

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

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

Years Ended September 30, 2014 and 2013

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

TABLE OF CONTENTS

September 30, 2014 and 2013

<u>Item</u>	<u>Page No.</u>
I. FINANCIAL SECTION	
Independent Auditors' Report on Financial Statements	1 - 3
Management's Discussion and Analysis	4 - 16
Combined Financial Statements	
Combined Statements of Net Position with Combining Information	17 - 18
Combined Statements of Revenues, Expenses and Changes in Net Position with Combining Information	19
Combined Statements of Cash Flows with Combining Information	20 - 21
Notes to Combined Financial Statements	22 - 41
Supplementary Statements of Revenues, Expenses, and Changes in Net Assets – Budget and Actual	42
II. INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL AND ON COMPLIANCE	
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 <i>Government Auditing Standards</i>	43 - 44
III. STATISTICAL SECTION	
Net Position	45
Changes in Net Position	46
Revenues by Source	47
Schedule of Expenses	48



INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Palau District Housing Authority

We have audited the accompanying combined financial statements of Palau District Housing Authority (the Authority), a component unit of the Republic of Palau as of September 30, 2014 and 2013, 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 2013 financial statements and, in our report dated April 21, 2014, we expressed an unmodified opinion on those financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

SAIPAN OFFICE

SUITE 203 MH II BUILDING
MARINA HEIGHTS BUSINESS PARK
P.O. BOX 504053, SAIPAN, MP 96950
TEL NOS. (670) 235-8722 (670) 233-1837
FAX NOS. (670) 235-6905 (670) 233-8214

GUAM OFFICE

HENGI PLAZA, SUITE 104
278 SOUTH MARINE DRIVE
TAMUNING, GUAM 96911
TEL NOS. (671) 646-5044 (671) 472-2680
FAX NOS. (671) 646-5045 (671) 472-2686

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Palau District Housing Authority as of September 30, 2014 and 2013, and the changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 16 and page 42, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Financial Information

Our audit was conducted for the purpose of forming opinion on the financial statements as a whole. The statistical section on pages 45 through 48 is presented for purposes of additional analysis and is not a required part of the financial statements. The statistical section is the responsibility of management. The statistical section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 24, 2015, on our consideration of the Palau District Housing Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

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

Koror, Republic of Palau
May 24, 2015

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

Management's Discussion and Analysis
September 30, 2014

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, 2014. 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 41.

Financial Highlights

- The assets of the Authority exceeded its liabilities at September 30, 2014 and 2013 by \$2,894,212 and \$2,869,021, respectively. The Authority's net position (assets less liabilities) increased by \$25,191 from the previous year. The increase in net position is a result of excess of revenues earned over expenses.
- The Authority's cash and cash equivalents at September 30, 2014 and 2013 was \$780,305 and \$917,836, respectively, representing a decrease of \$137,531 mainly due to disbursements of approved FY 2014 news loans under the Home Rehabilitation Loan Program, Low-Cost Housing Program, and Emergency Loan Program.
- The Authority had operating revenues of \$155,239 and \$153,927 and operating expenses of \$130,855 and \$121,662 for the years ended September 30, 2014 and 2013, respectively. The net increase of \$1,312 in operating revenues is attributable to the increase in interest on loans as notes receivable increased.

Overview of the Financial Statements

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

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

Management's Discussion and Analysis
September 30, 2014

Overview of the Financial Statements, Continued

AUTHORITY-WIDE FINANCIAL STATEMENTS

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the authority-wide financial statements. The notes to the financial statements can be found on pages 22 through 41 of this report.

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

Management's Discussion and Analysis
September 30, 2014

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 2014 is the twelfth year of implementation of Governmental Accounting Standards Board (GASB) Statement No. 34. The financial statements focus on the Authority as a whole. The Authority's financial statements are designed to emulate corporate presentation models whereby all Authority activities are combined into one total. The focus of the Statement of Net Position is designed to be similar to bottom line results for the Authority. This Statement combines current financial resources (short-term spendable resources) with capital assets. The Statement of Revenues, Expenses, and Changes in Net Position focus on both the gross costs and the net costs of Authority activities which are supported mainly by appropriations from Palau National Congress (Olbiil Era Kelulau or OEK) and by other revenues. This approach is intended to summarize and simplify the user's analysis of cost of Authority services to the general public of the ROP.

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

Management's Discussion and Analysis
September 30, 2014

Authority-Wide Financial Analysis, Continued

Statements of Net Position
As of September 30, 2014, 2013 and 2012

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Assets			
Current assets:			
Cash and cash equivalents	\$ 780,305	\$ 917,836	\$ 833,400
Notes receivable, current portion	240,098	238,231	238,746
Allowance for doubtful accounts	<u>(87,994)</u>	<u>(87,994)</u>	<u>(87,994)</u>
	<u>152,104</u>	<u>150,237</u>	<u>150,752</u>
Accounts receivable, net	-	15,324	5,684
Due from grantor agency	-	-	30,375
Interest receivable	9,590	9,590	9,590
Due from other fund	<u>742</u>	<u>-</u>	<u>-</u>
Total current assets	<u>942,741</u>	<u>1,092,987</u>	<u>1,029,801</u>
Noncurrent assets:			
Notes receivable, net of current portion	1,943,301	1,759,402	1,799,406
Capital assets, net	<u>15,663</u>	<u>23,383</u>	<u>10,558</u>
Total noncurrent assets	<u>1,958,964</u>	<u>1,782,785</u>	<u>1,809,964</u>
Total Assets	<u>\$ 2,901,705</u>	<u>\$ 2,875,772</u>	<u>\$ 2,839,765</u>

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

Management's Discussion and Analysis
September 30, 2014

Authority-Wide Financial Analysis, Continued

Statements of Net Position
As of September 30, 2014, 2013 and 2012

	2014	2013	2012
Liabilities			
Current liabilities:			
Due to other fund	\$ 742	\$ -	\$ -
Accrued expenses	6,751	6,751	7,210
Total liabilities	7,493	6,751	7,210
 Net Position			
Net investment in capital assets	15,663	23,383	10,558
Restricted	2,095,405	1,923,639	1,981,793
Unrestricted	783,144	921,999	840,204
Total net position	2,894,212	2,869,021	2,832,555
 Total Liabilities and Net Position	\$ 2,901,705	\$ 2,875,772	\$ 2,839,765

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

Management's Discussion and Analysis
September 30, 2014

Authority-Wide Financial Analysis, Continued

Total net position approximated \$2.89 million as of FY 2014 and \$2.87 million as of FY 2013.

The current portion of the notes receivable for FY 2014 remained relatively the same as compared to FY 2013, while noncurrent assets increased from \$1.8 million in FY 2013 to \$2 million in FY 2014 attributed by the increase in notes receivable. Of the total outstanding notes receivable, eighty-five percent (85%) or \$1,859,527 pertains to the Home Rehabilitation Loan Program as of September 30, 2014.

There were seven (7) new loans approved in FY 2014 totaling \$34,998 sourced from HIRAP Loan Program. There were six (6) new loans approved in FY 2014 totaling \$79,500, sourced from the Emergency Loan Program to assist families to make the major repairs of homes damaged by the typhoon Bopha and Haiyan that struck Palau in December 2012 and 2013. The Authority approved and disbursed \$494,500 for fifteen (15) new loans for home improvement and rehabilitation program which all were under construction as of September 30, 2014.

As noted earlier, net position may serve over time as a useful indicator of an entity's financial position. The case of the Authority's, assets exceeded liabilities by \$2,894,212 as of September 30, 2014.

**Operating Revenues for the Years Ended
September 30, 2014, 2013 and 2012**

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Operating revenues:			
Interest on loans	\$ 77,172	\$ 76,509	\$ 82,507
Republic of Palau appropriations	70,000	59,000	58,990
Other	<u>8,067</u>	<u>18,418</u>	<u>7,796</u>
Total operating revenues	<u>\$ 155,239</u>	<u>\$ 153,927</u>	<u>\$ 149,293</u>

The above schedule indicates total revenues realized by the Authority in FY 2014 totaled \$155,239. The OEK contributed \$70,000 through cost reimbursement grants during FY 2014. The Authority draws down monies from the appropriations from ROP for allowable expenses, except for non-cash transactions, such as depreciation expense and changes in compensated absences. The Authority's intergovernmental revenues and charges for services were sufficient to cover all expenses incurred during the year.

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

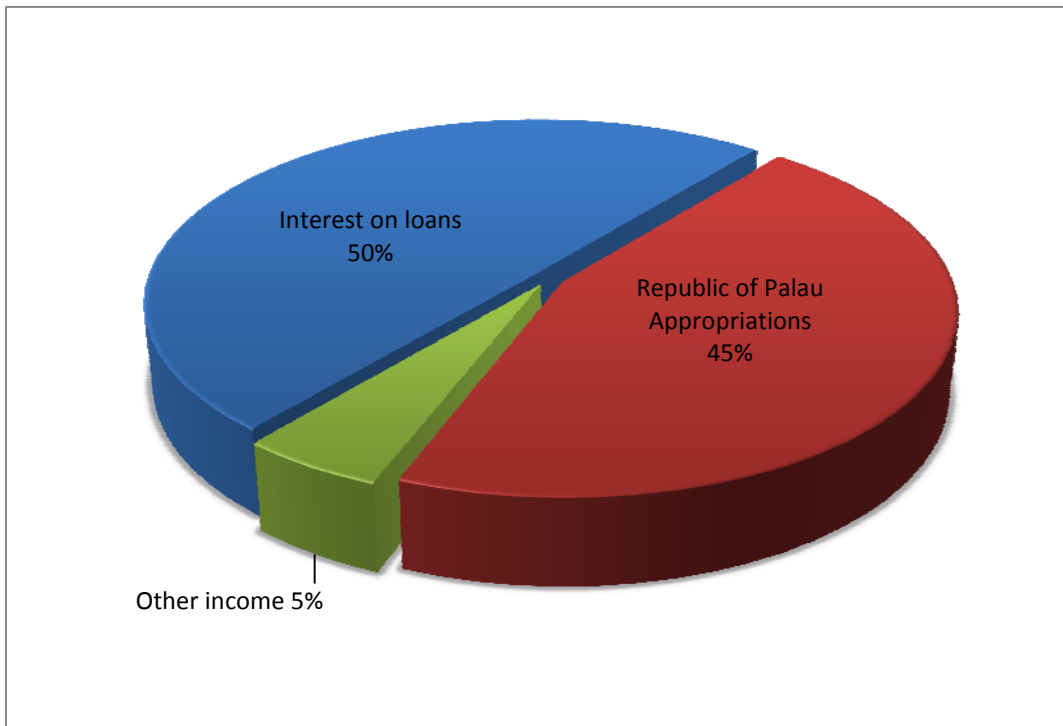
Management's Discussion and Analysis
September 30, 2014

Authority-Wide Financial Analysis, Continued

The Authority's net operating revenues slightly increased by \$1,312 in FY 2014 due to increased in interest on loans.

The following chart exhibits the breakdown of revenues for Palau District Housing Authority in FY 2014.

Operating Revenues Breakdown



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

Management's Discussion and Analysis
September 30, 2014

**Operating Expenses for the Years Ended
September 30, 2014, 2013 and 2012**

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Operating expenses:			
Salaries and wages	\$ 71,692	\$ 65,335	\$ 60,600
Rent expense	12,975	10,894	10,200
Employee benefits	10,165	9,155	7,587
Depreciation	7,109	8,290	2,891
Travel	4,827	3,557	4,402
Communication	4,664	4,658	4,600
Utilities	3,762	3,255	3,283
Professional fees	1,900	4,000	10,500
Repairs and maintenance	1,573	1,007	2,844
Provision for bad debts	-	-	8,551
Miscellaneous	<u>12,188</u>	<u>11,511</u>	<u>6,270</u>
Total operating revenues	<u>\$ 130,855</u>	<u>\$ 121,662</u>	<u>\$ 121,728</u>

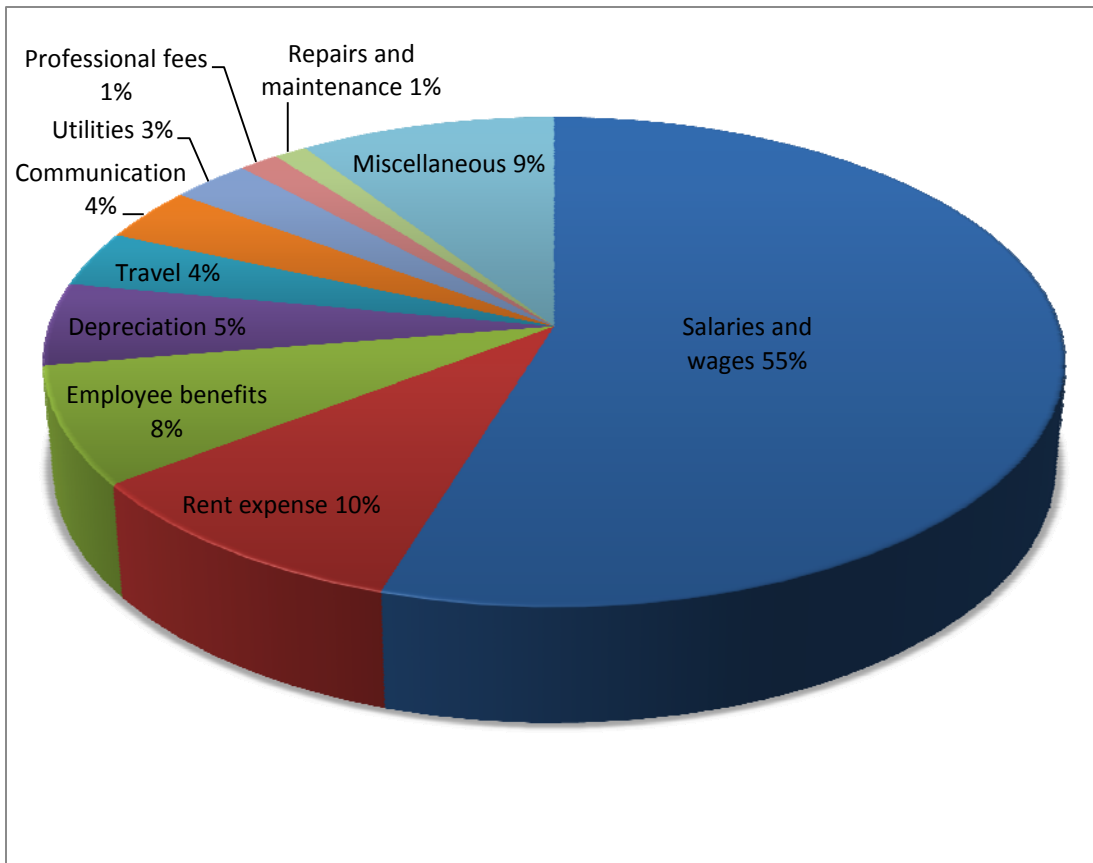
The above schedule shows total operating expenses of \$130,855 in FY 2014. The Authority's operating expenses increased by \$9,193 or 8% over FY 2013.

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

Management's Discussion and Analysis
September 30, 2014

Authority-Wide Financial Analysis, Continued

Expense Breakdown
For Year Ended September 30, 2014



The largest expenditure in FY 2014 was for employees' salaries and wages totaling \$71,692 covering four (4) full-time employees. For comparison purposes, the FY 2013 salaries and wages totaled \$65,335, thus representing an increase in current year salaries and wages of \$6,357 or 10% attributed by salary increment.

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

Management's Discussion and Analysis
September 30, 2014

Authority-Wide Financial Analysis, Continued

CAPITAL ASSETS

As of September 30, 2014, 2013 and 2012, the Authority's investment in capital assets (net of accumulated depreciation) for its business-type activities is as reflected in the following schedule:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Furniture, fixtures, and equipment	\$ 18,191	\$ 21,012	\$ 21,012
Vehicles	<u>46,099</u>	<u>46,099</u>	<u>45,979</u>
	64,290	67,111	66,991
Accumulated depreciation	<u>(48,627)</u>	<u>(43,728)</u>	<u>(56,433)</u>
	<u>\$ 15,663</u>	<u>\$ 23,383</u>	<u>\$ 10,558</u>

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

NET POSITION

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

As of September 30, 2014, 2013 and 2012, the Authority's net position is as reflected in the following schedule:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Net investment in capital assets	\$ 15,663	\$ 23,383	\$ 10,558
Restricted	2,095,405	1,923,639	1,981,793
Unrestricted	<u>783,144</u>	<u>921,999</u>	<u>840,204</u>
Total net position	<u>\$ 2,894,212</u>	<u>\$ 2,869,021</u>	<u>\$ 2,832,555</u>

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

Management's Discussion and Analysis
September 30, 2014

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, 2014, the Authority's budget and actual is reflected in the following schedule:

	Budgeted Amounts		Actual Amounts	(Unfavorable) Variance
	<u>Original</u>	<u>Final</u>		
Operating revenues	\$ 130,100	\$ 130,100	\$ 155,239	\$ 25,139
Operating expenses	<u>(130,100)</u>	<u>(130,100)</u>	<u>(130,855)</u>	<u>(755)</u>
Operating income	-	-	24,384	24,384
Other expense	-	-	(367)	(367)
Investment income earned	<u>-</u>	<u>-</u>	<u>1,174</u>	<u>1,174</u>
Increase in net position	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 25,191</u>	<u>\$ 25,191</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
(A Component Unit of the Republic of Palau)

Management's Discussion and Analysis
September 30, 2014

Economic Factors and Next Year's Budget and Rates

The following factors were considered in preparing the Authority's budget for the 2015 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 Airai State subdivision project (10-housing units),
- The number of loans to be disbursed will be less than previous years.
- An increase in interest income, due to loan disbursed from previous year.
- Appropriation from the Palau National Government applicable to administrative and operation expenditures,
- Partnership with the National Development Bank of Palau (NDBP) - Energy Efficiency Subsidy Program (EESP).

Future Events that will Financially Impact the Authority

- The Authority will continue its housing loan 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 EESP program. Under this program, 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.
- Leased parcel of land has been secured and the construction of a permanent office building for the Authority will be forthcoming however, due to land issues will be delayed.

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

Management's Discussion and Analysis
September 30, 2014

Contacting the Authority's Financial Management

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

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

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

Combined Statements of Net Position
September 30, 2014

(With comparative totals as of September 30, 2013)

	Major Enterprise Funds					Total 2014	Total 2013
	Operation Fund	Home Rehabilitation Loan Program	Low-Cost Housing Program	Emergency Housing Loan Revolving Program	Non-major Enterprise Fund		
ASSETS							
Current assets:							
Cash and cash equivalents (Notes 1, 2 and 3)	\$ 89,782	\$ 457,793	\$ 41,637	\$ 105,302	\$ 85,791	\$ 780,305	\$ 917,836
Notes receivable, current portion (Notes 1, 4 and 9)	-	212,228	27,870	-	-	240,098	238,231
Allowance for loan losses (Notes 1 and 4)	-	(69,442)	(18,552)	-	-	(87,994)	(87,994)
	-	142,786	9,318	-	-	152,104	150,237
Accounts receivable, net (Note 1)	-	-	-	-	-	-	15,324
Due from fund	-	742	-	-	-	742	-
Due from grantor agency	-	-	-	-	-	-	-
Interest receivable	-	7,791	1,799	-	-	9,590	9,590
Total current assets	89,782	609,112	52,754	105,302	85,791	942,741	1,092,987
Noncurrent assets:							
Notes receivable, net of current portion (Notes 1, 4 and 9)	-	1,647,299	117,357	178,645	-	1,943,301	1,759,402
Capital assets, net (Notes 1 and 6)	-	-	-	-	15,663	15,663	23,383
Total noncurrent assets	-	1,647,299	117,357	178,645	15,663	1,958,964	1,782,785
Total assets	\$ 89,782	\$ 2,256,411	\$ 170,111	\$ 283,947	\$ 101,454	\$ 2,901,705	\$ 2,875,772

See accompanying notes to the basic financial statements.

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

Combined Statements of Net Position, Continued
September 30, 2014

(With comparative totals as of September 30, 2013)

	Major Enterprise Funds					Total 2014	Total 2013
	Operation Fund	Home Rehabilitation Loan Program	Low-Cost Housing Program	Emergency Housing Loan Revolving Program	Non-major Enterprise Fund		
LIABILITIES							
Current Liabilities:							
Accrued expenses (Note 1)	\$ 6,751	\$ -	\$ -	\$ -	\$ -	\$ 6,751	\$ 6,751
Due to fund	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>742</u>	<u>742</u>	<u>-</u>
Total current liabilities	<u>6,751</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>742</u>	<u>7,493</u>	<u>6,751</u>
Total liabilities	<u>6,751</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>742</u>	<u>7,493</u>	<u>6,751</u>
Commitments and Contingencies (Note 9)							
NET POSITION (Note 1)							
Net investment in capital assets	-	-	-	-	15,663	15,663	23,383
Restricted	-	1,790,085	126,675	178,645	-	2,095,405	1,923,639
Unrestricted	<u>83,031</u>	<u>466,326</u>	<u>43,436</u>	<u>105,302</u>	<u>85,049</u>	<u>783,144</u>	<u>921,999</u>
Total net position	<u>83,031</u>	<u>2,256,411</u>	<u>170,111</u>	<u>283,947</u>	<u>100,712</u>	<u>2,894,212</u>	<u>2,869,021</u>
Total liabilities and net position	<u>\$ 89,782</u>	<u>\$ 2,256,411</u>	<u>\$ 170,111</u>	<u>\$ 283,947</u>	<u>\$ 101,454</u>	<u>\$ 2,901,705</u>	<u>\$ 2,875,772</u>

See accompanying notes to the basic financial statements.

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

Combined Statements of Revenues, Expenses and Changes in Net Position
Year Ended September 30, 2014

(With comparative totals as of September 30, 2013)

	Major Enterprise Funds					Total 2014	Total 2013
	Operation Fund	Home Rehabilitation Loan Program	Low-Cost Housing Program	Emergency Housing Loan Revolving Program	Non-major Enterprise Fund		
Operating revenues:							
Interest on loans	\$ -	\$ 70,253	\$ 3,157	\$ 3,762	\$ -	\$ 77,172	\$ 76,509
Republic of Palau appropriation	70,000	-	-	-	-	70,000	59,000
Other	3	3,968	476	876	2,744	8,067	18,418
Total operating revenues	70,003	74,221	3,633	4,638	2,744	155,239	153,927
Operating expenses:							
Salaries and wages	45,164	26,528	-	-	-	71,692	65,335
Rent expense	6,800	6,175	-	-	-	12,975	10,894
Employee benefits	6,892	3,273	-	-	-	10,165	9,155
Depreciation	-	-	-	-	7,109	7,109	8,290
Travel	2,013	1,671	-	1,143	-	4,827	3,557
Communication	1,540	3,124	-	-	-	4,664	4,658
Utilities	1,168	2,594	-	-	-	3,762	3,255
Professional fees	-	1,900	-	-	-	1,900	4,000
Repairs and maintenance	455	1,118	-	-	-	1,573	1,007
Miscellaneous	3,805	6,237	51	1,020	1,075	12,188	11,511
Total operating expenses	67,837	52,620	51	2,163	8,184	130,855	121,662
Operating income (loss)	2,166	21,601	3,582	2,475	(5,440)	24,384	32,265
Non-operating revenue (expense):							
Gain (loss) on disposal of assets	-	-	-	-	(367)	(367)	3,000
Interest income	90	648	87	223	126	1,174	1,201
Total non-operating revenue (expense)	90	648	87	223	(241)	807	4,201
Change in net position	2,256	22,249	3,669	2,698	(5,681)	25,191	36,466
Total net position - beginning of year	80,775	2,234,162	166,442	281,249	106,393	2,869,021	2,832,555
Total net position - end of year	<u>\$ 83,031</u>	<u>\$ 2,256,411</u>	<u>\$ 170,111</u>	<u>\$ 283,947</u>	<u>\$ 100,712</u>	<u>\$ 2,894,212</u>	<u>\$ 2,869,021</u>

See accompanying notes to the basic financial statements.

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

Combined Statements of Cash Flows
September 30, 2014

(With comparative totals as of September 30, 2013)

	Major Enterprise Funds					Total 2014	Total 2013
	Operation Fund	Home Rehabilitation Loan Program	Low-Cost Housing Program	Emergency Housing Loan Revolving Program	Non-major Enterprise Fund		
Cash flows from operating activities:							
Receipts from customers, net	\$ 3	\$ (46,785)	\$ (11,589)	\$ (29,576)	\$ 2,744	\$ (85,203)	\$ 121,806
Receipts from ROP appropriation, net	70,000	-	-	-	-	70,000	63,000
Receipts from grantor agency	-	-	-	-	-	-	30,375
Payments to suppliers	(15,781)	(22,819)	(51)	(2,163)	(1,075)	(41,889)	(39,341)
Payments to employees	(52,056)	(29,801)	-	-	-	(81,857)	(74,490)
 Net cash provided by (used for) operating activities	 <u>2,166</u>	 <u>(99,405)</u>	 <u>(11,640)</u>	 <u>(31,739)</u>	 <u>1,669</u>	 <u>(138,949)</u>	 <u>101,350</u>
Cash flows from investing activities:							
Proceeds from disposal of assets	-	-	-	-	244	244	3,000
Acquisition of capital assets	-	-	-	-	-	-	(21,115)
Interest and dividends	90	648	87	223	126	1,174	1,201
 Net cash provided by (used for) investing activities	 <u>90</u>	 <u>648</u>	 <u>87</u>	 <u>223</u>	 <u>370</u>	 <u>1,418</u>	 <u>(16,914)</u>
Cash flows from financing activities:							
Increase (decrease) in due from funds	-	(742)	-	-	742	-	-
 Net cash provided by (used for) financing activities	 <u>-</u>	 <u>(742)</u>	 <u>-</u>	 <u>-</u>	 <u>742</u>	 <u>-</u>	 <u>-</u>
 Net increase (decrease) in cash and cash equivalents	 2,256	 (99,499)	 (11,553)	 (31,516)	 2,781	 (137,531)	 84,436
Cash and cash equivalents at beginning of year	<u>87,526</u>	<u>557,292</u>	<u>53,190</u>	<u>136,818</u>	<u>83,010</u>	<u>917,836</u>	<u>833,400</u>
Cash and cash equivalents at end of year	<u>\$ 89,782</u>	<u>\$ 457,793</u>	<u>\$ 41,637</u>	<u>\$ 105,302</u>	<u>\$ 85,791</u>	<u>\$ 780,305</u>	<u>\$ 917,836</u>

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, 2014

(With comparative totals as of September 30, 2013)

	Major Enterprise Funds					Total 2014	Total 2013
	Operation Fund	Home Rehabilitation Loan Program	Low-Cost Housing Program	Emergency Housing Loan Revolving Program	Non-major Enterprise Fund		
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:							
Operating income (loss)	\$ 2,166	\$ 21,601	\$ 3,582	\$ 2,475	\$ (5,440)	\$ 24,384	\$ 32,265
Adjustments to reconcile net income (loss) to net cash provided by (used for) operating activities							
Depreciation	-	-	-	-	7,109	7,109	8,290
(Increase) decrease in assets:							
Accounts receivable	-	1,324	-	14,000	-	15,324	4,360
Notes receivable	-	(122,330)	(15,222)	(48,214)	-	(185,766)	26,519
Due from grantor agency	-	-	-	-	-	-	30,375
Increase (decrease) in liabilities:							
Accrued expenses	-	(459)	-	-	-	-	(459)
 Net cash provided by (used for) operating activities	 <u>\$ 2,166</u>	 <u>\$ (99,864)</u>	 <u>\$ (11,640)</u>	 <u>\$ (31,739)</u>	 <u>\$ 1,669</u>	 <u>\$ (138,949)</u>	 <u>\$ 101,350</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, 2014 and 2013

(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

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, 2014 and 2013

(1) Summary of Significant Accounting Policies, Continued

Major Enterprise Funds, Continued

Low-Cost Housing Program

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

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

Emergency Housing Revolving Loan Program

The Emergency Housing Revolving Loan Program was established as an emergency loan program for citizens of the Republic of Palau for whose homes were destroyed by natural disaster or fire. The Program was funded by a \$500,000 appropriation from the Republic of Palau. Pursuant to Republic of Palau Public Law 6-26, §4, the Program was initially established to provide loans to private homeowners whose homes were destroyed or made uninhabitable because of damage done by storm Utor. Loans are available from a minimum of \$500 to a maximum amount of \$30,000, with repayment terms ranging from 3-to 30 years at an interest rate of 3 percent per annum. During the fiscal year ending September 30, 2002, the Authority remitted \$250,000 of the initial funding back to the Republic of Palau National Government.

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

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

Notes to Combined Financial Statements
September 30, 2014 and 2013

(1) Summary of Significant Accounting Policies, Continued

Non-Major Enterprise Funds

The following fund was determined to be non-major enterprise funds for the fiscal year ended September 30, 2014:

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.

Transitional/Emergency Shelter Program

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

Local Funds

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

Measurement Focus, Basis of Accounting, and Basis of Presentation

The accounts of the Authority are organized and operated on the basis of funds and grant programs. Fund financial statements report detailed information about the Authority. Each fund is accounted for by providing a separate set of self-balancing accounts, which constitute its assets, liabilities, net position, revenues, and expenses. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements.

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

Notes to Combined Financial Statements
September 30, 2014 and 2013

(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. 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. 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, 2013, from which the summarized information was derived.

Recent Pronouncements

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 implementation of this Statement did not have a material effect on the financial statements of the Authority.

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

Notes to Combined Financial Statements
September 30, 2014 and 2013

(1) Summary of Significant Accounting Policies, Continued

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

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*, which is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements. The provisions of this statement are effective for periods beginning after December 15, 2011. This Statement superseded GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Government Entities That Use Proprietary Fund Accounting*. The implementation of this Statement did not have a material effect on the financial statements of the Authority.

In June 2011, GASB issued statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which establishes guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position, and in March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. These Statements amend 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. With the implementation of GASB Statement No. 63 and Statement No. 65, the Statement of Net Assets was renamed the Statement of Net Position. The implementation of these Statements did not have a material effect on the financial statements of the Authority.

In April 2012, GASB issued Statement No. 66, *Technical Corrections - 2012, an amendment of GASB Statements No. 10 and No. 62*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of the Authority.

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

Notes to Combined Financial Statements
September 30, 2014 and 2013

(1) Summary of Significant Accounting Policies, Continued

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

Recent Pronouncements, Continued

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans, and Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 67 are effective for financial statements for periods beginning after June 15, 2013. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of this Statement on the financial statements of the Authority.

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. The Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. Government combinations include mergers, acquisitions and transfers of operations. The Statement requires assets acquired and liabilities assumed to be measured at carrying values in an acquisition. The Statement requires disclosures to be made about government combinations and disposals of government operations so that financial statement users can evaluate the nature and financial effects of those combinations. The Statement is effective for financial statements for periods beginning after December 15, 2013. The Authority is currently analyzing its accounting practices to identify the potential impact of this Statement on its financial statements.

During April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Non-exchange Financial Guarantees*. Non-exchange financial guarantees are financial guarantees from a government for obligations of another entity. These guarantees are without directly receiving equal or approximately equal value in exchange. Statement 70 requires non-exchange financial guarantee, which will likely be required to make a payment to the guarantee, to be recognized as a liability. Statement 70 also established the required disclosures for non-exchange financial guarantees for the government that extend and the government that receives non-exchange financial guarantees. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2013. The Authority is currently analyzing its accounting practices to identify the potential impact of this Statement on its financial statements.

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

Notes to Combined Financial Statements
September 30, 2014 and 2013

(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, 2014 and 2013

(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 Position and Statement of Cash Flows, the Authority considers cash and cash equivalents to be cash on hand, cash in checking and savings accounts, and time certificates of deposit of less than ninety-day maturities. All of the Authority's cash are with a federally insured bank, \$250,000 of which is subject to coverage by federal insurance as of September 30, 2014 and 2013, 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 \$564,425 and \$713,180 as of September 30, 2014 and 2013, 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, 2014 and 2013

(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, 2014 and 2013, compensated absences payable to employees were \$6,751 for each year, and are recorded as a component of accrued expenses in the accompanying Combined Statement of Net Position. At September 30, 2014 and 2013, all compensated absences are current.

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

Notes to Combined Financial Statements
September 30, 2014 and 2013

(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 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, 2014 and 2013, 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.

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, 2014 and 2013, 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.

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

Notes to Combined Financial Statements
September 30, 2014 and 2013

(1) Summary of Significant Accounting Policies, Continued

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

Classification of Revenues

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

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

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

Advertising

For the fiscal years ending September 30, 2014 and 2013, the Authority incurred advertising costs totaling \$2,804 and \$775, respectively, and is included as a component of miscellaneous expense in the Combining Statements of Revenues and Expenses and Changes in Net Position. These costs primarily relate to construction bids and related procurement solicitation costs.

(2) Cash and cash equivalents

Cash and cash equivalents at September 30, 2014 and 2013 consist of the following:

	<u>2014</u>	<u>2013</u>
Cash	\$ 766,519	\$ 904,056
Time certificates of deposit	<u>13,786</u>	<u>13,780</u>
	<u>\$ 780,305</u>	<u>\$ 917,836</u>

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

Notes to Combined Financial Statements
September 30, 2014 and 2013

(3) Deposits and investments

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

Deposits

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

- Category 1 Deposits that are federally insured or collateralized with securities held by the Authority or its agent in the Authority's name;

- Category 2 Deposits that are uninsured but fully collateralized with securities held by the pledging financial institution's trust department or agent in the Authority's name; or

- Category 3 Deposits that are collateralized with securities held by the pledging financial institution's trust department or agent but not in Authority's name and noncollateralized deposits.

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

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

Notes to Combined Financial Statements
September 30, 2014 and 2013

(3) Deposits and investments, Continued

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, 2014 and 2013, the carrying amount of the Authority's total cash and cash equivalents was \$780,305 and \$917,836, respectively, with a corresponding bank balance of \$814,425 and \$963,180, respectively. From these deposits \$250,000 at September 30, 2014 and 2013, respectively was subject to coverage by FDIC. The Authority does not require collateralization of bank accounts, and therefore, amounts in excess of insurable limits are uncollateralized and are subject to custodial credit risk.

Investments

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

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

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

As of September 30, 2014 and 2013, 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, 2014 and 2013

(4) Notes Receivable

A summary of notes receivable at September 30, 2014 and 2013 consists of the following:

	<u>2014</u>	<u>2013</u>
Home Rehabilitation loans	\$ 1,859,527	\$ 1,737,197
Emergency Loan Revolving Fund loans	178,645	130,431
Low-Cost Housing loans	<u>145,227</u>	<u>130,005</u>
	2,183,399	1,997,633
Current portion	<u>(240,098)</u>	<u>(238,231)</u>
Long-term notes receivable, net of current portion	<u>\$ 1,943,301</u>	<u>\$ 1,759,402</u>

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

	<u>2014</u>	<u>2013</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, 2014 and 2013

(5) Interfunds

The Authority maintains interfund receivable and payable accounts for all housing projects and funds that it administers and reports interfund transfers between many of its funds. The outstanding balances between funds result mainly from time lags between the date that (1) inter-fund goods and services are provided or reimbursable expenditures occur; (2) transactions are recorded in the accounting system; and (3) payments between funds are made. At September 30, 2014, inter-fund was \$742, presented in the accompanying combined statements of net position as due from (to) fund.

(6) Capital Assets

A schedule of changes in capital assets for the fiscal years ended September 30, 2014 and 2013 is shown below:

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

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

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

Notes to Combined Financial Statements
September 30, 2014 and 2013

(6) Capital Assets, Continued

Capital assets activity for the fiscal year ended September 30, 2013:

	Balance 09/30/12	Additions	Disposal/ Adjustment	Balance 09/30/13
Furniture, fixtures, and equipment	\$ 21,012	\$ -	\$ -	\$ 21,012
Vehicles	45,979	21,115	(20,995)	46,099
	66,991	21,115	(20,995)	67,111
Accumulated depreciation	(56,433)	(8,290)	20,995	(43,728)
	<u>\$ 10,558</u>	<u>\$ 12,825</u>	<u>\$ -</u>	<u>\$ 23,383</u>

Depreciation expense for the years ended September 30, 2014 and 2013 was \$7,109 and \$8,290, respectively.

(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
(A Component Unit of the Republic of Palau)

Notes to Combined Financial Statements
September 30, 2014 and 2013

(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 \$4,114, \$4,123 and \$3,865 for fiscal years 2014, 2013, and 2012, 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 "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, 2011 applicable to the plan year ending September 30, 2011 of the ROP Civil Service Pension Plan:

Actuarial Cost Method:	Normal costs are calculated under the level aggregate method.
Investment Income	: 7.5% 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, 2014 and 2013

(7) Employees Retirement Plan, Continued

The Fund's October 1, 2013 actuarial valuation determined the unfunded pension benefit obligation as follows:

Active participants	\$ 82,099,216
Participants in pay status	61,865,857
Participants with vested deferred benefits	<u>3,323,468</u>
Total pension benefit obligation	147,288,541
Net assets available for benefits, at market value	<u>(34,261,206)</u>
Unfunded benefit obligation	<u><u>\$ 113,027,335</u></u>
Funded Ratio (ratio of assets to liabilities)	<u>23.3%</u>

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

(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, 2014 and 2013

(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 three (3) borrowers who defaulted on rehabilitation loans whose principal and interest balance approximate \$23,040 as of September 30, 2014. 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 (50) years expiring on July 2063. The lease provides for equal quarterly payments of \$694 or for total annual base rent of \$2,775 for the first ten (10) years and thereafter, base rent will be increased by five percent (5%) for every ten years. The land lease will be used to situate the future construction of the Authority's office building. Future minimum lease payments due for each of the next five years and the five year periods thereafter, are as follows:

Fiscal Year End <u>September 30,</u>	<u>Total</u>
2015	\$ 2,775
2016	2,775
2017	2,775
2018	2,775
2019	2,775
2020-2024	14,014
2025-2029	14,569
2030-2034	14,714
2035-2039	15,297
2040-2044	15,450
2045-2049	16,062
2050-2054	16,223
2055-2059	16,865
2060-2063	<u>13,492</u>
Total	<u>\$ 150,561</u>

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

Notes to Combined Financial Statements
September 30, 2014 and 2013

(9) Commitments and Contingencies, Continued

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

For the years ended September 30, 2014 and 2013, rent expense was \$12,975 and \$10,894, respectively.

(10) National Government Contributions

For the years ended September 30, 2014 and 2013, the Republic of Palau appropriated and contributed the following to the Authority:

	<u>2014</u>	<u>2013</u>
For operational costs of employees	<u>\$ 70,000</u>	<u>\$ 59,000</u>

(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, 2014 and 2013, the Authority received 55% and 63%, respectively, of its support from the interests received and other charges from private sector, and 45% and 37%, respectively, from government donors.

(12) 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.

(13) Subsequent Events

The Authority has evaluated subsequent events from September 30, 2014 through May 26, 2015, the date the financial statements were available to be issued. The Authority did not note any subsequent events requiring disclosure or adjustment to the accompanying financial statements.

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

Supplementary Statements of Revenues, Expenses, and Changes in Net Position - Budget and Actual
Year Ended September 30, 2014

	Budgeted Amounts		Actual Amounts	(Unfavorable) Variance
	<u>Original</u>	<u>Final</u>		
Operating revenues	\$ 130,100	\$ 130,100	\$ 155,239	\$ 25,139
Operating expenses:				
Salaries and wages including employee benefits	81,000	81,000	81,857	(857)
Rent expense	10,200	10,200	12,975	(2,775)
Depreciation	-	-	7,109	(7,109)
Communication	4,000	4,000	4,664	(664)
Professional fees	3,500	3,500	1,900	1,600
Travel	3,600	3,600	4,827	(1,227)
Utilities	3,700	3,700	3,762	(62)
Repairs and maintenance	1,500	1,500	1,573	(73)
Office equipment	10,000	10,000	-	10,000
Miscellaneous	12,600	12,600	12,188	412
Total operating expenses	<u>130,100</u>	<u>130,100</u>	<u>130,855</u>	<u>(755)</u>
Operating income	<u>-</u>	<u>-</u>	<u>24,384</u>	<u>24,384</u>
Non-operating revenues:				
Investment income earned	-	-	1,174	1,174
Other expense	<u>-</u>	<u>-</u>	<u>(367)</u>	<u>(367)</u>
Total non-operating expense, net	<u>-</u>	<u>-</u>	<u>807</u>	<u>807</u>
Increase in net position	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 25,191</u>	<u>\$ 25,191</u>

See Accompanying Independent Auditors' Report.

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

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

Year Ended September 30, 2014



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

To the Board of Directors
Palau District Housing Authority

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Palau District Housing Authority (the Authority), which comprise the statements of net position as of September 30, 2014, 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 May 24, 2015.

Internal Control over Financial Reporting

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

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

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

SAIPAN OFFICE

SUITE 203 MH II BUILDING
MARINA HEIGHTS BUSINESS PARK
P.O. BOX 504053, SAIPAN, MP 96950
TEL NOS. (670) 235-8722 (670) 233-1837
FAX NOS. (670) 235-6905 (670) 233-8214

GUAM OFFICE

HENGI PLAZA, SUITE 104
278 SOUTH MARINE DRIVE
TAMUNING, GUAM 96911
TEL NOS. (671) 646-5044 (671) 472-2680
FAX NOS. (671) 646-5045 (671) 472-2686

Compliance and Other Matters

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

Purpose of this Report

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



Koror, Republic of Palau
May 24, 2015

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

STATISTICAL SECTION

Year Ended September 30, 2014

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

NET POSITION
Last Ten Fiscal Years Ending September 30

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Investment in capital assets	\$ 15,663	\$ 23,383	\$ 10,558	\$ 13,449	\$ 23,552	\$ 39,555	\$ 22,424	\$ 28,175	\$ 35,481	\$ 48,713
Restricted	2,095,405	1,923,639	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	783,144	921,999	840,204	1,004,620	944,339	393,629	345,529	278,135	195,475	138,455
Total Net Position	\$ 2,894,212	\$ 2,869,021	\$ 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 ten fiscal years.

See Accompanying Independent Auditors' Report.

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

CHANGES IN NET POSITION
Last Ten Fiscal Years Ending September 30

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Operating revenues										
Republic of Palau appropriation	\$ 70,000	\$ 59,000	\$ 58,990	\$ 64,000	\$ 60,000	\$ 66,645	\$ 67,000	\$ 67,000	\$ 67,000	\$ 67,000
Interest on loans	77,172	76,509	82,507	76,955	88,600	74,975	63,740	61,479	45,341	38,266
Other operating revenues	8,067	18,418	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)	-	-	-	-	-
Total operating revenues, net	155,239	153,927	149,293	160,504	169,703	178,676	162,027	172,798	141,734	152,256
Operating expenses										
Salaries and wages	71,692	65,335	60,600	64,422	65,458	64,122	63,552	59,907	54,929	50,437
Rent expense	12,975	10,894	10,200	10,480	11,320	11,320	11,890	11,320	10,200	9,350
Employee benefits	10,165	9,155	7,587	8,248	6,693	6,549	6,373	5,748	5,309	4,962
Depreciation	7,109	8,290	2,891	10,103	14,549	14,153	8,265	9,606	10,198	20,870
Travel	4,827	3,557	4,402	3,412	2,848	2,559	2,887	7,823	9,040	2,930
Communication	4,664	4,658	4,600	3,667	2,722	5,312	3,446	2,925	2,919	2,883
Professional fees	1,900	4,000	10,500	10,525	12,000	9,000	9,000	9,380	8,500	10,723
Repairs and maintenance	1,573	1,007	2,844	3,460	2,710	2,610	2,699	2,666	3,888	2,228
Labor and materials	-	-	-	18,787	-	-	-	-	-	-
Provision for bad debts	-	-	8,551	22,631	-	-	-	-	-	-
Other operating expenses	15,950	14,766	9,553	9,469	9,105	14,424	11,490	12,928	12,208	9,701
Total operating expenses	130,855	121,662	121,728	165,204	127,405	130,049	119,602	122,303	117,191	114,084
Operating income (loss)	24,384	32,265	27,565	(4,700)	42,298	48,627	42,425	50,495	24,543	38,172
Non-operating revenues (expenses)										
Investment income earned	1,174	1,201	973	838	940	16,604	19,218	24,859	22,279	12,903
Other income (expense)	(367)	3,000	-	-	(43,041)	-	-	-	-	-
Total non-operating revenues, net	807	4,201	973	838	(42,101)	16,604	19,218	24,859	22,279	12,903
Change in net position	\$ 25,191	\$ 36,466	\$ 28,538	\$ (3,862)	\$ 197	\$ 65,231	\$ 61,643	\$ 75,354	\$ 46,822	\$ 51,075

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

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

REVENUES BY SOURCE
Last Ten Fiscal Years Ending September 30

Function	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Interest on loans	\$ 77,172	\$ 76,509	\$ 82,507	\$ 76,955	\$ 88,600	\$ 74,975	\$ 63,740	\$ 61,479	\$ 45,341	\$ 38,266
ROP Appropriations	70,000	59,000	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	8,067	18,418	7,796	4,549	15,605	11,856	6,387	16,469	7,581	7,546
Federal contributions	-	-	-	-	-	-	-	-	-	19,516
Total Revenues	\$ 155,239	\$ 153,927	\$ 149,293	\$ 160,504	\$ 186,755	\$ 178,676	\$ 162,027	\$ 168,748	\$ 141,734	\$ 152,256

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

See Accompanying Independent Auditors' Report.

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

SCHEDULE OF EXPENSES

Last Ten Fiscal Years Ending September 30

Function	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Salaries and wages	\$ 71,692	\$ 65,335	\$ 60,600	\$ 64,422	\$ 65,458	\$ 64,122	\$ 63,552	\$ 59,907	\$ 54,929	\$ 50,437
Rent expense	12,975	10,894	10,200	10,480	11,320	11,320	11,890	11,320	10,200	9,350
Employee benefits	10,165	9,155	7,587	8,248	6,693	6,549	6,373	5,748	5,309	4,962
Depreciation	7,109	8,290	2,891	10,103	14,549	14,153	8,265	9,606	10,198	20,870
Travel	4,827	3,557	4,402	3,412	2,848	2,559	2,887	7,823	9,040	2,930
Communication	4,664	4,658	4,600	3,667	2,722	5,312	3,446	2,925	2,919	2,883
Professional fees	1,900	4,000	10,500	10,525	12,000	9,000	9,000	9,380	8,500	10,723
Repairs and maintenance	1,573	1,007	2,844	3,460	2,710	2,610	2,699	2,666	3,888	2,228
Provision for bad debts	-	-	8,551	22,631	-	-	-	-	-	-
Labor and materials	-	-	-	18,787	-	-	-	-	-	-
Other operating expenses	15,950	14,766	9,553	9,469	9,105	14,424	11,490	12,928	12,208	9,701
Total Expenses	\$ 130,855	\$ 121,662	\$ 121,728	\$ 165,204	\$ 127,405	\$ 130,049	\$ 119,602	\$ 122,303	\$ 117,191	\$ 114,084

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

See Accompanying Independent Auditors' Report.