973</u>	<u>973</u>
Increase in net assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 28,538</u>	<u>\$ 28,538</u>

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

**PALAU DISTRICT HOUSING AUTHORITY**  
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Management's Discussion and Analysis  
September 30, 2012

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

The following factors were considered in preparing the Authority's budget for the 2013 fiscal year:

- An increase in the collections of loan payments. The increase will be due to additional loan disbursed from previous year due to the Nanden subdivision project (10-housing units).
- The number of loans to be disbursed will be similar to last years. Plans to duplicate similar program.
- An increase in interest income primarily due to additional loan disbursements.
- Appropriation from the Palau National Government for administrative and operation expenditures.
- Partnership with the National Development Bank of Palau (NDBP).

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

- The Authority will continue its housing programs, but will depend entirely on its limited revolving funds to fund and continue its programs.
- To continue partnership with National Development Bank of Palau (NDBP) in the Energy Efficiency Subsidy Program (EESP). Under this program, the NDBP home loan borrowers may be eligible for loan subsidies of \$3,000 to \$6,000 for incorporating energy efficiency measures into their newly constructed homes.
- Partnership with NDBP to extend assistance towards providing loans through the Energy Efficient Retro-Fit Program.
- To seek and continue partnership to develop similar subdivision housing projects in various States of the Republic of Palau.
- The Palau Housing Authority plans to develop another similar subdivision housing project in Babeldaob.
- The securing of land and the construction of a permanent office building for the Palau Housing Authority.



**PALAU DISTRICT HOUSING AUTHORITY**  
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Management's Discussion and Analysis  
September 30, 2012

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

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

Combined Statements of Net Assets  
September 30, 2012

(With comparative totals as of September 30, 2011)

	Major Enterprise Funds				Non-Major Enterprise Fund	Total 2012	Total 2011
	Operation Fund	Section 8 Housing Assistance Program	Home Rehabilitation Loan Program	Low-Cost Housing Program			
<b>ASSETS</b>							
Current assets:							
Cash and cash equivalents (Notes 1, 2 and 3)	\$ 87,056	\$ 55,845	\$ 414,917	\$ 34,833	\$ 240,749	\$ 833,400	\$ 1,014,213
Notes receivable, current portion (Notes 1, 4 and 9)	-	-	207,560	25,744	5,442	238,746	296,825
Allowance for loan losses (Notes 1 and 4)	-	-	(69,442)	(18,552)	-	(87,994)	(87,994)
	-	-	138,118	7,192	5,442	150,752	208,831
Accounts receivable, net	4,000	1,260	424	-	-	5,684	13,115
Due from grantor agency	-	30,375	-	-	-	30,375	30,375
Interest receivable	-	-	7,791	1,799	-	9,590	9,590
Due from other fund (Note 5)	-	-	-	-	-	-	55,375
Total current assets	<u>91,056</u>	<u>87,480</u>	<u>561,250</u>	<u>43,824</u>	<u>246,191</u>	<u>1,029,801</u>	<u>1,331,499</u>
Noncurrent assets:							
Notes receivable, net of current portion (Notes 1, 4 and 9)	-	-	1,647,339	118,287	33,780	1,799,406	1,534,549
Capital assets, net (Notes 1 and 6)	-	10,558	-	-	-	10,558	13,449
Total noncurrent assets	<u>-</u>	<u>10,558</u>	<u>1,647,339</u>	<u>118,287</u>	<u>33,780</u>	<u>1,809,964</u>	<u>1,547,998</u>
Total assets	<u>\$ 91,056</u>	<u>\$ 98,038</u>	<u>\$ 2,208,589</u>	<u>\$ 162,111</u>	<u>\$ 279,971</u>	<u>\$ 2,839,765</u>	<u>\$ 2,879,497</u>

See accompanying notes to the basic financial statements.

**PALAU DISTRICT HOUSING AUTHORITY**

( A Component Unit of the Republic of Palau)

**Combined Statements of Net Assets, Continued**

**September 30, 2012**

(With comparative totals as of September 30, 2011)

	Major Enterprise Funds					Total 2012	Total 2011
	Operation Fund	Section 8 Housing Assistance Program	Home Rehabilitation Loan Program	Low-Cost Housing Program	Non-Major Enterprise Funds		
<b>LIABILITIES</b>							
Current Liabilities:							
Due to other fund (Note 5)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 55,375
Accrued expenses (Note 1)	6,751	-	459	-	-	7,210	20,105
<b>Total liabilities</b>	<b>6,751</b>	<b>-</b>	<b>459</b>	<b>-</b>	<b>-</b>	<b>7,210</b>	<b>75,480</b>
Commitments and Contingencies (Note 9)							
<b>NET ASSETS (Note 1)</b>							
Invested in capital assets	-	10,558	-	-	-	10,558	13,449
Restricted	-	31,635	1,785,457	125,479	39,222	1,981,793	1,785,948
Unrestricted	84,305	55,845	422,673	36,632	240,749	840,204	1,004,620
<b>Total net assets</b>	<b>84,305</b>	<b>98,038</b>	<b>2,208,130</b>	<b>162,111</b>	<b>279,971</b>	<b>2,832,555</b>	<b>2,804,017</b>
<b>Total liabilities and net assets</b>	<b>\$ 91,056</b>	<b>\$ 98,038</b>	<b>\$ 2,208,589</b>	<b>\$ 162,111</b>	<b>\$ 279,971</b>	<b>\$ 2,839,765</b>	<b>\$ 2,879,497</b>

See accompanying notes to the basic financial statements.

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

Combined Statements of Revenues, Expenses and Changes in Net Assets  
Year Ended September 30, 2012

(With comparative totals as of September 30, 2011)

	Major Enterprise Funds					Total 2012	Total 2011
	Operation Fund	Section 8 Housing Assistance Program	Home Rehabilitation Loan Program	Low-Cost Housing Program	Non-Major Enterprise Funds		
<b>Operating revenues:</b>							
Interest on loans	\$ -	\$ -	\$ 76,411	\$ 4,300	\$ 1,796	\$ 82,507	\$ 76,955
Republic of Palau appropriation	58,990	-	-	-	-	58,990	64,000
Section 8 income	-	-	-	-	-	-	6,000
National treasury income	-	-	-	-	-	-	9,000
Other	20	167	7,299	310	-	7,796	4,549
<b>Total operating revenues</b>	<b>59,010</b>	<b>167</b>	<b>83,710</b>	<b>4,610</b>	<b>1,796</b>	<b>149,293</b>	<b>160,504</b>
Provision for loan loss	-	-	-	-	-	-	-
<b>Net operating revenues</b>	<b>59,010</b>	<b>167</b>	<b>83,710</b>	<b>4,610</b>	<b>1,796</b>	<b>149,293</b>	<b>160,504</b>
<b>Operating expenses:</b>							
Salaries and wages	30,585	-	30,015	-	-	60,600	64,422
Professional fees	4,000	-	5,000	-	1,500	10,500	10,525
Rent expense	5,950	-	4,250	-	-	10,200	10,480
Provision for bad debts	-	8,551	-	-	-	8,551	22,631
Employee benefits	3,773	-	3,814	-	-	7,587	8,248
Communication	2,657	-	1,943	-	-	4,600	3,667
Travel	2,584	-	1,818	-	-	4,402	3,412
Depreciation	440	2,451	-	-	-	2,891	10,103
Repairs and maintenance	221	-	2,623	-	-	2,844	3,460
Labor and materials	-	-	-	-	-	-	18,787
Miscellaneous	5,302	49	4,100	51	51	9,553	9,469
<b>Total operating expenses</b>	<b>55,512</b>	<b>11,051</b>	<b>53,563</b>	<b>51</b>	<b>1,551</b>	<b>121,728</b>	<b>165,204</b>
<b>Operating income (loss)</b>	<b>3,498</b>	<b>(10,884)</b>	<b>30,147</b>	<b>4,559</b>	<b>245</b>	<b>27,565</b>	<b>(4,700)</b>
<b>Non-operating revenue (expense):</b>							
Interest income	58	80	584	46	205	973	838
Other expense (Note 12)	-	-	-	-	-	-	-
<b>Total non-operating revenue (expense)</b>	<b>58</b>	<b>80</b>	<b>584</b>	<b>46</b>	<b>205</b>	<b>973</b>	<b>838</b>
<b>Change in net assets</b>	<b>3,556</b>	<b>(10,804)</b>	<b>30,731</b>	<b>4,605</b>	<b>450</b>	<b>28,538</b>	<b>(3,862)</b>
<b>Total net assets at beginning of year</b>	<b>80,749</b>	<b>108,842</b>	<b>2,177,399</b>	<b>157,506</b>	<b>279,521</b>	<b>2,804,017</b>	<b>2,807,879</b>
<b>Total net assets at end of year</b>	<b>\$ 84,305</b>	<b>\$ 98,038</b>	<b>\$ 2,208,130</b>	<b>\$ 162,111</b>	<b>\$ 279,971</b>	<b>\$ 2,832,555</b>	<b>\$ 2,804,017</b>

See accompanying notes to the basic financial statements.

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

Combined Statements of Cash Flows  
September 30, 2012

(With comparative totals as of September 30, 2011)

	Major Enterprise Funds					Total 2012	Total 2011
	Operation Fund	Section 8 Housing Assistance Program	Home Rehabilitation Loan Program	Low-Cost Housing Program	Non-Major Enterprise Funds		
Cash flows from operating activities:							
Receipts from customers, net	\$ 20	\$ 2,041	\$ (140,782)	\$ 18,039	\$ 6,081	\$ (114,601)	\$ 102,210
Receipts from ROP appropriation	55,915	-	(4,920)	-	-	50,995	68,500
Payments to suppliers	(16,338)	(49)	(20,650)	(51)	(51)	(37,139)	(54,281)
Payments to employees	(45,712)	-	(33,829)	-	(1,500)	(81,041)	(74,384)
Net cash provided by (used in) operating activities	(6,115)	1,992	(200,181)	17,988	4,530	(181,786)	42,045
Cash flows from investing activities:							
Interest and dividends	58	80	584	46	205	973	838
Net cash provided by investing activities	58	80	584	46	205	973	838
Cash flows from financing activities:							
Increase (decrease) in due from funds	-	-	-	(55,000)	55,000	-	-
Net cash provided by (used in) financing activities	-	-	-	(55,000)	55,000	-	-
Net increase (decrease) in cash and cash equivalents	(6,057)	2,072	(199,597)	(36,966)	59,735	(180,813)	42,883
Cash and cash equivalents at beginning of year	93,113	53,773	614,514	71,799	181,014	1,014,213	971,330
Cash and cash equivalents at end of year	\$ 87,056	\$ 55,845	\$ 414,917	\$ 34,833	\$ 240,749	\$ 833,400	\$ 1,014,213

See accompanying notes to the basic financial statements.

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

Combined Statements of Cash Flows, Continued  
September 30, 2012

(With comparative totals as of September 30, 2011

	Major Enterprise Funds					Total 2012	Total 2011
	Operation Fund	Section 8 Housing Assistance Program	Home Rehabilitation Loan Program	Low-Cost Housing Program	Non-Major Enterprise Funds		
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:							
Operating income (loss)	\$ 3,498	\$ (10,884)	\$ 30,147	\$ 4,559	\$ 245	\$ 27,565	\$ (4,700)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities							
Depreciation	440	2,451	-	-	-	2,891	10,103
Provision for bad debts	-	8,551	-	-	-	8,551	22,631
(Increase) decrease in assets:							
Accounts receivable	(3,075)	1,874	(4,920)	-	-	(6,121)	685
Notes receivable	-	-	(224,492)	13,429	4,285	(206,778)	8,614
Due from other funds	375	-	-	-	-	375	(375)
Increase (decrease) in liabilities:							
Accrued expenses	(7,353)	-	(541)	-	-	(7,894)	4,712
Due to other funds	-	-	(375)	-	-	(375)	375
 Net cash provided by (used in) operating activities	 <u>\$ (6,115)</u>	 <u>\$ 1,992</u>	 <u>\$ (200,181)</u>	 <u>\$ 17,988</u>	 <u>\$ 4,530</u>	 <u>\$ (181,786)</u>	 <u>\$ 42,045</u>

See accompanying notes to the basic financial statements.

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

Notes to Combined Financial Statements  
September 30, 2012 and 2011

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

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

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

**Major Enterprise Funds**

*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. However, the program has been able to sustain itself and continue to provide this service.

*Home Rehabilitation Loan Program*

The Home Rehabilitation Loan Program provides long-term financing to low income and moderate income families to rehabilitate existing dwellings or construct new single-family housing units. This Program is made possible through the initial funding from the U.S. Department of Housing and Urban Development (HUD). The maximum amount that can be borrowed for a new single family dwelling is \$35,000 at 4.5% interest per annum with a 25 year term. The maximum loan amount to rehabilitate an existing dwelling is \$5,000 with a 10 year term at 3% interest rate per annum, and \$10,000 with a 15 year term at 4.5% interest rate per annum.

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

Notes to Combined Financial Statements  
September 30, 2012 and 2011

**(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.

Non-Major Enterprise Funds

The following fund was determined to be non-major enterprise funds for the fiscal year ended September 30, 2012:

*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.

*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.



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

Notes to Combined Financial Statements  
September 30, 2012 and 2011

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

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

During 2003, the Authority implemented GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis – for State and Local Government*, GASB Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus*, GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, and GASB Interpretation No. 6 *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

GASB Statement No. 34 creates new basic financial statements for reporting on the Authority's financial activities. The new financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund accounting which present information for individual major funds rather than by fund type. Requirements in order to comply also include adopting depreciation on capital assets and classifying assets and liabilities as current and non-current.

GASB Statement No. 37 clarifies certain provisions of GASB Statement No. 34, including the required content of the Management Discussion and Analysis, the classification of program revenues and the criteria for determining major funds. GASB Statement No. 38 modifies, establishes and rescinds certain financial statement note disclosures. GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

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.

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

Notes to Combined Financial Statements  
September 30, 2012 and 2011

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

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

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. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. 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.

The general purpose financial statements of the Palau District Housing Authority have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. Government Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, requires that proprietary activities apply all applicable GASB pronouncements as well as Statements and Interpretations issued by the Financial Accounting Standards Board (FASB), Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989. The Palau District Housing Authority has implemented GASB No. 20 and elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

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, 2012, from which the summarized information was derived.

*Recent Pronouncements*

In June 2010, GASB issued Statement No. 59, *Financial Instruments Omnibus*. The Statement updates and improves existing standards regarding financial reporting of certain financial instruments and external pools. The Statement is effective for financial statements prepared by state and local governments for periods beginning after June 15, 2010, with earlier application encouraged. The implementation of this Statement did not have a material effect on the accompanying financial statements of the Authority.

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

Notes to Combined Financial Statements  
September 30, 2012 and 2011

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

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

In November 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus*—an amendment of GASB Statements No. 14 and No. 34. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2012. Earlier application is encouraged. Management has not evaluated the effect that the implementation of this Statement will have on the financial statements of the Authority.

*Recent Pronouncements, Continued*

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of this Statement is to incorporate into GASB’s authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict or contradict GASB pronouncements:

1. Financial Accounting Standards Board (FASB) Statements and Interpretations;
2. Accounting Principles Board Opinions; and
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants’ (AICPA) Committee on Accounting Procedure.

Hereinafter, these pronouncements collectively are referred to as the *FASB and AICPA Pronouncements*. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. Earlier application is encouraged. The provisions of this Statement generally are required to be applied retroactively for all periods presented.

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

Notes to Combined Financial Statements  
September 30, 2012 and 2011

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

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

In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. Concepts Statement 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011. The implementation of this Statement did not have a material effect on the accompanying financial statements of the Authority.

In March 2012, GASB issued Statement No. 66, *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This Statement amends Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, by removing the provision that limits fund-based reporting of an entity's risk financing activities to the general fund and the internal service fund type. As a result, governments should base their decisions about fund type classification on the nature of the activity to be reported, as required in Statement 54 and Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Earlier application is encouraged.

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

Notes to Combined Financial Statements  
September 30, 2012 and 2011

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

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

*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.

*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.

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

Notes to Combined Financial Statements  
September 30, 2012 and 2011

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

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

*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, 2012 and 2011, 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 \$1,113,195 and \$772,858 as of September 30, 2012 and 2011, respectively.

*Loans and Allowance for Loan Losses*

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

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

Notes to Combined Financial Statements  
September 30, 2012 and 2011

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

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

*Capital Assets*

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

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

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

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

*Compensated Absences*

Compensated absences are those absences for which employees will be paid, such as vacation and sick leave. Employees are credited 104, 156 or 208 hours per fiscal year, based on their lengths of service. The accumulation of vacation leave credits is limited to 360 at fiscal year-end while that of sick leave credits is unlimited. Both are convertible to pay upon termination of employment. The Authority recognizes as a liability all vested vacation and sick leave benefits accrued by its employees. When the employees use vacation and sick leave benefits, the liability account is reduced accordingly. At September 30, 2012 and 2011, compensated absences payable to employees were \$2,751 and \$14,105, respectively, and are recorded as a component of accrued expenses in the accompanying Combined Statement of Net Assets. At September 30, 2012 and 2011, all compensated absences are current.

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

Notes to Combined Financial Statements  
September 30, 2012 and 2011

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

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

*Income Tax*

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

*Net Assets*

The Authority's net assets are classified as follows:

Invested in capital assets - This represents the Authority's total investment in capital assets, net of accumulated depreciation.

Restricted net assets – This 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.

Unrestricted net assets – This includes resources derived from government appropriations. These resources are used for transactions relating to the general operations of the Authority and may be used at the discretion of the governing board to meet current expenses for any purpose.

*Classification of Revenues*

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

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

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



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

Notes to Combined Financial Statements  
September 30, 2012 and 2011

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

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

*Fair Value of Financial Instruments*

The carrying amounts reflected in the statement of net assets for cash and cash equivalents, notes receivable, due from grantor agency, interest receivable, due to other funds, and accrued expenses approximate their respective fair values due to the short-term maturities of those instruments.

*Advertising*

For the fiscal years ending September 30, 2012 and 2011, the Authority incurred advertising costs totaling \$698 and \$495, respectively, and included as a component of miscellaneous expense in the Combining Statements of Revenues and Expenses and Changes in Net Assets. These costs primarily relate to construction bids and related procurement solicitation costs.

**(2) Cash and cash equivalents**

Cash and cash equivalents at September 30, 2012 and 2011 consist of the following:

	<u>2012</u>	<u>2011</u>
Cash	\$ 819,628	\$ 501,648
Time certificates of deposit	<u>13,772</u>	<u>512,565</u>
	<u>\$ 833,400</u>	<u>\$ 1,014,213</u>

**(3) Deposits and investments**

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

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

Notes to Combined Financial Statements  
September 30, 2012 and 2011

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

*Deposits*

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

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

GASB Statement No. 40 amended GASB Statement No. 3 to in effect eliminate disclosure for deposits falling into categories 1 and 2 but retained disclosures for deposits falling under category 3. Category 3 deposits are those deposits that have exposure to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name. The Authority has an investment and deposit policy for custodial credit risk. For deposits, a general depository agreement pursuant to HUD regulations, must be executed by the Authority and the depository. The depository bank must be a bank or financial institution whose deposits are insured by FDIC, Federal Savings and Loan Insurance Corporation or the National Credit Union Administration and all deposits must be fully collateralized by U.S. securities.

For credit risk in the case of deposits, there is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. As of September 30, 2012 and 2011, the carrying amount of the Authority's total cash and cash equivalents was \$833,400 and \$1,014,213, respectively, with a corresponding bank balance of \$863,195 and \$1,022,858, respectively. From these deposits \$250,000 at September 30, 2012 and 2011, respectively was subject to coverage by FDIC. The Authority does not require collateralization of bank accounts, and therefore, amounts in excess of insurable limits are uncollateralized and are subject to custodial credit risk.

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

Notes to Combined Financial Statements  
September 30, 2012 and 2011

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

*Investments*

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

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

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

As of September 30, 2012 and 2011, the Authority did not have investments subject to GASB Statement No. 40.

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

Notes to Combined Financial Statements  
September 30, 2012 and 2011

**(4) Notes Receivable**

A summary of notes receivable at September 30, 2012 and 2011 consists of the following:

	<u>2012</u>	<u>2011</u>
Home Rehabilitation loans	\$ 1,854,899	\$ 1,630,407
Emergency Loan Revolving Fund loans	39,222	43,507
Low-Cost Housing loans	<u>144,031</u>	<u>157,460</u>
	2,038,152	1,831,374
Current portion	<u>(238,746)</u>	<u>(296,825)</u>
Long-term notes receivable, net of current portion	<u>\$ 1,799,406</u>	<u>\$ 1,534,549</u>
Allowance for loan losses	<u>\$ (87,994)</u>	<u>\$ (87,994)</u>

Maturities of the above principal balances subsequent to September 30, 2012, will be as follows:

Fully matured and others	\$ -
1-to 6 months	4,973
7-to 18 months	70,249
19 months to 3 years	113,581
After 3 years	<u>1,849,349</u>
Balance at end of year	<u>\$ 2,038,152</u>

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

	<u>2012</u>	<u>2011</u>
Balance at beginning of year	\$ 87,994	\$ 87,994
Additions to provision for loan loss	-	-
Loans charged-off	-	-
Recoveries of loans charged-off	<u>-</u>	<u>-</u>
Balance at end of year	<u>\$ 87,994</u>	<u>\$ 87,994</u>

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

Notes to Combined Financial Statements  
September 30, 2012 and 2011

**(5) Interfunds**

The Authority maintains interfund receivable and payable accounts for all housing projects and funds that it administers and reports interfund transfers between many of its funds. The outstanding balances between funds result mainly from time lags between the date that (1) 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. At September 30, 2012, there were no inter-fund receivable and payable balances.

**(6) Capital Assets**

A schedule of changes in capital assets for the fiscal years ended September 30, 2012 and 2011 is shown below:

Capital assets activity for the fiscal year ended September 30, 2012:

	Balance 09/30/11	Additions	Disposal/ Adjustment	Balance 09/30/12
Furniture, fixtures, and equipment	\$ 37,328	\$ -	\$ 16,316	\$ 21,012
Vehicles	45,979	-	-	45,979
	83,307	-	16,316	66,991
Accumulated depreciation	(69,858)	(2,891)	16,316	(56,433)
	<u>\$ 13,449</u>	<u>\$ (2,891)</u>	<u>\$ 32,632</u>	<u>\$ 10,558</u>

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

Notes to Combined Financial Statements  
September 30, 2012 and 2011

**(6) Capital Assets, Continued**

Capital assets activity for the fiscal year ended September 30, 2011:

	Balance 09/30/10	Additions	Disposal/ Adjustment	Balance 09/30/11
Residential units	\$ 213,431	\$ -	\$ 213,431	\$ -
Furniture, fixtures, and equipment	37,328	-	-	37,328
Vehicles	45,979	-	-	45,979
	296,738	-	213,431	83,307
Accumulated depreciation	(273,186)	(10,103)	213,431	(69,858)
	<u>\$ 23,552</u>	<u>\$ (10,103)</u>	<u>\$ 426,862</u>	<u>\$ 13,449</u>

Depreciation expense for the years ended September 30, 2012 and 2011 was \$2,891 and \$10,103, respectively.

The residential units are constructed on properties leased from the Trust Territory Government, which properties were transferred to Palau Public Land Authority in accordance with U.S. Department of the Interior Secretarial Order No. 2969. The properties were subsequently transferred to the Koror Municipal Public Lands Authority through quitclaim deeds dated May 14, 1980 and February 16, 1983. On October 6, 2009, the lease from the Koror Municipal Public Lands Authority was renewed for fifty years. On June 2011, the residential units were demolished and consequently the lease from Koror Municipal Public Land Authority was terminated on May 2012.

**(7) Employees 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 (2%) of each member's average monthly salary. Normal benefits are the credited total service up to a maximum of thirty years total service.

**PALAU DISTRICT HOUSING AUTHORITY**  
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Notes to Combined Financial Statements  
September 30, 2012 and 2011

**(7) Employees Retirement Plan, Continued**

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 matched dollar for dollar by the employer. The Authority contributed \$4,123, \$3,865 and \$3,816 for fiscal years 2012, 2011, and 2010, respectively.

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, 2009 applicable to the plan year ending September 30, 2009 of the ROP Civil Service Pension Plan:

Actuarial Cost Method:	Normal costs are calculated under the level aggregate method.
Investment Income	: 8.5% per year
Expenses:	: \$300,000 each year
Salary Increase:	: 3% per year
Mortality	: 1984 Unisex Pension Mortality Table
Disabled Mortality	: PBGC Mortality Table for Disabled Persons Receiving Social Security
Retirement Age	: Earlier of age 60 or 30 Years of Total Service

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 affects 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.

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

Notes to Combined Financial Statements  
September 30, 2012 and 2011

**(7) Employees Retirement Plan, Continued**

Based on the actuarial valuation of the Fund as of October 1, 2009 issued in August 2010, the actuarial valuation determined the unfunded pension benefit obligation as follows:

Present value of accrued benefits as of October 1, 2009:

Active participants	\$ 56,060,970
Inactive participants with vested deferred benefits	1,779,610
Participants in pay status	<u>47,666,805</u>
Total pension benefit obligation	105,507,385
Market value of assets	<u>41,254,319</u>
Unfunded benefit obligation	<u>\$ 64,253,066</u>
Funded Ratio as of 10/1/2009 (ratio of assets to liabilities)	<u>39.1%</u>

**(8) Risk Management**

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

**(9) Commitments and Contingencies**

*Litigation*

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



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

Notes to Combined Financial Statements  
September 30, 2012 and 2011

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

The Authority has initiated several foreclosure actions now pending in the Trial Division of the Supreme Court of Palau (the Court) against six (6) borrowers who defaulted on rehabilitation loans whose principal and interest balance approximate \$50,549 as of September 30, 2012. 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.

*Commitments*

The Authority entered a lease agreement with Koror State Public Lands Authority (KSPLA) for a period of fifty years (50) years expiring on October 2059 where its residential units for Section 8 housing program was situated. On June 2011, the residential units were demolished, and accordingly, the lease agreement was terminated on May 2012 and lease premises were surrendered to KSPLA.

The Authority's operations are conducted from premises under a lease agreement expiring on December 2012. For the year ended September 30, 2012, the future lease payment for this agreement is \$1,700.

For the years ended September 30, 2012 and 2011, rent expense was \$10,200 and \$10,480, respectively.

**(10) National Government Contributions**

For the years ended September 30, 2012 and 2011, the Republic of Palau appropriated and contributed the following to the Authority:

	<u>2012</u>	<u>2011</u>
For operational costs of employees	\$ 58,990	\$ 64,000
Cost reimbursement	<u>-</u>	<u>9,000</u>
	<u>\$ 58,990</u>	<u>\$ 73,000</u>

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

Notes to Combined Financial Statements  
September 30, 2012 and 2011

**(11) Economic Dependency**

The PHA 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, 2012 and 2011, the Authority received 60% and 55%, respectively, of its support from the interests received and other charges from private sector, and 40% and 45%, respectively, from government donors.

**(12) Concentrations of Credit Risk**

Financial instruments which potentially subject the Authority to concentrations of credit risk consist of cash and cash equivalents and notes receivables.

The Authority maintains cash deposits in bank accounts which at times, may exceed federal depository insurance limits of \$250,000. The Authority has not experienced any losses on such accounts.

At September 30, 2012 and 2011, concentration of credit risks with respect to notes receivable is limited due to the large number of borrowers comprising the Authority's customer base.

**(13) Reclassifications**

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

**(14) Subsequent Events**

The Authority has evaluated subsequent events from September 30, 2012 through January 14, 2013, the date the financial statements were available to be issued. The Authority did not note any subsequent events requiring disclosure or adjustment to the accompanying financial statements.

**PALAU DISTRICT HOUSING AUTHORITY**

( A Component Unit of the Republic of Palau)

Supplementary Statements of Revenues, Expenses, and Changes in Net Assets - Budget and Actual  
Year Ended September 30, 2012

	Budgeted Amounts		Actual Amounts	(Unfavorable)
	Original	Final		Variance
Operating revenues	<u>\$ 111,589</u>	<u>\$ 111,589</u>	<u>\$ 149,293</u>	<u>\$ 37,704</u>
Operating expenses:				
Salaries and wages including employee benefits	81,000	81,000	68,187	12,813
Professional fees	1,500	1,500	10,500	(9,000)
Rent expense	10,400	10,400	10,200	200
Provision for bad debts	-	-	8,551	(8,551)
Communication	3,500	3,500	4,600	(1,100)
Travel	3,200	3,200	4,402	(1,202)
Depreciation	-	-	2,891	(2,891)
Repairs and maintenance	2,000	2,000	2,844	(844)
Miscellaneous	<u>9,989</u>	<u>9,989</u>	<u>9,553</u>	<u>436</u>
Total operating expenses	<u>111,589</u>	<u>111,589</u>	<u>121,728</u>	<u>(10,139)</u>
Operating income	<u>-</u>	<u>-</u>	<u>27,565</u>	<u>27,565</u>
Non-operating revenues:				
Investment income earned	<u>-</u>	<u>-</u>	<u>973</u>	<u>973</u>
Total non-operating expense, net	<u>-</u>	<u>-</u>	<u>973</u>	<u>973</u>
Increase in net assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 28,538</u>	<u>\$ 28,538</u>

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

**INDEPENDENT AUDITOR'S REPORTS ON  
INTERNAL CONTROL AND ON COMPLIANCE**

**Year Ended September 30, 2012**



CERTIFIED PUBLIC ACCOUNTANT

GUAM

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

To the Board of Directors  
Palau District Housing Authority

I have audited the financial statements of Palau District Housing Authority (the Authority) as of and for the year ended September 30, 2012, and have issued my report thereon dated May 10, 2013. I conducted my audit 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.

Internal Control over Financial Reporting

Management of the Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing my audit, I considered the Authority's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

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


My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be a material weakness, as defined above.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

I noted certain matters that I reported to the management of the Authority in a separate letter dated May 10, 2013.

This report is intended solely for the information of the Board of Directors and management of the Palau District Housing Authority, the Office of the Public Auditor of Palau, federal awarding agencies, pass-through entities and the cognizant audit and other federal agencies and is not intended to be, and should not be used by anyone other than the specified users. However, this report is also a matter of public record.

A handwritten signature in cursive script that reads "J. Scott Magliari & Company".

Koror, Republic of Palau  
May 10, 2013

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

**NET ASSETS**  
Last Eight Fiscal Years Ending September 30

	2012	2011	2010	2009	2008	2007	2006	2005
Invested in capital assets	\$ 10,558	\$ 13,449	\$ 23,552	\$ 39,555	\$ 22,424	\$ 28,175	\$ 35,481	\$ 48,713
Restricted	1,981,793	1,785,948	1,839,988	2,374,498	2,344,123	2,312,086	2,312,086	2,312,086
Unrestricted	840,204	1,004,620	944,339	393,629	345,529	278,135	195,475	138,455
Total Net Assets	\$ 2,832,555	\$ 2,804,017	\$ 2,807,879	\$ 2,807,682	\$ 2,712,076	\$ 2,618,396	\$ 2,543,042	\$ 2,499,254

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

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

**CHANGES IN NET ASSETS**  
Last Eight Fiscal Years Ending September 30

	2012	2011	2010	2009	2008	2007	2006	2005
<b>Operating revenues</b>								
Republic of Palau appropriation	\$ 58,990	\$ 64,000	\$ 60,000	\$ 66,645	\$ 67,000	\$ 67,000	\$ 67,000	\$ 67,000
Interest on loans	82,507	76,955	88,600	74,975	63,740	61,479	45,341	38,266
Other operating revenues	7,796	4,549	15,605	11,856	6,387	16,469	7,581	7,546
Section 8 income	-	6,000	13,550	16,200	16,400	15,300	13,812	11,928
National treasury income	-	9,000	9,000	9,000	8,500	8,500	8,000	8,000
Federal contributions	-	-	-	-	-	4,050	-	19,516
Provision for loan losses	-	-	(17,052)	-	-	-	-	-
<b>Total operating revenues, net</b>	<b>149,293</b>	<b>160,504</b>	<b>169,703</b>	<b>178,676</b>	<b>162,027</b>	<b>172,798</b>	<b>141,734</b>	<b>152,256</b>
<b>Operating expenses</b>								
Salaries and wages	60,600	64,422	65,458	64,122	63,552	59,907	54,929	50,437
Professional fees	10,500	10,525	12,000	9,000	9,000	9,380	8,500	10,723
Rent expense	10,200	10,480	11,320	11,320	11,890	11,320	10,200	9,350
Provision for bad debts	8,551	22,631	-	-	-	-	-	-
Employee benefits	7,587	8,248	6,693	6,549	6,373	5,748	5,309	4,962
Communication	4,600	3,667	2,722	5,312	3,446	2,925	2,919	2,883
Travel	4,402	3,412	2,848	2,559	2,887	7,823	9,040	2,930
Depreciation	2,891	10,103	14,549	14,153	8,265	9,606	10,198	20,870
Repairs and maintenance	2,844	3,460	2,710	2,610	2,699	2,666	3,888	2,228
Labor and materials	-	18,787	-	-	-	-	-	-
Other operating expenses	9,553	9,469	9,105	14,424	11,490	12,928	12,208	9,701
<b>Total operating expenses</b>	<b>121,728</b>	<b>165,204</b>	<b>127,405</b>	<b>130,049</b>	<b>119,602</b>	<b>122,303</b>	<b>117,191</b>	<b>114,084</b>
<b>Operating income (loss)</b>	<b>27,565</b>	<b>(4,700)</b>	<b>42,298</b>	<b>48,627</b>	<b>42,425</b>	<b>50,495</b>	<b>24,543</b>	<b>38,172</b>
<b>Non-operating revenues (expenses)</b>								
Investment income earned	973	838	940	16,604	19,218	24,859	22,279	12,903
Other expense	-	-	(43,041)	-	-	-	-	-
<b>Total non-operating revenues</b>	<b>973</b>	<b>838</b>	<b>(42,101)</b>	<b>16,604</b>	<b>19,218</b>	<b>24,859</b>	<b>22,279</b>	<b>12,903</b>
<b>Change in net assets</b>	<b>\$ 28,538</b>	<b>\$ (3,862)</b>	<b>\$ 197</b>	<b>\$ 65,231</b>	<b>\$ 61,643</b>	<b>\$ 75,354</b>	<b>\$ 46,822</b>	<b>\$ 51,075</b>

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



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

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

Function	2012	2011	2010	2009	2008	2007	2006	2005
Interest on loans	\$ 82,507	\$ 76,955	\$ 88,600	\$ 74,975	\$ 63,740	\$ 61,479	\$ 45,341	\$ 38,266
ROP Appropriations	58,990	64,000	60,000	66,645	67,000	67,000	67,000	67,000
Section 8 income	-	6,000	13,550	16,200	16,400	15,300	13,812	11,928
National treasury income	-	9,000	9,000	9,000	8,500	8,500	8,000	8,000
Other operating revenues	7,796	4,549	15,605	11,856	6,387	16,469	7,581	7,546
Federal contributions	-	-	-	-	-	-	-	19,516
<b>Total Revenues</b>	<b>\$ 149,293</b>	<b>\$ 160,504</b>	<b>\$ 186,755</b>	<b>\$ 178,676</b>	<b>\$ 162,027</b>	<b>\$ 168,748</b>	<b>\$ 141,734</b>	<b>\$ 152,256</b>

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

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

**SCHEDULE OF EXPENSES**

Last Eight Fiscal Years Ending September 30

Function	2012	2011	2010	2009	2008	2007	2006	2005
Salaries and wages	60,600	\$ 64,422	\$ 65,458	\$ 64,122	\$ 63,552	\$ 59,907	\$ 54,929	\$ 50,437
Professional fees	10,500	10,525	12,000	9,000	9,000	9,380	8,500	10,723
Rent expense	10,200	10,480	11,320	11,320	11,890	11,320	10,200	9,350
Provision for bad debts	8,551	22,631	-	-	-	-	-	-
Employee benefits	7,587	8,248	6,693	6,549	6,373	5,748	5,309	4,962
Communication	4,600	3,667	2,722	5,312	3,446	2,925	2,919	2,883
Travel	4,402	3,412	2,848	2,559	2,887	7,823	9,040	2,930
Depreciation	2,891	10,103	14,549	14,153	8,265	9,606	10,198	20,870
Repairs and maintenance	2,844	3,460	2,710	2,610	2,699	2,666	3,888	2,228
Labor and materials	-	18,787	-	-	-	-	-	-
Other operating expenses	9,553	9,469	9,105	14,424	11,490	12,928	12,208	9,701
<b>Total Expenses</b>	<b>\$ 121,728</b>	<b>\$ 165,204</b>	<b>\$ 127,405</b>	<b>\$ 130,049</b>	<b>\$ 119,602</b>	<b>\$ 122,303</b>	<b>\$ 117,191</b>	<b>\$ 114,084</b>

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