

REPUBLIC OF PALAU

**REPORT ON THE AUDIT OF FINANCIAL
STATEMENTS IN ACCORDANCE
WITH OMB CIRCULAR A-133**

YEAR ENDED SEPTEMBER 30, 2012

REPUBLIC OF PALAU

**BASIC FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION AND
INDEPENDENT AUDITORS' REPORT**

YEAR ENDED SEPTEMBER 30, 2012

REPUBLIC OF PALAU
FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2012

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INDEPENDENT AUDITORS' REPORT

His Excellency Tommy Remengesau, Jr.
President
Republic of Palau:

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Republic of Palau (the Republic) as of and for the year ended September 30, 2012, which collectively comprise the Republic's basic financial statements as set forth in Section II of the foregoing table of contents. These financial statements are the responsibility of the management of the Republic. Our responsibility is to express an opinion on the respective financial statements based on our audit. We did not audit the financial statements of the Palau Community College, the Palau National Communications Corporation, and the Palau District Housing Authority, which represents 31%, 7% and 39%, respectively, of the assets, net assets and operating revenues of the Republic's discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for the Palau Community College, the Palau National Communications Corporation, and the Palau District Housing Authority, is based solely on the reports of the other auditors.

We conducted our 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. Those standards require that we plan and perform the audit 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 Republic's internal control over financial reporting. Accordingly, we express no such 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinions.

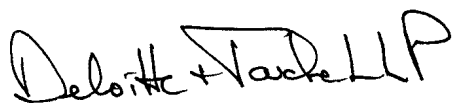
In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Republic of Palau as of September 30, 2012, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 15 to the financial statements, the beginning net assets/fund balances of the governmental activities, the aggregate discretely presented component units, the General Fund and the aggregate remaining fund information have been restated to correct misstatements.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2013, on our consideration of the Republic of Palau'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 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 our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, on pages 3 through 15, as well as the Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund and notes thereto, on pages 69 and 70, 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Republic's financial statements. The Other Supplementary Information, as set forth in Section IV of the foregoing table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Republic. This supplementary information is the responsibility of the management of the Republic. The additional information was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Other Supplementary Information, as set forth in Section IV of the foregoing table of contents, is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in black ink that reads "Deloitte + Touche LLP". The signature is written in a cursive, stylized font.

November 14, 2013

REPUBLIC OF PALAU

Management's Discussion and Analysis Year Ended September 30, 2012

As management of the Government of the Republic of Palau (the "Republic"), we offer readers of the Republic's financial statements this narrative overview and analysis of the financial activities of the Republic for the fiscal year ended September 30, 2012. We encourage readers to consider the information presented here in conjunction with the Republic's basic financial statements, which follow this section. Fiscal year 2011 comparative information has been included, where appropriate.

FINANCIAL HIGHLIGHTS

- The assets of the Republic exceeded its liabilities at the close of the most recent fiscal year by \$358.6 million (net assets), increasing by \$6 million (or 1.7%) from the restated net assets of \$352.6 million in the prior year. Of this amount, \$200.8 million represents the Republic's investment in capital assets; \$171.9 million represents amounts restricted for various purposes, with the remaining deficiency of \$14.1 million to be funded from future governmental activities.
- During the current fiscal year, the Republic's expenses for governmental activities were \$117.6 million and were funded in part by \$43.8 million in program revenues and \$48.3 million in taxes and other general revenues. General revenues increased by \$5.3 million (or 12.3%) from \$43 million in the prior year to \$48.3 million, which was attributable primarily to the increase in tax revenues of \$3.4 million. Expenses increased by \$6 million (or 5.4%) from \$111.6 million in the prior year to \$117.6 million, which was attributable primarily to an increase in general government expenses.
- The Compact Section 211(f) Trust Fund generated net revenues of \$30.3 million in the current fiscal year offset by an appropriation of \$5 million representing the transfer out to the General Fund as budgetary support, increasing the Republic's trust fund balance to \$171.8 million from \$146.5 million in the prior year (up 17.3%).
- For the current fiscal year, the General Fund revenues (and other financing sources) of \$74.4 million exceeded general fund expenditures (and other financing uses) of \$63.7 million. General fund revenues (and other financing sources) were up \$14.6 million (or 24.4%) from prior year primarily due to the receipt of loan proceeds of \$9.9 million. Concurrently, General Fund appropriations (and other financing uses) were up \$1.7 million (or 3%) from prior year primarily due to the recognition of interest of \$0.3 million associated with delinquent payments to the Civil Service Pension Plan and a \$1.1 million emergency payment to the Palau Public Utility Corporation.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Republic's basic financial statements, which comprise of the following three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains additional required supplementary information in the form of a budgetary schedule, which is prepared on the budgetary basis of accounting, and other supplementary information, in addition to the basic financial statements themselves, which includes combining statements for governmental funds, fiduciary funds and component units.

REPUBLIC OF PALAU

Management's Discussion and Analysis Year Ended September 30, 2012

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Republic's finances, in a manner similar to a private-sector business. The statement of net assets presents information on all of the Republic's assets and liabilities, with the difference between the two reported as net assets. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide financial statements report the Republic's net assets and how they have changed. Net assets, being the difference between the Republic's assets and liabilities, is one way to measure the Republic's financial health or position.

- Over time, increases or decreases in the Republic's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the Republic, additional non-financial factors such as changes in the Republic's tax base, the condition of the Republic's roads and infrastructure, and the quality of services needs to be considered.

The government-wide financial statements of the Republic are divided into two categories:

- Primary government - this grouping comprises governmental activities, which includes most of the Republic's basic services such as education, health and welfare, public safety, and general administration. Compact and other federal grants finance most activities of the primary government.
- Discretely presented component units – the Republic includes numerous other entities in its report. Although legally separate, these “component units” are important because the Republic is financially accountable for them.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Republic, like other governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal matters.

- Some funds are required by Olbiil Era Kelulau legislation.
- The Republic establishes other funds to control and manage money for particular purposes (like the Other Country Grants Fund) or to show that it is properly using certain grants (like federal grants reported in the U.S. Federal Grants and Other Assistance Funds).

All of the funds of the Republic can be divided into two categories - governmental and fiduciary.

REPUBLIC OF PALAU

Management's Discussion and Analysis
Year Ended September 30, 2012

Fund Financial Statements, Continued

Governmental funds - These are used to account for essentially the same functions reported as government activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund financial statements provide a detailed short-term view of the Republic's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Republic's programs.

Fiduciary funds - These are used to account for resources held for the benefit of parties outside of the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Republic's own programs. The Republic is the trustee, or fiduciary, for other assets that because of trust arrangements, can be used only for the trust beneficiaries. The Republic is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the Republic's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of change in fiduciary net assets.

Discretely presented component unit financial statements are presented for entities where the Republic has financial accountability, but are independent of the core Republic operations. Most operate similar to private-sector businesses.

Additional information on the restatement of the beginning net assets/fund balances of the governmental activities, the aggregate discretely presented component units, the General Fund and the aggregate remaining fund information can be found in note 15 to the financial statements.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning budgetary comparisons.

The other supplementary information referred to earlier is presented immediately following the required supplementary information on budgetary comparisons.

REPUBLIC OF PALAU

Management's Discussion and Analysis Year Ended September 30, 2012

A FINANCIAL ANALYSIS OF THE REPUBLIC AS A WHOLE

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Republic, assets exceeded liabilities by \$358.6 million at the close of the most recent fiscal year. However, all these net assets are either restricted as to the purpose they can be used for or are invested in capital assets. The Republic uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Republic's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate the liabilities. The majority of the Republic's net assets are comprised of its capital assets net of long-term liabilities. Current assets and liabilities are amounts that are available in the current period and obligations that will be paid within one year, respectively. The Republic's current assets amounted to \$27.2 million while its current liabilities were \$30 million. Restricted net assets represent resources that are subject to external constraints. The table below summarizes the Republic's net assets at the close of the current year compared with prior year.

Net Assets As of September 30			
	Governmental Activities 2012	(As Restated) Governmental Activities 2011	Total Percentage Change 2012-2011
Current and other assets	\$ 201,641,918	\$ 168,773,516	19.5%
Capital assets	214,928,104	236,547,169	-9.1%
Total assets	416,570,022	405,320,685	2.8%
Long-term debt outstanding	24,729,881	16,457,145	50.3%
Other liabilities	33,194,947	36,255,814	-8.4%
Total liabilities	57,924,828	52,712,959	9.9%
Net assets:			
Invested in capital assets, net of related debt	200,070,957	220,090,024	-9.1%
Restricted	172,093,832	152,561,506	12.8%
Unrestricted	(13,519,595)	(20,043,804)	-32.5%
Total net assets	\$ 358,645,194	\$ 352,607,726	1.7%

At the end of the current fiscal year, the Republic's unrestricted net asset deficiency was \$13.5 million, a decrease on the prior year amount by \$6.5 million (or 32.5 %). This deficiency is the result of having long-term commitments that are greater than currently available resources. Specifically, the Republic did not include in past annual budgets the full amounts needed to finance future liabilities arising from MICB and ADB loans as well as to pay for unused employee annual leave balances. The Republic will include these amounts in future years' budgets as they become due.

REPUBLIC OF PALAU

Management's Discussion and Analysis Year Ended September 30, 2012

Changes in Net Assets

As discussed earlier, net assets of the primary government increased by \$6 million, representing an increase of 1.7% from the prior year's restated amount of \$352.6 million. This result indicates that the Republic's financial condition, as a whole, improved from the prior year. The table below summarizes the Republic's change in net assets for the current fiscal year as compared with prior year.

Changes in Net Assets For the Years Ended September 30

	Governmental Activities 2012	(As Restated) Governmental Activities 2011	Total Percentage Change 2012-2011
Revenues:			
Program revenues:			
Charges for services	\$ 11,717,802	\$ 10,686,465	9.7%
Operating grants and contributions	32,043,549	30,683,561	4.4%
	<u>43,761,351</u>	<u>41,370,026</u>	5.8%
General revenues:			
Taxes	35,797,619	32,369,158	10.6%
Other general revenues	12,542,832	10,627,744	18.0%
	<u>48,340,451</u>	<u>42,996,902</u>	12.4%
Total revenues	<u>92,101,802</u>	<u>84,366,928</u>	9.2%
Expenses:			
General government	21,535,629	16,317,808	32.0%
Education	15,933,447	13,563,470	17.5%
Health and welfare	17,091,111	15,725,014	8.7%
Public safety	3,733,438	4,549,187	-17.9%
Cultural affairs and recreation	6,054,443	6,376,676	-5.1%
Transportation and commerce	46,701,730	48,276,210	-3.3%
State government appropriations	4,735,883	4,875,162	-2.9%
Depreciation - unallocated	1,185,241	1,272,206	-6.8%
Interest	601,030	616,288	-2.5%
Total expenses	<u>117,571,952</u>	<u>111,572,021</u>	5.4%
	(25,470,150)	(27,205,093)	-6.4%
Contributions to permanent funds	31,507,618	1,438,753	2089.9%
Change in net assets	6,037,468	(25,766,340)	-123.4%
Net assets, beginning of year	<u>352,607,726</u>	<u>378,374,066</u>	-6.8%
Net assets, end of year	<u>\$ 358,645,194</u>	<u>\$ 352,607,726</u>	1.7%

Key elements of the increase in net assets are as follows:

- The Compact Section 211(f) Trust Fund contributions of \$31.5 million stand in marked contrast to the prior fiscal year when the trust fund earnings contributed \$1.4 million. Overall revenues increased in the current year by \$7.7 million (or 9.2%) due primarily to an increase in general revenues of \$5.3 million (or 12.4%) as compared with the prior year.

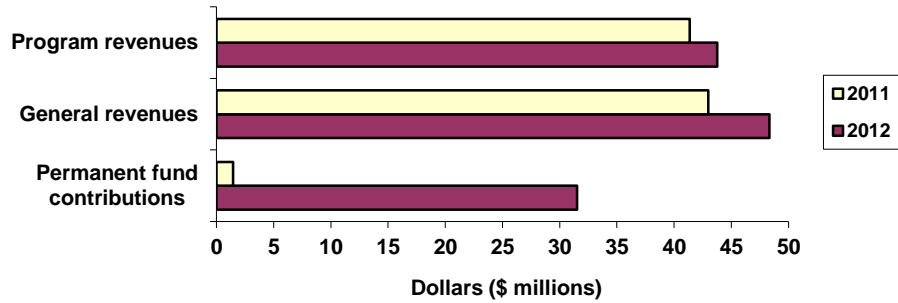
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Change in Net Assets, Continued

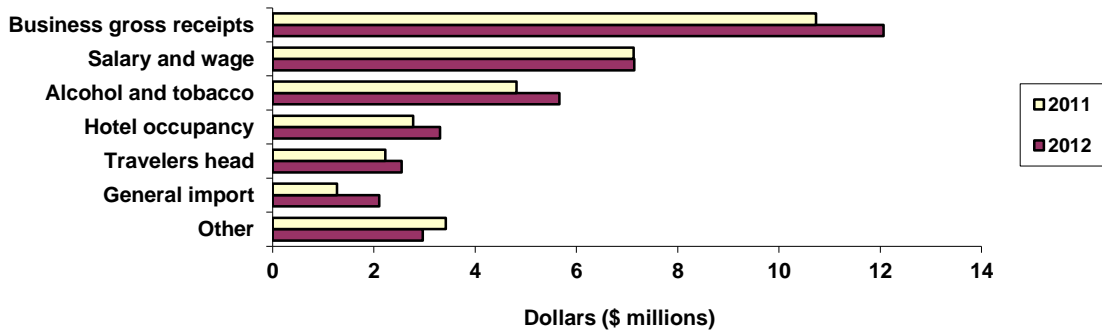
A graphic summary of program revenues, general revenues and permanent fund contributions received by the Republic for the current year compared with prior year follows:

Graph 1
Revenues
For the Years Ended September 30



A significant portion of the Republic's general revenues involves tax revenue collections. At \$35.8 million in the current year, tax revenues were marginally higher than the \$32.4 million collected in the prior year. A graphic summary of the Republic's tax revenue collections for the current year compared with prior year follows:

Graph 2
Tax Revenues
For the Years Ended September 30



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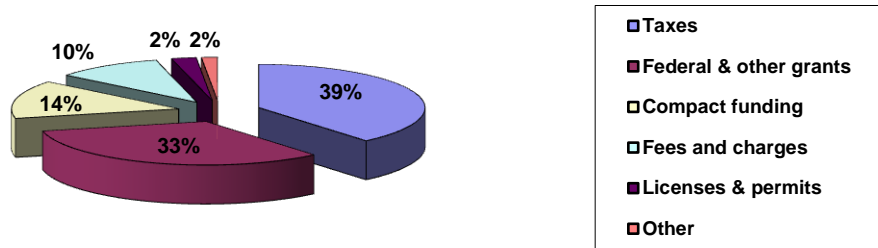
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Change in Net Assets, Continued

- Cost of governmental activities increased in the current year by \$6 million (up 5.4%) compared with prior year. Education and health related expenses comprised of \$33 million (or 27.8%) of total expenses in the current year as compared with \$29.3 million (or 26.5%) in the prior year, which reflects the Republic’s continued priorities in terms of annual appropriations.

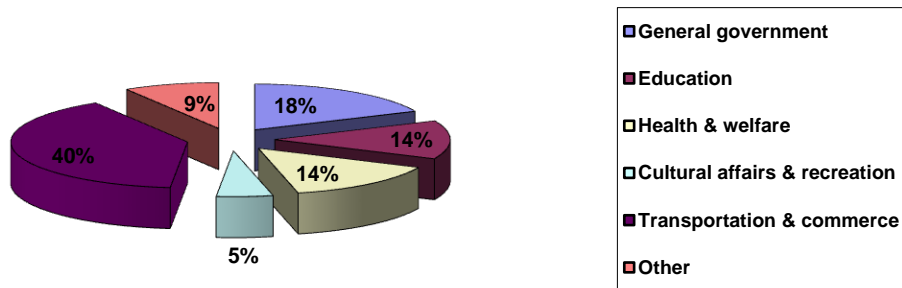
Graphs 3 and 4 below indicate the major components of revenues and cost of governmental activities.

Graph 3
Revenue Sources
For the Year Ended September 30, 2012



Compact funding, local taxes and federal and other grants are the major sources of revenue for the Republic, which comprise 86% of the total revenues for the current year. The remaining 14% is primarily comprised of various fees and service charges.

Graph 4
Cost of Governmental Activities
For the Year Ended September 30, 2012



Other expenses that make up a portion of the costs of governmental activities include public safety expenses within the Ministry of Justice (\$3.7 million), State government appropriations (\$4.7 million), unallocated depreciation expense (\$1.2 million), and interest expense (\$0.6 million).

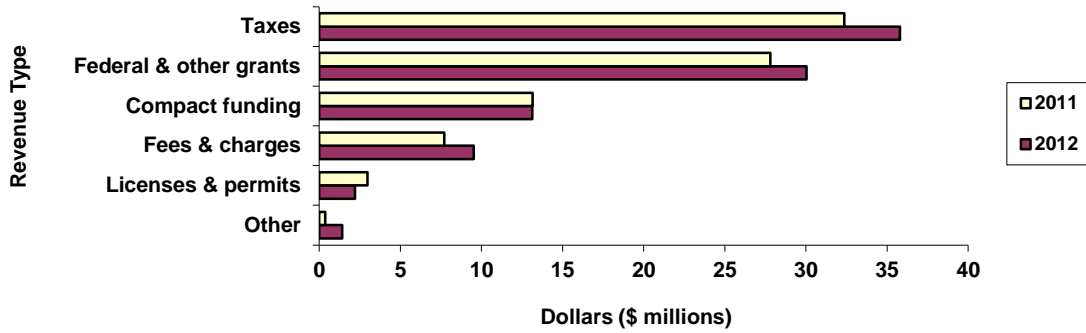
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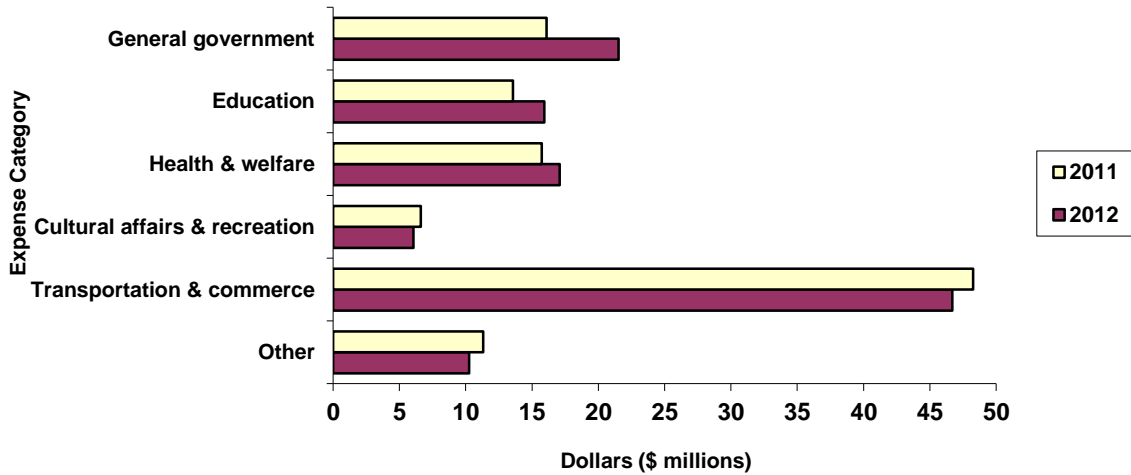
Changes in Net Assets, Continued

Graphs 5 and 6 below show a comparison of the major components of revenues and cost of governmental activities for fiscal years 2012 and 2011.

Graph 5
Revenue Sources
For the Years Ended September 30



Graph 6
Cost of Governmental Activities
For the Years Ended September 30



Other expenses in the current year includes public safety expenses within the Ministry of Justice of \$3.7 million, down from \$4.5 million in the prior year; State government appropriations of \$4.7 million, down from \$4.9 million in the prior year; unallocated depreciation expense of \$1.2 million, down from \$1.3 million in the prior year; and interest expense of \$0.6 million, which is consistent with that recorded in the prior year.

REPUBLIC OF PALAU

Management's Discussion and Analysis Year Ended September 30, 2012

Analysis of Changes in Net Assets

During the current fiscal year, the Republic's total net assets increased by \$6 million compared with a decrease in the prior fiscal year of \$25.8 million. This represents an increase year on year in the change in net assets of \$31.8 million. The key element of this increase is Compact Section 211(f) Trust Fund contributions of \$31.5 million in the current fiscal year, which stands in marked contrast to the prior fiscal year when the trust fund earnings contributed \$1.4 million. The elements of these changes are reflected below:

	Governmental Activities 2012	(As Restated) Governmental Activities 2011	Total Percentage Change 2012-2011
General revenues:			
Taxes	\$ 35,797,619	\$ 32,369,158	10.6%
Other general revenues	12,542,832	10,627,744	18.0%
Total general revenues	48,340,451	42,996,902	12.4%
Expenses, net of program revenues:			
General government	12,844,527	9,132,255	40.7%
Education	9,630,614	7,253,600	32.8%
Health and welfare	9,251,456	9,120,800	1.4%
Public safety	3,542,525	3,933,875	-9.9%
Cultural affairs and recreation	3,901,356	3,369,769	15.8%
Transportation and commerce	28,117,969	30,628,040	-8.2%
State government appropriations	4,735,883	4,875,162	-2.9%
Depreciation - unallocated	1,185,241	1,272,206	-6.8%
Interest	601,030	616,288	-2.5%
Total expenses	73,810,601	70,201,995	5.1%
Contributions to permanent fund	31,507,618	1,438,753	2089.9%
Change in net assets	\$ 6,037,468	\$ (25,766,340)	-123.4%

General revenues increased by \$5.3 million (or 12.4%) from the previous fiscal year. The increase was primarily due to increases in tax revenues of \$3.4 million (or 10.6%) compared with prior year, and other revenues of \$1.9 million (or 18%) compared with prior year. Expenses, net of program revenues, increased by \$3.6 million (or 5.1%) from the previous fiscal year. The increase was primarily due to an increase in education assistance payments of \$1.9 million to the Palau Community College, the recognition of interest of \$0.3 million associated with delinquent payments to the Civil Service Pension Plan, and a \$1.1 million emergency payment to the Palau Public Utility Corporation.

REPUBLIC OF PALAU

Management's Discussion and Analysis Year Ended September 30, 2012

FINANCIAL ANALYSIS OF THE REPUBLIC'S FUNDS

As noted earlier, the Republic uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the Republic's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Republic's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. As of the end of the current fiscal year, the Republic's governmental funds reported combined ending fund balances of \$175.5 million, which represents an increase of \$35.9 million (or 25.8%) in comparison with the prior year. This increase is primarily attributable to an increase in the fair value of the Republic's investments in the Compact Section 211(f) Trust Fund. Of this total combined fund balance, \$174.4 million is designated as nonspendable and cannot be spent either because it is not in a spendable form or because of legal or contractual constraints; \$8.4 million is designated as restricted and is constrained for specific purposes which are externally imposed; and \$0.7 million is designated as committed and is constrained for specific purposes which are internally imposed. The combined unassigned fund balance of the Republic's governmental funds is a negative \$8 million, indicating a deficit in unassigned fund balances.

The General Fund is the chief operating fund of the Republic. At the end of the current fiscal year, the unassigned fund balance of the General Fund reflected a deficit of \$7.6 million. Total fund balance was \$0.4 million compared with a total fund balance deficit of \$10.3 million at the end of the prior fiscal year, an increase of \$10.7 million. The increase in the overall fund balance of the General Fund was primarily due to the receipt of loan proceeds of \$9.9 million.

The Grants Fund has a total fund balance of \$0.03 million, which primarily represents U.S. federal grant revenues received not yet expended at year end. The net increase in fund balance during the current year in the Grants Fund was \$0.2 million (or 114.9%).

The Compact Section 211(f) Trust Fund has a total fund balance of \$171.8 million, all of which is restricted for the funding of future operations of the primary government. The net increase in fund balance during the current year in the Compact Section 211(f) Trust Fund was \$25.3 million (or 17.3%), which reflects a transfer of \$5.0 million to the Republic's General Fund and a net increase in the value of trust fund investments of \$30.3 million. This contrasts sharply with the prior fiscal year when the Compact Section 211(f) Trust Fund had a net decrease in fund balance of \$4.6 million.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the course of the fiscal year, budget revisions of \$6.4 million were made by management and elected officials of the Republic to the General Fund budget. Revenues collected (including other financing sources) of \$64.6 million were higher than budgeted amounts of \$62.4 million due primarily to loan proceeds of \$3.5 million from an Asian Development Bank loan to fund water and sewer operations offset by a decrease in local revenue collections, which fell short of budgeted amounts by \$1.8 million. In addition, charges to appropriations (including other financing uses) of \$60.9 million were lower than budgeted amounts of \$62.6 million due primarily to expenditures associated with the executive branch and debt service of \$51.3 million and \$2.2 million, respectively, which were lower than budgeted amounts of \$52.4 million and \$2.7 million, respectively.

REPUBLIC OF PALAU

Management's Discussion and Analysis Year Ended September 30, 2012

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The Republic's investment in capital assets for its governmental activities as of September 30, 2012 amounted to \$439.6 million (including \$22 million of land and construction in progress), net of accumulated depreciation of \$224.7 million, leaving a net book value of \$214.9 million. This represents a decrease of \$21.6 million from the restated amount of \$236.5 million reported in the prior year. The Republic's capital assets include machinery and equipment, vehicles, infrastructure, roads and bridges, buildings, land, and various projects under construction.

	Capital Assets September 30, (Net of depreciation)		
	Governmental	(As Restated) Governmental	Total
	Activities 2012	Activities 2011	Percentage Change 2012-2011
Buildings and other improvements	\$ 87,992,217	\$ 90,993,695	-3.3%
Machinery and equipment	5,073,435	6,276,041	-19.2%
Vehicles	1,394,710	1,899,549	-26.6%
Infrastructure	98,455,024	122,310,436	-19.5%
Land	3,850,294	3,691,850	4.3%
Construction in progress	18,162,424	11,375,598	59.7%
Total	\$ 214,928,104	\$ 236,547,169	-9.1%

Major capital asset additions during the current year were as follows:

- Completion of the following infrastructure projects:

<u>Infrastructure Project</u>	<u>Current Year Additions (\$ millions)</u>	<u>Completed Cost (\$ millions)</u>
MOE Solar Project	\$ 0.4	\$ 0.5
Agriculture Development Center	\$ 0.4	\$ 0.6
Malakal Marine Resource Building	\$ 0.4	\$ 1.3
Energy Efficient Building	\$ 0.3	\$ 0.4
BNH Community Health Center	\$ 0.4	\$ 0.5
Various Road Rehabilitation Projects	\$ 1.2	\$ 2.3

- Acquisition of the following machinery and equipment:

<u>Infrastructure Project</u>	<u>Current Year Additions (\$ millions)</u>
BPS Radio Communication System	\$ 1.7
X-ray and Scanner System	\$ 0.3
MOE School Buses	\$ 0.2

REPUBLIC OF PALAU

Management's Discussion and Analysis Year Ended September 30, 2012

Capital Assets, Continued

- Ongoing construction in progress of the following infrastructure projects:

<u>Infrastructure Project</u>	<u>Current Year Additions (\$ millions)</u>	<u>Total Cost to Date (\$ millions)</u>
PIA Secondary Apron Phase II, 1A	\$ 4.5	\$ 7.2
Koksai-Ngchesar Road Phase II to IV	\$ 4.5	\$ 9.0
Koksai-Nekken Road Phase I and II	\$ 0.4	\$ 0.5
PIA Master Plan	\$ 0.1	\$ 0.8
Palau High School Dorm Project	\$ 0.2	\$ 0.2
Ngarchelong Water System	\$ 0.2	\$ 0.2
Ngerikiil Water Distribution System	\$ 0.2	\$ 0.2

Additional information on the Republic's capital assets can be found in note 5 to the financial statements.

Long-term Debt

The Republic has entered into four separate loans with the Mega International Commercial Bank and the Asian Development Bank (ADB) (See table below). Long-term debt obligations increased by \$8.2 million (or 50.3%) in the current fiscal year.

Outstanding Long-term Debt September 30,

	<u>Governmental Activities</u> <u>2012</u>	<u>Governmental Activities</u> <u>2011</u>	<u>Total Percentage Change</u> <u>2012-2011</u>
Melekeok State Capitol Building	\$ 9,142,849	\$ 10,285,707	-11.1%
Palau International Airport Repaving Project	5,714,298	6,171,438	-7.4%
Water Sector Improvement (Loan # 2691)	6,400,000	-	
Water Sector Improvement (Loan # 2692)	<u>3,472,734</u>	<u>-</u>	
Total	<u>\$ 24,729,881</u>	<u>\$ 16,457,145</u>	50.3%

During the year ended September 30, 2012, the Republic entered into two new loans with the ADB for the Water Sector Improvement Project.

Additional information on the Republic's long-term debt can be found in note 7 to the financial statements.

REPUBLIC OF PALAU

Management's Discussion and Analysis
Year Ended September 30, 2012

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

In Fiscal Year 2012, actual local revenue collected was \$35.8 million, an increase of 10.6% from the \$32.4 million collected in Fiscal Year 2011. The increase in collections of \$3.4 million was primarily due to increases in tax revenues. All major revenue categories saw increases from previous year with the largest increase coming from hotel occupancy tax. Collections from hotel occupancy tax were \$3.3 million a 19% increase from the \$2.7 million collected in Fiscal Year 2011. Traveler's head tax collections saw an increase from \$2.2 million in Fiscal Year 2011 to \$2.5 million or 15% increase in Fiscal Year 2012. Compact revenues have remained fairly constant while indirect cost recoveries fluctuate and depend on program size. Investment earnings continue to increase subsequent to the global financial and economic crisis. The Republic continues to tap into the remaining balances of its investment principal value for budgetary support as it awaits the outcome of the new Compact Agreement.

Although revenue collection saw an increase in collections in Fiscal 2012 from the previous year the government continues to struggle to balance its budget mainly due to increasing energy costs which is affecting prices and cost across all sectors. Additionally the government has completed some major infrastructure projects that we now have to maintain. The government continues to seek other revenue sources to meet these anticipated costs. Again in 2012, some new measures were introduced to try and raise additional revenue, i.e. tax reforms, new water and sewer rates, eliminating import duty exemptions, moving to CIF (cost, insurance, and freight) valuation, and adopting a value-added tax (VAT); however the proposals have yet to be enacted.

Palau is aware of increasing demands for the limited government resources and despite prioritizing, reallocation of funds and other cost cutting measures these efforts are simply not sufficient to bridge between revenue collection and budgetary requirements. The administration again will try to push through the previously introduced revenue generation measures including a few additional measures, i.e. room tax and visitor's departure tax increases as well as an increase of road use tax.

The current administration has tried to be more conservative in its revenue projection approach however the current size of the government in addition to rising costs has ultimately made it more difficult to balance the Budget at years end. The administration realizes that the only long term solution to the current imbalance in its revenue collection and expenditure is either enactment of new revenue sources or reduction in government "fixed costs", i.e. salary and wages and utilities or combination of both.

Looking beyond Fiscal Year 2012, revenue collections will gradually improve going forward. This can be attributed to the improving global economies as well as improved collections processes by the Bureau of Taxation and Customs. The recent implementation of the secured transactions registry in the financial sector is a positive step to diversify the economy and attract Foreign Direct Investment (FDI). In the short-term, this will enable the government to build up limited cash reserves and in the long-term will reduce the government's reliance on external grants.

CONTACTING THE REPUBLIC'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and investors and creditors a general overview of the Republic's finances and to demonstrate its accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Minister of Finance, P.O. Box 6011, Koror, Republic of Palau 96940.

REPUBLIC OF PALAU

Statement of Net Assets
September 30, 2012

	Primary Government	Component Units
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 10,783,582	\$ 13,699,747
Investments	2,961,316	-
Receivables, net of allowance for uncollectibles	9,369,947	13,882,091
Inventories	46,468	9,622,174
Due from primary government	-	2,529,252
Due from component units	3,000,000	-
Other current assets	692,276	402,565
Restricted assets:		
Cash and cash equivalents	305,232	-
Time certificates of deposit	-	452,281
Total current assets	27,158,821	40,588,110
Noncurrent assets:		
Investments	1,185,575	500,000
Receivables	-	19,875,334
Due from component units	1,000,000	-
Capital assets:		
Nondepreciable capital assets	22,012,718	2,751,523
Capital assets, net of accumulated depreciation	192,915,386	47,256,372
Foreclosed real estate	-	1,946,124
Other noncurrent assets	-	253,359
Restricted assets:		
Cash and cash equivalents	-	1,118,004
Investments	172,297,522	6,151,576
Total noncurrent assets	389,411,201	79,852,292
Total assets	\$ 416,570,022	\$ 120,440,402
<u>LIABILITIES</u>		
Current liabilities:		
Notes payable	\$ 198,142	\$ 30,000
Current portion of long-term obligations	1,599,998	2,713,930
Current portion of compensated absences payable	2,010,082	-
Accounts payable	6,176,466	8,791,792
Contracts payable	2,069,727	-
Due to State governments	2,545,271	-
Due to primary government	-	3,000,000
Due to component units	2,529,252	-
Due to external parties	6,103,129	307,393
Accrued payroll and others	3,331,810	1,821,376
Deferred revenue	1,107,369	1,264,272
Other liabilities	1,476,540	1,129,798
Income tax refunds	809,165	-
Total current liabilities	29,956,951	19,058,561
Noncurrent liabilities:		
Noncurrent portion of long-term obligations	23,129,883	41,363,447
Compensated absences payable, net of current portion	1,837,994	-
Due to U.S. Government	3,000,000	-
Due to primary government	-	1,000,000
Due to external parties	-	5,255,944
Total noncurrent liabilities	27,967,877	47,619,391
Total liabilities	57,924,828	66,677,952
<u>NET ASSETS</u>		
Invested in capital assets, net of related debt	200,070,957	15,680,395
Restricted for:		
Future operations	171,796,541	-
Endowment	-	2,513,229
Debt service	-	3,661,576
Compact related	41,453	-
Other purposes	255,838	21,169,152
Unrestricted	(13,519,595)	10,738,098
Total net assets	358,645,194	53,762,450
Total liabilities and net assets	\$ 416,570,022	\$ 120,440,402

See accompanying notes to basic financial statements.

REPUBLIC OF PALAU

Statement of Activities Year Ended September 30, 2012

Functions/Programs	Expenses	Program Revenues		Net (Expenses) Revenues Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	Component Units
Primary government:						
Governmental activities:						
General government	\$ 21,535,629	\$ 6,746,216	\$ 1,944,886	\$ -	\$ (12,844,527)	\$ -
Education	15,933,447	-	6,302,833	-	(9,630,614)	-
Health and welfare	17,091,111	2,794,859	5,044,796	-	(9,251,456)	-
Public safety	3,733,438	63,665	127,248	-	(3,542,525)	-
Cultural affairs and recreation	6,054,443	1,847,920	305,167	-	(3,901,356)	-
Transportation and commerce	46,701,730	265,142	18,318,619	-	(28,117,969)	-
State government appropriations	4,735,883	-	-	-	(4,735,883)	-
Depreciation - unallocated	1,185,241	-	-	-	(1,185,241)	-
Interest	601,030	-	-	-	(601,030)	-
Total primary government	<u>\$ 117,571,952</u>	<u>\$ 11,717,802</u>	<u>\$ 32,043,549</u>	<u>\$ -</u>	<u>(73,810,601)</u>	<u>-</u>
Component units:						
National Development Bank of Palau	\$ 1,413,068	\$ 2,996,180	\$ 106,601	\$ -	-	1,689,713
Palau Community College	10,510,691	2,980,659	5,635,328	-	-	(1,894,704)
Palau National Communications Corporation	10,901,214	9,874,480	-	-	-	(1,026,734)
Palau International Coral Reef Center	921,716	339,934	336,696	-	-	(245,086)
Palau Visitors Authority	695,890	37,475	-	-	-	(658,415)
Public Utilities Corporation	28,119,632	25,638,820	-	2,109,104	-	(371,708)
Palau District Housing Authority	121,728	90,303	-	-	-	(31,425)
Protected Areas Network Fund	2,245,612	-	-	-	-	(2,245,612)
Total component units	<u>\$ 54,929,551</u>	<u>\$ 41,957,851</u>	<u>\$ 6,078,625</u>	<u>\$ 2,109,104</u>	<u>-</u>	<u>(4,783,971)</u>
General revenues:						
Taxes:						
Business gross receipts				12,066,499	-	
Salary and wage				7,143,717	-	
Alcohol and tobacco				5,663,182	-	
Hotel occupancy				3,307,835	-	
Travelers head				2,546,128	-	
General import				2,107,327	-	
Fuel export				697,133	-	
Fish export				623,525	-	
Other				1,642,273	-	
Grants and contributions not restricted for specific programs				11,128,231	-	
Unrestricted investment earnings				852,521	343,790	
Contributions from primary government				-	5,519,818	
Other				562,080	-	
Total general revenues				<u>48,340,451</u>	<u>5,863,608</u>	
Contributions to permanent funds				<u>31,507,618</u>	<u>-</u>	
Total general revenues and contributions				<u>79,848,069</u>	<u>5,863,608</u>	
Change in net assets				<u>6,037,468</u>	<u>1,079,637</u>	
Net assets at beginning of year, as previously reported				364,366,490	50,238,752	
Prior-period adjustment (Note 15)				<u>(11,758,764)</u>	<u>2,444,061</u>	
Net assets at beginning of year, as restated				<u>352,607,726</u>	<u>52,682,813</u>	
Net assets at end of year				<u>\$ 358,645,194</u>	<u>\$ 53,762,450</u>	

See accompanying notes to basic financial statements.

REPUBLIC OF PALAU

Balance Sheet
Governmental Funds
September 30, 2012

	General	Special Revenue Grants	Permanent Compact Section 211(f)	Other Governmental Funds	Total
ASSETS					
Cash and cash equivalents	\$ 10,783,582	\$ -	\$ -	\$ -	\$ 10,783,582
Investments	4,146,862	-	-	29	4,146,891
Receivables, net:					
Taxes	4,239,802	-	-	-	4,239,802
General	711,714	1,277	-	2,069	715,060
Federal agencies	-	3,802,268	-	-	3,802,268
Accrued interest	15,540	-	597,277	-	612,817
Due from component units	4,000,000	-	-	-	4,000,000
Due from other funds	1,865,661	1,432,423	1,902,793	448,239	5,649,116
Advances	123,207	146,404	-	480	270,091
Inventory	46,468	-	-	-	46,468
Prepaid items	24,318	377,454	-	20,413	422,185
Restricted assets:					
Cash and cash equivalents	305,232	-	-	-	305,232
Investments	-	-	169,296,471	3,001,051	172,297,522
	<u>\$ 26,262,386</u>	<u>\$ 5,759,826</u>	<u>\$ 171,796,541</u>	<u>\$ 3,472,281</u>	<u>\$ 207,291,034</u>

LIABILITIES AND FUND BALANCES

Liabilities:					
Note payable	\$ 198,142	\$ -	\$ -	\$ -	\$ 198,142
Accounts payable	5,186,831	799,270	-	190,365	6,176,466
Contracts payable	-	2,069,727	-	-	2,069,727
Due to State governments	2,545,271	-	-	-	2,545,271
Due to component units	8,632,381	-	-	-	8,632,381
Due to other funds	3,783,455	1,845,551	-	20,110	5,649,116
Accrued payroll and others	3,136,605	-	-	124	3,136,729
Other liabilities	1,390,849	85,691	-	-	1,476,540
Deferred revenues	180,454	926,915	-	-	1,107,369
Income tax refunds	809,165	-	-	-	809,165
Total liabilities	<u>25,863,153</u>	<u>5,727,154</u>	<u>-</u>	<u>210,599</u>	<u>31,800,906</u>
Fund balances:					
Nonspendable	2,256,361	377,454	171,796,541	20,413	174,450,769
Restricted	5,340,813	-	-	3,041,453	8,382,266
Committed	459,276	8,960	-	235,425	703,661
Unassigned:					
General fund	(7,657,217)	-	-	-	(7,657,217)
Special revenue funds	-	(353,742)	-	(35,609)	(389,351)
Total fund balances	<u>399,233</u>	<u>32,672</u>	<u>171,796,541</u>	<u>3,261,682</u>	<u>175,490,128</u>
	<u>\$ 26,262,386</u>	<u>\$ 5,759,826</u>	<u>\$ 171,796,541</u>	<u>\$ 3,472,281</u>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	214,928,104
Long-term liabilities, including loans payable, are not due and payable in the current period and therefore are not reported in the funds. The liabilities include:	
Long-term obligations	(24,729,881)
Compensated absences	(3,848,076)
Accrued interest payable	(195,081)
Due to U.S. Government	(3,000,000)
	<u>(31,773,038)</u>
Net assets of governmental activities	<u>\$ 358,645,194</u>

See accompanying notes to basic financial statements.

REPUBLIC OF PALAU

Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficit) Governmental Funds Year Ended September 30, 2012

	General	Special	Permanent	Other	Total
		Revenue		Governmental	
		Grants	Compact	Funds	
			Section 211(f)		
Revenues:					
Taxes	\$ 35,797,619	\$ -	\$ -	\$ -	\$ 35,797,619
Federal and other grants	-	30,043,549	-	-	30,043,549
Compact funding	11,128,231	2,000,000	-	-	13,128,231
Net change in the fair value of investments	849,188	-	31,507,618	3,333	32,360,139
Fees and charges	6,598,683	-	-	2,924,545	9,523,228
Licenses and permits	2,193,544	-	-	1,030	2,194,574
Other	562,080	-	-	-	562,080
Total revenues	57,129,345	32,043,549	31,507,618	2,928,908	123,609,420
Expenditures:					
Current:					
Judicial Branch	2,283,618	-	-	-	2,283,618
Legislative Branch	3,897,278	1,989	-	-	3,899,267
Office of the President	1,097,569	1,227,333	-	-	2,324,902
Office of the Vice-President	450,710	-	-	-	450,710
Ministry of Finance	2,856,316	91,095	-	-	2,947,411
Ministry of State	2,263,037	38,086	-	3,435	2,304,558
Ministry of Community and Cultural Affairs	1,009,613	1,372	-	1,108	1,012,093
Ministry of Education	6,847,558	4,302,833	-	-	11,150,391
Ministry of Public Infrastructure, Industry and Commerce	9,389,976	294,555	-	-	9,684,531
Ministry of Justice	4,031,242	127,248	-	56,120	4,214,610
Ministry of Health	7,901,061	5,044,796	-	2,689,564	15,635,421
Ministry of Natural Resources, Environment and Tourism	1,218,662	303,795	-	11,220	1,533,677
Boards, Commissions, and Authorities	2,581,703	-	-	-	2,581,703
State Block Grants	4,735,883	-	-	-	4,735,883
Independent Agencies	3,021,273	356,176	-	38,319	3,415,768
Other Agencies and Activities	2,466,893	-	-	-	2,466,893
Education assistance	4,577,473	-	-	-	4,577,473
Pension plan interest	330,971	-	-	-	330,971
Financial and Compliance Audit	97,500	68,500	-	-	166,000
Compact Review Office	148,722	-	-	-	148,722
Festival of Arts	59,508	-	-	-	59,508
Investment management fees	-	-	1,196,528	2,282	1,198,810
Capital projects	294,463	17,934,474	-	-	18,228,937
Debt service:					
Principal retirement	1,599,998	-	-	-	1,599,998
Interest	579,149	-	-	-	579,149
Total expenditures	63,740,176	29,792,252	1,196,528	2,802,048	97,531,004
Excess (deficiency) of revenues over (under) expenditures	(6,610,831)	2,251,297	30,311,090	126,860	26,078,416
Other financing sources (uses):					
Loan proceeds	9,872,734	-	-	-	9,872,734
Operating transfers in	7,456,903	-	-	-	7,456,903
Operating transfers out	-	(2,000,000)	(5,000,000)	(456,903)	(7,456,903)
Total other financing sources (uses), net	17,329,637	(2,000,000)	(5,000,000)	(456,903)	9,872,734
Net change in fund balances (deficit)	10,718,806	251,297	25,311,090	(330,043)	35,951,150
Fund balances (deficit) at beginning of year, as previously reported	(6,797,609)	(218,625)	146,485,451	3,591,725	143,060,942
Prior-period adjustment (Note 15)	(3,521,964)	-	-	-	(3,521,964)
Fund balances (deficit) at beginning of year, as restated	(10,319,573)	(218,625)	146,485,451	3,591,725	139,538,978
Fund balances at end of year	\$ 399,233	\$ 32,672	\$ 171,796,541	\$ 3,261,682	\$ 175,490,128

See accompanying notes to basic financial statements.

REPUBLIC OF PALAU

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities Year Ended September 30, 2012

Amounts reported for governmental activities in the statement of activities are different from changes in fund balances because:

Net change in fund balances - total governmental funds \$ 35,951,150

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period, including decreases to construction in progress and transfers from construction in progress to infrastructure. For the current year, these activities consist of:

Capital outlays, net of disposals	\$ 5,868,264	
Depreciation expense, net	<u>(27,487,329)</u>	(21,619,065)

The incurrence of long-term debt (e.g., loans) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net assets. For the current year, these amounts consist of:

Loan proceeds from ADB loan	\$ (9,872,734)	
Repayment of MICB loans	<u>1,599,998</u>	(8,272,736)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore, are not reported as expenditures in governmental funds. These expenses include accrued annual leave and interest payable that are reported in the statement of activities, but not in funds. For the current year, these activities consist of:

Change in accrued interest payable		<u>(21,881)</u>
Change in net assets of governmental activities.		\$ <u>6,037,468</u>

See accompanying notes to basic financial statements.

REPUBLIC OF PALAU

Statement of Fiduciary Net Assets
Fiduciary Funds
September 30, 2012

	<u>Private Purpose Trust</u>	<u>Pension (and Other Employee Benefit) Trust</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 3,197,088	\$ 658,313	\$ 3,855,401
Time certificate of deposit with an uninsured bank	-	1,452,609	1,452,609
Receivables, net:			
Contributions	6,648,321	3,238,696	9,887,017
Accrued interest and dividends	419,246	-	419,246
Other	24,354	1,107	25,461
Investments	76,979,612	32,100,018	109,079,630
Due from component units	5,563,337	-	5,563,337
Prepaid items	8,375	-	8,375
Capital assets, net	336,801	36,583	373,384
	<u>93,177,134</u>	<u>37,487,326</u>	<u>130,664,460</u>
Total assets			
<u>LIABILITIES</u>			
Benefits payable	286,435	-	286,435
Other liabilities and accruals	157,545	39,639	197,184
	<u>443,980</u>	<u>39,639</u>	<u>483,619</u>
Total liabilities			
<u>NET ASSETS</u>			
Held in trust for:			
Social security benefits	92,733,154	-	92,733,154
Pension benefits	-	37,447,687	37,447,687
	<u>92,733,154</u>	<u>37,447,687</u>	<u>130,180,841</u>
Total net assets			

See accompanying notes to basic financial statements.

REPUBLIC OF PALAU

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
Year Ended September 30, 2012

	<u>Private Purpose Trust</u>	<u>Pension (and Other Employee Benefit) Trust</u>	<u>Total</u>
Additions:			
Contributions:			
Government employees	\$ 8,788,469	\$ -	\$ 8,788,469
Private employees	5,861,534	-	5,861,534
Employer contributions	-	2,580,869	2,580,869
Plan member contributions	-	2,558,949	2,558,949
Penalties and interest	643,654	-	643,654
Other	77,220	-	77,220
	<u>15,370,877</u>	<u>5,139,818</u>	<u>20,510,695</u>
Allowance for doubtful accounts	(328,828)	-	(328,828)
Total contributions	<u>15,042,049</u>	<u>5,139,818</u>	<u>20,181,867</u>
Investment earnings:			
Net change in the fair value of investments	7,862,565	2,497,098	10,359,663
Interest and dividends	2,473,269	2,303,680	4,776,949
Total investment earnings	<u>10,335,834</u>	<u>4,800,778</u>	<u>15,136,612</u>
Less investment expense	<u>381,349</u>	<u>186,120</u>	<u>567,469</u>
Net investment earnings	<u>9,954,485</u>	<u>4,614,658</u>	<u>14,569,143</u>
Other	<u>304,937</u>	<u>89,283</u>	<u>394,220</u>
Total additions	<u>25,301,471</u>	<u>9,843,759</u>	<u>35,145,230</u>
Deductions:			
Benefits	12,245,584	8,123,193	20,368,777
General and administrative	<u>1,294,700</u>	<u>401,545</u>	<u>1,696,245</u>
Total deductions	<u>13,540,284</u>	<u>8,524,738</u>	<u>22,065,022</u>
Change in net assets	11,761,187	1,319,021	13,080,208
Net assets at beginning of year	<u>80,971,967</u>	<u>36,128,666</u>	<u>117,100,633</u>
Net assets at end of year	<u>\$ 92,733,154</u>	<u>\$ 37,447,687</u>	<u>\$ 130,180,841</u>

See accompanying notes to basic financial statements.

REPUBLIC OF PALAU

**Combining Statement of Net Assets (Deficiency)
Component Units
September 30, 2012**

<u>Assets</u>	National Development Bank of Palau	Palau Community College	Palau National Communications Corporation	Palau International Coral Reef Center	Palau Visitors Authority	Public Utilities Corporation	Palau District Housing Authority	Protected Areas Network Fund	Total
Current assets:									
Cash and cash equivalents	\$ 7,597,730	\$ 475,487	\$ 442,762	\$ 290,035	\$ 191,779	\$ 3,702,550	\$ 833,400	\$ 166,004	\$ 13,699,747
Restricted time certificates of deposit	452,281	-	-	-	-	-	-	-	452,281
Receivables, net	4,658,115	3,490,706	1,484,220	166,650	13,197	3,872,802	196,401	-	13,882,091
Inventories	356,476	328,685	183,068	62,642	-	8,691,303	-	-	9,622,174
Due from primary government	-	659,551	-	-	-	-	-	1,869,701	2,529,252
Prepaid expenses	29,377	-	70,884	5,276	6,930	290,098	-	-	402,565
Total current assets	<u>13,093,979</u>	<u>4,954,429</u>	<u>2,180,934</u>	<u>524,603</u>	<u>211,906</u>	<u>16,556,753</u>	<u>1,029,801</u>	<u>2,035,705</u>	<u>40,588,110</u>
Noncurrent assets:									
Investments	-	-	500,000	-	-	-	-	-	500,000
Receivables	17,847,668	-	-	-	-	228,260	1,799,406	-	19,875,334
Capital assets:									
Nondepreciable capital assets	-	-	554,782	-	-	2,196,741	-	-	2,751,523
Capital assets, net of accumulated depreciation	709,249	1,470,161	18,523,280	2,044,268	64,865	24,423,327	10,558	10,664	47,256,372
Foreclosed real estate	1,946,124	-	-	-	-	-	-	-	1,946,124
Other noncurrent assets	201,809	-	51,550	-	-	-	-	-	253,359
Restricted assets:									
Cash and cash equivalents	716,561	276,599	-	-	-	124,844	-	-	1,118,004
Investments	-	2,490,000	3,661,576	-	-	-	-	-	6,151,576
Total noncurrent assets	<u>21,421,411</u>	<u>4,236,760</u>	<u>23,291,188</u>	<u>2,044,268</u>	<u>64,865</u>	<u>26,973,172</u>	<u>1,809,964</u>	<u>10,664</u>	<u>79,852,292</u>
Total assets	<u>\$ 34,515,390</u>	<u>\$ 9,191,189</u>	<u>\$ 25,472,122</u>	<u>\$ 2,568,871</u>	<u>\$ 276,771</u>	<u>\$ 43,529,925</u>	<u>\$ 2,839,765</u>	<u>\$ 2,046,369</u>	<u>\$ 120,440,402</u>
Current liabilities:									
Short-term note payable	\$ 30,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 30,000
Current portion of long-term debt	613,852	-	1,572,477	-	-	527,601	-	-	2,713,930
Accounts payable	73,238	1,982,437	427,723	111,611	27,810	6,168,973	-	-	8,791,792
Due to primary government	3,000,000	-	-	-	-	-	-	-	3,000,000
Due to fiduciary funds	307,393	-	-	-	-	-	-	-	307,393
Accrued payroll and others	262,497	485,966	606,078	73,822	36,958	348,845	7,210	-	1,821,376
Deferred revenue	211,087	893,157	130,049	29,979	-	-	-	-	1,264,272
Other liabilities	-	-	673,133	-	-	456,665	-	-	1,129,798
Total current liabilities	<u>4,498,067</u>	<u>3,361,560</u>	<u>3,409,460</u>	<u>215,412</u>	<u>64,768</u>	<u>7,502,084</u>	<u>7,210</u>	<u>-</u>	<u>19,058,561</u>
Noncurrent liabilities:									
Long-term debt, net of current portion	6,153,846	-	27,131,154	-	-	8,078,447	-	-	41,363,447
Due to primary government	1,000,000	-	-	-	-	-	-	-	1,000,000
Due to fiduciary funds	5,255,944	-	-	-	-	-	-	-	5,255,944
Total noncurrent liabilities	<u>12,409,790</u>	<u>-</u>	<u>27,131,154</u>	<u>-</u>	<u>-</u>	<u>8,078,447</u>	<u>-</u>	<u>-</u>	<u>47,619,391</u>
Total liabilities	<u>16,907,857</u>	<u>3,361,560</u>	<u>30,540,614</u>	<u>215,412</u>	<u>64,768</u>	<u>15,580,531</u>	<u>7,210</u>	<u>-</u>	<u>66,677,952</u>
Net assets (deficiency):									
Invested in capital assets, net of related debt	709,249	1,470,161	(9,625,569)	2,044,268	64,865	20,996,199	10,558	10,664	15,680,395
Restricted:									
Endowment	-	2,513,229	-	-	-	-	-	-	2,513,229
Debt service	-	-	3,661,576	-	-	-	-	-	3,661,576
Other purposes	16,898,284	253,370	-	-	-	-	1,981,793	2,035,705	21,169,152
Unrestricted	-	1,592,869	895,501	309,191	147,138	6,953,195	840,204	-	10,738,098
Total net assets (deficiency)	<u>17,607,533</u>	<u>5,829,629</u>	<u>(5,068,492)</u>	<u>2,353,459</u>	<u>212,003</u>	<u>27,949,394</u>	<u>2,832,555</u>	<u>2,046,369</u>	<u>53,762,450</u>
	<u>\$ 34,515,390</u>	<u>\$ 9,191,189</u>	<u>\$ 25,472,122</u>	<u>\$ 2,568,871</u>	<u>\$ 276,771</u>	<u>\$ 43,529,925</u>	<u>\$ 2,839,765</u>	<u>\$ 2,046,369</u>	<u>\$ 120,440,402</u>

See accompanying notes to basic financial statements.

REPUBLIC OF PALAU

**Combining Statement of Revenues, Expenses, and Changes in Net Assets (Deficiency)
Component Units
Year Ended September 30, 2012**

	National Development Bank of Palau	Palau Community College	Palau National Communications Corporation	Palau International Coral Reef Center	Palau Visitors Authority	Public Utilities Corporation	Palau District Housing Authority	Protected Areas Network	Total
Operating revenues:									
Charges for services	\$ 2,271,048	\$ 2,771,535	\$ 9,632,186	\$ 326,979	\$ -	\$ 25,029,665	\$ 82,507	\$ -	\$ 40,113,920
Grants and contributions	-	5,635,328	-	336,696	-	-	-	-	5,972,024
Other	725,132	209,124	242,294	12,955	37,475	609,155	7,796	-	1,843,931
Total operating revenues	2,996,180	8,615,987	9,874,480	676,630	37,475	25,638,820	90,303	-	47,929,875
Operating expenses:									
Cost of services	-	8,223,750	4,864,275	-	-	23,279,899	-	2,211,762	38,579,686
Depreciation	48,223	296,690	2,543,071	167,337	14,248	1,757,965	2,891	-	4,830,425
Administration costs	655,752	1,967,588	1,589,375	754,379	681,642	1,153,797	118,837	33,850	6,955,220
Total operating expenses	703,975	10,488,028	8,996,721	921,716	695,890	26,191,661	121,728	2,245,612	50,365,331
Operating income (loss)	2,292,205	(1,872,041)	877,759	(245,086)	(658,415)	(552,841)	(31,425)	(2,245,612)	(2,435,456)
Nonoperating revenues (expenses):									
Contributions from primary government	-	2,631,200	-	356,708	625,000	-	58,990	1,847,920	5,519,818
Net change in the fair value of investments	-	323,454	-	-	-	-	-	-	323,454
Interest income	4,623	-	12,312	70	-	2,358	973	-	20,336
Grant revenues	106,601	-	-	-	-	-	-	-	106,601
Interest expense	(557,512)	-	(1,328,295)	-	-	(480,755)	-	-	(2,366,562)
Other, net	(151,581)	(22,663)	(576,198)	-	-	(1,447,216)	-	-	(2,197,658)
Total nonoperating revenues (expenses), net	(597,869)	2,931,991	(1,892,181)	356,778	625,000	(1,925,613)	59,963	1,847,920	1,405,989
Capital contributions	-	-	-	-	-	2,109,104	-	-	2,109,104
Change in net assets (deficiency)	1,694,336	1,059,950	(1,014,422)	111,692	(33,415)	(369,350)	28,538	(397,692)	1,079,637
Net assets (deficiency) at beginning of year, as previously reported	15,913,197	4,769,679	(4,054,070)	2,241,767	245,418	28,318,744	2,804,017	-	50,238,752
Prior-period adjustment (Note 15)	-	-	-	-	-	-	-	2,444,061	2,444,061
Net assets (deficiency) at beginning of year, as restated	15,913,197	4,769,679	(4,054,070)	2,241,767	245,418	28,318,744	2,804,017	2,444,061	52,682,813
Net assets (deficiency) at end of year	\$ 17,607,533	\$ 5,829,629	\$ (5,068,492)	\$ 2,353,459	\$ 212,003	\$ 27,949,394	\$ 2,832,555	\$ 2,046,369	\$ 53,762,450

See accompanying notes to basic financial statements.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2012

(1) Summary of Significant Accounting Policies

The Republic of Palau (the “Republic”) was constituted on January 1, 1981, under the provisions of the Constitution of the Republic of Palau (the “Constitution”) as approved by the people of Palau. The Constitution provides for the separation of powers of the executive, legislative, and judicial branches of the government. The Republic assumes responsibility for general government, public safety, health, education, and economic development.

The accompanying basic financial statements of the Republic have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Republic’s accounting policies are described below.

A. Reporting Entity

The Government of the Republic is a constitutional government comprised of three branches: the Legislative Branch (Olbiil Era Kelulau (OEK)); the Executive Branch; and the Judicial Branch. The Legislative Branch consists of two houses which sit for four-year terms. The House of Delegates has 16 members, one from each state. The Senate has 13 members selected in a nationwide election. The Executive Branch consists of the President as the chief executive officer, the Vice-President, and the Council of Chiefs. The President is assisted by an 8 member Cabinet. The Judicial Branch is made up of the Supreme Court, the Land Court, and the Court of Common Pleas.

For financial reporting purposes, the Republic has included all funds, organizations, agencies, boards, commissions and institutions. The Republic has also considered all potential component units for which it is financially accountable as well as other entities for which the nature and significance of their relationship with the Republic are such that exclusion would cause the Republic’s basic financial statements to be misleading or incomplete. The criteria to be considered in determining financial accountability include whether the Republic, as the primary government, has appointed a voting majority of an organization’s governing body and either has the ability to impose its will on that organization or there is potential for the organization to provide specific financial benefits to or impose specific financial burdens on the Republic. Financial accountability also exists if an organization is determined to be fiscally dependent on the primary government, although the primary government does not appoint a voting majority of the organization’s governing board.

Each component unit of the Republic has a September 30 year-end except for the Palau National Communications Corporation, which has a December 31 year-end.

Component units are entities that are legally separate organizations for which the Republic’s elected officials are financially accountable or other organizations for which the nature and significance of their relationship with the Republic are such that exclusion would cause the Republic’s basic financial statements to be misleading or incomplete. The Republic is financially accountable because it appoints the members of the governing authorities of each of the component units and because it is able to impose its will on these organizations or because the organizations provide specific financial benefits or impose specific financial burdens on the Republic.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2012

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

The financial statements of the component units have been included in the financial reporting entity as discretely presented component units in accordance with GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. The component units' column of the basic financial statements includes the financial data of the following discretely presented component units:

- National Development Bank of Palau (NDBP): NDBP was formed on February 24, 1982, under the provisions of RPPL No. 1-27, as amended by RPPL No. 3-4, RPPL No. 4-48, RPPL No. 5-37 and RPPL No. 6-18. The law created a wholly-owned government corporation managed by a Board of Directors appointed by the President of the Republic with the advice and consent of the OEK. The purpose of NDBP is to be the central financial institution responsible for initiating and promoting economic development within the Republic. The Republic guarantees principal and interest payments to the Republic of Palau Social Security Retirement Fund, the Mega International Commercial Bank (formerly the International Commercial Bank of China), and the European Investment Bank in the event of default by NDBP. The Republic has the ability to impose its will on NDBP.
- Palau Community College (PCC): PCC is a non-profit corporation established by RPPL No. 4-2, and inaugurated on June 3, 1993. Four voting members are appointed by the President of the Republic with the advice and consent of the Senate of the OEK. One voting member shall be a member of the Republic of Palau Board of Education as designated by the Republic Board of Education. Two non-voting members are appointed by the Board of Trustees to serve in an advisory capacity to the Board. The Board shall grant voting membership to one member from the RMI, one member from the FSM as designated by those governments. The Board shall grant voting membership to a student representative. The purpose of PCC, as defined by RPPL No. 4-2, is to be the institution of higher education for the Republic of Palau and to provide postsecondary educational opportunities to the people of the Republic of Palau, Federated States of Micronesia, Republic of the Marshall Islands, as well as students from other countries. The Republic provides financial support to PCC through legislative appropriations.
- Palau National Communications Corporation (PNCC): PNCC was created on August 23, 1982, under the provisions of RPPL No. 1-40. The law created a wholly-owned government corporation managed by a Board of Directors appointed by the President of the Republic, with the advice and consent of the Senate of the OEK. The primary purpose of PNCC is to establish and operate communication services as a communication common carrier within the Republic. The Republic guarantees principal and interest payments to the Rural Utilities Service in the event of default by PNCC on Rural Electrification and Telephone Revolving Fund loans. The Republic has the ability to impose its will on PNCC.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2012

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

- Palau International Coral Reef Center (PICRC): PICRC was created on November 20, 1998 by RPPL No. 5-17. The law created a wholly-owned government non-profit corporation managed by a Board of Directors appointed by the President with the advice and consent of the Senate of the OEK. PICRC is to carry out marine research and educate the public about the ecological, economic and cultural importance of coral reefs and their associated marine habitats. The Republic provides financial support to PICRC through legislative appropriations.
- Public Utilities Corporation (PUC): PUC was created by RPPL No. 4-13 on July 6, 1994. The law created a wholly-owned government corporation managed by a Board of Directors appointed by the President with the advice and consent of the Senate of the OEK. The purpose of PUC is to establish and operate electrical utility services within the Republic. The Republic guarantees principal and interest payments to the Mega International Commercial Bank, and the National Development Bank of Palau in the event of default by PUC. The Republic has the ability to impose its will on PUC.
- Palau District Housing Authority (PDHA): PDHA was created by an act of the Congress of Micronesia in 1973, the "Territory Community Housing Act". PDHA is charged with the administration of the low-cost housing loan program in the Republic of Palau and is administered by a five-member Board of Directors appointed by the President of the Republic with the advice and consent of the Senate of the OEK. PDHA is authorized to finance and construct homes as needed. The Republic provides financial support to PDHA through legislative appropriations.
- Protected Areas Network Fund (PAN Fund): PAN Fund was formed on May 2, 2008, under the provisions of RPPL No. 7-42 for the purpose of administering and managing all funds received for the financial sustainability of the Protected Areas Network in Palau and for other related purposes. Portions of RPPL 7-42 were revised by RPPL 8-9 and RPPL 8-18. The law created a registered non-profit corporation under the Republic corporate registry managed by a Board of Directors, consisting of seven voting members and the Republic's Minister of Finance and Minister of Resources and Development, appointed in accordance with PAN Fund's Articles of Incorporation and approved by no less than two thirds of the Senate of the OEK. The Republic provides financial support to the PAN Fund through legislative appropriations.
- Palau Visitors Authority (PVA): PVA was formed on November 23, 1982, under the provisions of RPPL No. 1-49 for the purpose of implementing tourism programs, including marketing and related responsibilities. The law created a wholly-owned public corporation managed by a Board of Directors appointed by the President of the Republic with the advice and consent of the OEK. PVA is subject to annual appropriations by the OEK. The Republic provides financial support to PVA through legislative appropriations.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2012

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

In addition, the fiduciary component units are subject to legislative and executive controls. These component units, while meeting the definition of a component unit and while legally separate, are presented in the fund financial statements of the Republic. They have been omitted from the government-wide financial statements as their resources are not available to fund operations of the Republic. The fiduciary component units are as follows:

- The Republic of Palau Social Security Retirement Fund (the Fund), a Fiduciary Fund Type - Private Purpose Trust Fund, was created under Republic of Palau Public Law (RPPL) No. 2-29, passed into law on May 28, 1987, and revised by RPPL No. 3-64, passed into law on December 20, 1991, and began operations on October 1, 1987. The Fund is administered under the authority of five trustees appointed by the President with the advice and consent of the Senate of the Republic. The Fund provides retirement, disability, and death benefits to qualified individuals and their survivors. Further, the Fund was appointed responsibility under 41 PNC, Section 723, for the administration and operation of the Palau Healthcare Fund Program.
- The Republic of Palau Civil Service Pension Trust Fund (the Pension Fund), a Fiduciary Fund Type - Pension (and Other Employee Benefit) Trust Fund, was created under RPPL No. 2-26, which was passed into law April 3, 1987, and began operations October 1, 1987. RPPL No. 2-26 was revised by RPPL No. 3-21, RPPL No. 4-40, RPPL No. 4-49, RPPL No. 5-30, RPPL No. 6-37 and RPPL No. 7-56. The Pension Fund is administered under the authority of a seven member Board of Trustees appointed by the President with the advice and consent of the Senate of the Republic.

Complete financial statements for each of the individual component units may be obtained at the respective component units' administrative offices or obtaining them directly from the Office of the Public Auditor:

P.O. Box 850
Koror, Palau 96940
Website: www.palauopa.org

B. Government-Wide Financial Statements

The Statement of Net Assets and the Statement of Activities report financial information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been eliminated from these statements except for other charges between the primary government and the discretely presented component units. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2012

(1) Summary of Significant Accounting Policies, Continued

B. Government-Wide Financial Statements, Continued

Primary government activities are defined as either governmental or business-type activities. Governmental activities, which normally are supported by taxes, intergovernmental revenues and other non-exchange revenues, are reported separately from business-type activities, which rely to a significant extent on fees charged to external parties for goods or services. As such, business-type activities account for operations similar to a for-profit business. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable. Discretely presented component unit activities are presented with their business-type focus.

The Statement of Net Assets presents the reporting entity's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

- *Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt that are attributed to the acquisition, construction or improvement of those assets.
- *Restricted net assets* consists of resources in which the Republic is legally or contractually obligated to spend resources in accordance with restrictions either externally imposed by creditors, grantors, contributors, and the like, or imposed by law.
- *Unrestricted net assets* consist of net assets, which do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, (for example, internally restricted) to indicate that management does not consider them to be available for general operations. They often have restrictions that are imposed by management, but can be removed or modified.

The government-wide Statement of Net Assets reports \$172,093,832 of restricted net assets, of which \$255,838 is restricted by enabling legislation.

The Statement of Activities demonstrates the degree to which the direct expenses of given functions or segments are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function or segment. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not meeting the definition of program revenues are, instead, reported as general revenue.

C. Fund Financial Statements

The fund financial statements present a balance sheet and a statement of revenues, expenditures, and changes in fund balances for its major and aggregated non-major funds. Separate financial statements are provided for governmental funds and fiduciary funds even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements pursuant to GASB reporting standards, with nonmajor governmental funds being combined into a single column.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2012

(1) Summary of Significant Accounting Policies, Continued

C. Fund Financial Statements, Continued

The Republic reports its financial position and results of operations in funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures/expenses. Transactions between funds within a fund type, if any, have not been eliminated.

D. Measurement Focus and Basis of Accounting

Government-Wide Financial Statements - the government-wide financial statements are reported using the economic resources management focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Amounts reported as program revenue include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. General revenue is derived from taxation, investment income and other fees that are not allocated to specific programs.

Governmental Fund Financial Statements - the governmental fund financial statements account for the general governmental activities of the Republic and are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as they become susceptible to accrual; generally when they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Republic considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Significant revenues susceptible to accrual include income and gross revenue taxes, federal grants, federal reimbursements and other reimbursements for use of materials and services. Miscellaneous revenues from other financing sources are recognized when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Investments and related investment earnings are recorded at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Expenditures generally are recorded in the period in which the related fund liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Fiduciary funds and discretely presented component units financial statements - the fiduciary funds and discretely presented component units financial statements are reported using the economic measurement focus and the accrual basis of accounting, similar to government-wide financial statements, as described above.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2012

(1) Summary of Significant Accounting Policies, Continued

D. Measurement Focus and Basis of Accounting, Continued

Discretely presented component units distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a component unit's principal ongoing operations. All other revenues are reported as nonoperating. Operating expenses includes the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

As allowed by GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the Republic's discretely presented component units follow all GASB pronouncements and those Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins that were issued on or before November 30, 1989, except those that conflict with a GASB pronouncement.

GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments*, as amended by GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments: Omnibus*, sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses for either fund category or the governmental and enterprise combined) for the determination of major funds. Major individual governmental funds are reported as separate columns in the fund financial statements. The nonmajor funds are combined in a column in the fund financial statements and detailed in the combining statements. The Republic reports the following major funds:

- General Fund - This fund is the primary operating fund of the Republic. It is used to account for all governmental transactions, except those required to be accounted for in another fund.
- Grants Fund - a Special Revenue Fund that accounts for grants received from the United States government and other donor countries.
- Compact Section 211(f) Fund - a Permanent Fund that accounts for funds provided pursuant to the Compact of Free Association, Section 211(f). Under the terms and conditions of Section 211(f) of the Compact and subsidiary agreements, the Republic may expend an agreed minimum annual distribution from accrued interest of the Fund. This amount has been determined to be \$5,000,000 annually for the first fifteen years of the Compact. The objective for the Fund is to allow annual distributions from accrued interest of \$15,000,000 annually after the fifteenth year of the Compact.

The nonmajor governmental funds are comprised of special revenue funds, which account for financial resources obtained from specific revenue sources and used for restricted purposes.

In addition, the Republic reports the following fund types:

- Private Purpose Trust Fund - this fund accounts for resources held in trust by the Republic of Palau Social Security Retirement Fund under which principal and income benefit certain individuals.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2012

(1) Summary of Significant Accounting Policies, Continued

D. Measurement Focus and Basis of Accounting, Continued

- Pension (and Other Employee Benefit) Trust Fund - this fund accounts for resources held in trust by the Republic of Palau Civil Service Pension Trust Fund for members and beneficiaries of the Republic's pension plan.

E. Cash and Cash Equivalents and Time Certificates of Deposit

The Republic pools cash resources of its various funds in order to facilitate the management of cash. Unless otherwise required by law, interest income received on pooled cash accrues to the General Fund. Cash and cash equivalents applicable to a particular fund are readily identifiable. Cash and cash equivalents include cash on hand, cash held in demand accounts as well as time certificates of deposit with a maturity date within three months of the date acquired by the Republic. Time certificates of deposit with original maturity dates greater than three months are separately classified.

F. Investments

Investments and related investment earnings are recorded at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

G. Receivables

In general, tax revenue is recognized on the government-wide financial statements, when assessed or levied and on the governmental fund financial statements to the extent that it is both measurable and available. Receivables are stated net of estimated allowances for uncollectible accounts. Reimbursements due to the Republic for expenditures on federally funded reimbursement and grant programs are reported as "receivables from federal agencies" on the governmental fund balance sheet.

Receivables of the primary government and the discretely presented component units are primarily due from businesses and individuals residing in the Republic. The Republic establishes an allowance for doubtful accounts receivable based on the credit risk of specific customers, historical trends and other information.

H. Inventories

Inventories of the primary government and the discretely presented component units comprise diesel fuel, parts and supplies and are generally valued at the lower-of-cost (FIFO) or market.

I. Prepaid Items

Certain payments made to vendors or persons for services reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2012

(1) Summary of Significant Accounting Policies, Continued

J. Interfund Receivables and Payables

During the course of its operations, the Republic records transactions between individual funds for goods provided or services rendered. Receivables and payables resulting from transactions between funds are classified as "due from other funds" or "due to other funds" on the governmental fund balance sheet. Receivables and payables resulting from transactions between component units and the primary government are classified as "due to/from primary government" or "due to/from component units" on the governmental fund balance sheet and the statement of net assets. Interfund receivables and payables have been eliminated from the statement of net assets.

K. Restricted Assets

Certain assets of the primary government are classified as restricted assets because their use is completely restricted through loans agreements, trust arrangements or enabling legislation.

Certain assets of the discretely presented component units are classified as restricted assets because their uses are restricted for economic development, capital projects, endowment funds and loan revolving programs.

L. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure (e.g. roads, bridges, ramps and other similar items), are reported in the governmental activity column of the government-wide financial statements. Such assets, whether purchased or constructed, are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at fair market value at the date of donation. Land and non-depreciable land improvements are capitalized, regardless of cost. Singular pieces of machinery and equipment, other than vehicles, that equal or exceed \$50,000 are capitalized. Buildings and infrastructure projects with a cost that equals or exceeds \$100,000 are capitalized. The costs of normal maintenance and repairs that do not add to the value of assets or materially extend asset lives are not capitalized. Vehicles have been grouped together regardless of cost and depreciated on a composite basis.

Management has elected to present only assets acquired subsequent to 1980, except for buildings. Accordingly, fixed assets records consist of additions commencing in fiscal year 1980. The Republic has elected to prospectively report general infrastructure assets in the government-wide financial statements and have retroactively reported all major general infrastructure assets at September 30, 2012.

Capital assets of the primary government and the component units are depreciated using the straight-line method with a full year's depreciation charged in the year of acquisition and disposal, regardless of date. Estimated useful lives are as follows:

	<u>Estimated Useful Life</u>
Buildings and other improvements	15 - 50 years
Infrastructure	10 - 20 years
Vehicles	5 years
Machinery and equipment	4 - 20 years

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2012

(1) Summary of Significant Accounting Policies, Continued

M. Interfund/Intrafund Transactions

As a general rule, the effect of interfund activity has been eliminated in the government-wide financial statements. Exceptions to this rule are: 1) activities between funds reported as governmental activities and funds reported as business-type activities and 2) activities between funds that are reported in different functional categories in either the governmental or business-type activities column. Elimination of these activities would distort the direct costs and program revenues for the functions concerned.

N. Deferred Revenue

In the government-wide financial statements, deferred revenue is recognized when cash, receivables or other assets are recorded prior to being earned. In the governmental fund financial statements, deferred revenue represents monies received or revenues accrued which have not been earned or do not meet the "available" criterion for revenue recognition under the modified accrual basis of accounting. The deferred revenue in the governmental fund types has primarily resulted as federal funds are received in advance of eligible expenditures.

O. Compensated Absences

It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the government does not have a policy to pay any amounts when employees separate from service with the government. All vacation pay is accrued when incurred in the government-wide and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. Annual leave accumulates at the rate of 4 hours biweekly, if less than 3 years of service, 6 hours biweekly, if between 3 and 10 years of service, and 8 hours biweekly if over 10 years of service, limited to 45 working days.

P. Fund Equity

Fund balance classifications are based on the extent to which the Republic is bound to honor constraints on the specific purposes for which amounts in those funds can be spent and are reported under the following fund balance classifications:

- Non-spendable - includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted - includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Committed - includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.
- Assigned - includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2012

(1) Summary of Significant Accounting Policies, Continued

P. Fund Equity, Continued

- Unassigned includes negative fund balances in other governmental funds.

The Republic has a general policy to first use restricted resources for expenditures incurred for which both restricted and unrestricted (committed, assigned, and unassigned) resources are available. When expenditures are incurred for which only unrestricted resources are available, the general policy of the Republic is to use committed resources first, followed by assigned, and then unassigned. The use of restricted/committed resources may be deferred based on a review of the specific transaction.

A formal minimum fund balance policy has not been adopted.

Q. Risk Financing

The Republic 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. It is the policy of the primary government not to purchase commercial insurance for the risks of loss to which it is exposed. Instead, Republic management believes it is more economical to manage its risks internally. In the event of claim settlements and judgments, the Republic reports all of its risk management activities in its General Fund. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. No material losses have occurred as a result of these policies in any of the past three fiscal years.

R. New Accounting Standards

During fiscal year 2012, the Republic implemented the following pronouncements:

- GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which amends Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and addresses issues related to the frequency and timing of measurements for actuarial valuations first used to report funded status information in OPEB plan financial statements. The implementation of this pronouncement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions* (an amendment of GASB Statement No. 53), which will improve financial reporting by state and local governments by clarifying the circumstances in which hedge accounting continues to be applied when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The implementation of this pronouncement did not have a material effect on the accompanying financial statements.

REPUBLIC OF PALAU

Notes to Financial Statements September 30, 2012

(1) Summary of Significant Accounting Policies, Continued

R. New Accounting Standards, Continued

In December 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which addresses how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Republic.

In December 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus*, which is designed to improve financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity*, and No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively. The provisions of this statement are effective for periods beginning after June 15, 2012. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Republic.

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 FASB and American Institute of Certified Public Accountants (AICPA) pronouncements. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Republic.

In July 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. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Republic.

In April 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in 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 Republic.

In April 2012, GASB issued Statement No. 66, *Technical Corrections - 2012*, 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 Republic.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2012

(1) Summary of Significant Accounting Policies, Continued

R. New Accounting Standards, 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 these statements on the financial statements of the Republic.

S. Encumbrances

The Republic utilizes encumbrance accounting to identify fund obligations. Encumbrances represent commitments related to unperformed contracts for goods. At September 30, 2012, the Republic has significant encumbrances summarized as follows:

<u>General</u>	<u>Grants</u>	<u>Compact Section 211(f)</u>	<u>Other Governmental</u>	<u>Total</u>
\$ 924,421	\$ 10,413,638	\$ -	\$ 317,159	\$ 11,655,218

T. Estimates

The preparation of financial statements in conformity with GAAP 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, expenditures and expenses during the reporting period. Actual results could differ from those estimates.

U. Total Columns

Total columns are presented primarily to facilitate financial analysis. The Management's Discussion and Analysis includes certain prior year summarized comparative information in total. Such information does not include sufficient detail to constitute a full comparative presentation. Accordingly, such information should be read in conjunction with the Republic's financial statements for the year ended September 30, 2011 from which summarized information was derived.

(2) Deposits and Investments

The deposit and investment policies of the Republic are governed by 40 PNCA Section 405, *Investment of Unobligated Balances*, in conjunction with various trust agreements. Under 40 PNCA Section 405, cash in excess of immediate needs shall at all times remain invested in accordance with the National Government Investment Plan, at the direction of the President; excess cash includes, but is not limited to, unobligated balances of appropriations and revenues collected in excess of appropriations.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2012

(2) Deposits and Investments, Continued

The following investment policy governs investments of the Compact Section 211(f) Trust Fund:

- (i) Portfolio allocation targets are intended to be long term and strategic in nature. The Compact Trust Fund Board of Trustees (BOT) may make strategic or tactical adjustments to the existing overall fund allocation whenever deemed appropriate and recognizes that the actual allocation of the overall fund may vary considerably in the short term depending on current conditions. The targets are comprised of both historic and projected return and variability calculations for each asset class, subclass and investment style. The asset allocation reflects the BOT's philosophy that long term growth can best be achieved by investments in equity securities while balancing overall fund volatility and providing for the BOT's spending requirements by appropriate allocation to cash and fixed income securities:

<u>Asset class</u>	<u>Lower limit</u>	<u>Strategic Allocation</u>	<u>Upper limit</u>
Equities			
U.S. Core	40	50	60
Small Cap	5	15	25
Fixed Income			
U.S. Core	25	<u>35</u>	45
		<u>100%</u>	

- (ii) Individual investment managers are given tactical asset allocation flexibility within the constraints of their customized guidelines as set forth in their individual manager guidelines. Asset allocation targets in individual manager guidelines represent the BOT's desired long term, strategic allocation; the ranges represent the tactical asset allocation flexibility given to each manager to time short term market movements. In addition, while the foregoing directs minimum positions for different assets classes as a general policy, nothing herein shall preclude an investment manager from establishing lower invested levels while raising cash during adverse market conditions, if in his/her professional judgment such action is prudent to protect the principal of the fund.
- (iii) The target allocations will be evaluated on the basis of investment manager assets designated to each asset class rather than on an investment manager's current invested position. The BOT shall review the asset allocation and transfer funds among the various investment managers, no less frequently than annually to maintain the Fund's asset allocation within the respective ranges set forth above. A formal asset allocation study should be conducted at least every three years or as dictated by the capital markets to verify or amend the targets.

A. Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Republic's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized, or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name. The Republic does not have a deposit policy for custodial credit risk.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2012

(2) Deposits and Investments, Continued

A. Deposits, Continued

As of September 30, 2012, the carrying amount of the primary government's total cash and cash equivalents was \$11,088,814 and the corresponding bank balances were \$14,286,218. Of the bank balances, \$13,755,213 is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2012, bank deposits in the amount of \$951,835 were FDIC insured. The remaining bank deposits of \$531,005 are maintained in financial institutions not subject to depository insurance. The Republic does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

As of September 30, 2012, the carrying amount of the fiduciary fund's total cash and cash equivalents and time certificates of deposit were \$5,308,010 and the corresponding bank balances were \$5,444,457. Of the bank balances, \$3,980,410 is maintained in financial institutions subject to FDIC insurance. The remaining bank deposits of \$1,464,047 are maintained in financial institutions not subject to depository insurance. As of September 30, 2012, bank deposits in the amount of \$1,854,099 were FDIC insured. The time certificates of deposit are collateralized by a first lien, existing now or in the future, on identified loans made by the uninsured bank in the amount of principal and interest equal to \$1,000,000; and a sole recourse first lien on 1,500 shares of common stock in a local company owned by a stockholder of the uninsured bank but not to exceed \$2,000,000. The Republic does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

As of September 30, 2012, the carrying amount in the aggregate of the discretely presented component units' total cash and cash equivalents and time certificates of deposit was \$15,270,032 and the corresponding bank balances were \$16,284,609. Of the bank balances, \$15,987,307 is maintained in financial institutions subject to FDIC insurance or held and administered by investment managers subject to Securities Investor Protection Corporation (SIPC) insurance. As of September 30, 2012, bank deposits in the amount of \$5,767,429 were FDIC or SIPC insured. The remaining bank deposits of \$297,302 are maintained in financial institutions not subject to depository insurance. The component units do not require collateralization of their cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2012

(2) Deposits and Investments, Continued

B. Investments

As of September 30, 2012, investments of the primary government recorded at fair value are as follows:

General Fund:	
Money market funds	\$ <u>2,961,287</u>
Compact Section 211(f) Trust Fund:	
Fixed income	57,140,716
Equities	108,716,168
Money market funds	<u>3,439,587</u>
	<u>169,296,471</u>
Nonmajor Governmental Funds:	
Money market funds	<u>3,001,080</u>
	\$ <u>175,258,838</u>

Additionally, the General Fund holds 11.06% of the shares of the United Micronesia Development Association, Inc. (UMDA) in the amount of \$1,185,575. As the fair market value of this investment is not readily available, such has been recorded at cost.

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, the Republic will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The Republic's investments are held and administered by trustees in accordance with various trustee agreements. Based on negotiated trust and custody contracts, all of these investments were held in the Republic's name by the Republic's custodial financial institutions at September 30, 2012.

Credit risk for investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of debt instruments. The Republic does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. As of September 30, 2012, there were no investments in any one issuer that exceeded 5% of total investments.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2012

(2) Deposits and Investments, Continued

B. Investments, Continued

As of September 30, 2012, maturities of investments in fixed income securities for the Compact Section 211(f) Trust Fund were as follows:

Investment Type	Fair Value	Investment Maturities (In Years)				Ratings
		Less than 1 year	1 - 5 years	6 - 10 years	More than 10 years	
US treasury obligations	\$ 4,548,312	\$ -	\$ 1,540,419	\$ 1,308,524	\$ 1,699,369	AAA
US government agencies	18,809,097	-	1,742,125	1,716,168	15,350,804	AAA
Corporate bonds	3,497,481	-	682,675	-	2,814,806	AAA
Corporate bonds	3,947,726	331,469	1,023,013	851,953	1,741,291	AA+
Corporate bonds	2,304,041	-	134,832	848,890	1,320,319	AA
Corporate bonds	2,432,065	-	1,952,606	157,106	322,353	AA-
Corporate bonds	2,704,774	-	1,251,674	659,203	793,897	A+
Corporate bonds	4,366,275	443,200	908,835	1,529,947	1,484,293	A
Corporate bonds	4,288,212	-	2,252,388	738,716	1,297,108	A-
Corporate bonds	3,666,770	515,352	2,069,732	318,507	763,179	BBB+
Corporate bonds	2,430,662	-	444,609	1,266,395	719,658	BBB
Corporate bonds	1,474,639	-	322,255	768,212	384,172	BBB-
Corporate bonds	334,012	-	316,200	17,812	-	BB+
Corporate bonds	167,301	-	-	-	167,301	CCC
Corporate bonds	111,774	-	-	-	111,774	CC
Corporate bonds	132,022	-	-	-	132,022	C
Corporate bonds	749,245	-	-	-	749,245	D
Corporate Bonds	<u>1,176,308</u>	<u>-</u>	<u>309,700</u>	<u>-</u>	<u>866,608</u>	Not rated
	\$ 57,140,716	\$ 1,290,021	\$ 14,951,063	\$ 10,181,433	\$ 30,718,199	

As of September 30, 2012, investments of the Republic of Palau Social Security Retirement Fund recorded at fair value are as follows:

Equities	\$ 41,847,112
Fixed income	32,065,281
Money market funds	<u>3,067,219</u>
	<u>\$ 76,979,612</u>

The deposit and investment policies of the Republic of Palau Social Security Retirement Fund are as follows:

Cash and Cash Equivalents:

- (A) Short-term investment funds;
- (B) U.S. Treasury and agency obligations;
- (C) Commercial paper rated by two nationally recognized rating agencies and at least one of the ratings is A1 or P1;

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2012

(2) Deposits and Investments, Continued

B. Investments, Continued

Cash and Cash Equivalents, Continued:

- (D) Repurchase agreements with a maximum maturity of 180 days from financial institutions or securities dealers qualified to do business as set forth below. The repurchase agreements must be collateralized at least 102% with allowable securities as set forth in the Fund's investment policy, except in the case of "due bills" which are collateralized by the financial institution's or dealer's entire inventory:
 - a) Banks must have achieved a Bankwatch/International Bank Credit Analyst rating of B or better for bank investments.
 - b) Brokers/Dealers must appear on the Primary Government Dealer list; and
- (E) Certificates of deposit or banker's acceptances issued by financial institutions with commercial paper rating of at least P1 by Moody's Investor Service (Moody's) or A1 by Standard & Poor's (S&P).

U.S. Fixed Income:

- (A) Bonds, notes, and pass through securities issued or guaranteed by the U.S. Government, its agencies or instrumentalities;
- (B) U.S. corporate bonds and nonconvertible preferred stock rated BBB-/Baa3 or better by Moody's, S&P 500 or Fitch;
- (C) Secured debt instruments with credit ratings of AAA excluding "interest only" and "principal only" derivatives securities;
- (D) Debt issued by foreign entities in the U.S. provided that both principal and interest are payable in U.S. dollars and provided that such debt is rated BBB-/Baa3 or better by Moody's, S&P 500 or Fitch;
- (E) The exposure of the portfolio to any one company, other than securities of the U.S. government, shall not exceed 5% of the market value of the portfolio under management by the investment manager; and
- (F) No type of security that has been in the market for less than ten years may be purchased without prior written approval of the Fund's Board of Trustees.

U.S. Large Cap Equities:

- (A) Common stock and convertible securities of U.S. Corporations provided they are listed on the New York Stock Exchange (NYSE), American Stock Exchange (AMEX), or National Association of Securities Dealers Automated Quotation (NASDAQ) with a market capitalization (at time of purchase) that falls within the range of the Russell 1000 Index;

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2012

(2) Deposits and Investments, Continued

B. Investments, Continued

U.S. Large Cap Equities, Continued:

- (B) American Depository Receipts (ADRs) that are listed on the NYSE, AMEX, or NASDAQ provided the total investment in these securities does not exceed 10% of the total assets managed by the Fund's investment manager at the time of purchase and such investments are in industries and areas of the market that the Fund's investment manager already has proven expertise;
- (C) Equity portfolios shall be diversified among issuers and industry classifications. The market value of the equity holdings in a single corporation should not exceed 5%, nor 5% of the corporation's total market capitalization; and
- (D) An investment manager's firm aggregate equity position should not exceed 5% of the corporation's total market capitalization.

International Equities:

- (A) Equity securities of Corporations provided they are listed on the stock exchange of countries included in the MSCI EAFE Index;
- (B) Equity securities of companies from countries included in the MSCI EMF Index are allowed, provided that the total investment in these companies does not exceed 15% of the total market value of the assets managed by the Fund's investment manager;
- (C) ADR's, EDR's and GDR's relating to any of the above are allowable; and
- (D) Portfolios shall be diversified among issuers, industry classifications and countries. The market value of the equity holdings in a single corporation should not exceed 5% of the market value of the portfolio under management by the Fund's investment manager.

As of September 30, 2012, maturities of investments in fixed income securities for the Republic of Palau Social Security Retirement Fund were as follows:

Investment Type	Fair Value	Investment Maturities (In Years)				Credit Rating
		Less Than 1	1 - 5	6 - 10	More Than 10	
U.S. Treasury notes	\$ 2,699,051	\$ -	\$ 1,888,831	\$ 293,633	\$ 516,587	Aaa
U.S. government obligations	3,498,282	-	943,921	2,054,628	499,733	Aaa
Mortgage-backed securities	6,389,128	-	12,862	88,035	6,288,231	Aaa
Municipal obligations	587,964	-	170,868	-	417,096	Aa1
Municipal obligations	1,278,437	-	50,185	795,076	433,176	AA
Municipal obligations	1,381,810	-	467,388	384,146	530,276	A
Corporate bonds	2,352,128	200,342	989,121	-	1,162,665	AAA
Corporate bonds	5,381,365	527,539	2,504,516	1,426,219	923,091	AA
Corporate bonds	5,145,654	260,415	3,192,558	677,517	1,015,164	A
Corporate bonds	3,316,453	880,110	2,106,163	330,180	-	BBB
Corporate bonds	35,009	35,009	-	-	-	Unrated
	<u>\$ 32,065,281</u>	<u>\$ 1,903,415</u>	<u>\$ 12,326,413</u>	<u>\$ 6,049,434</u>	<u>\$ 11,786,019</u>	

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2012

(2) Deposits and Investments, Continued

B. Investments, Continued

As of September 30, 2012, investments of the Republic of Palau Civil Service Pension Trust Fund recorded at fair value are as follows:

Equities	\$ 20,359,373
Fixed income	10,932,139
Money market funds	<u>808,506</u>
	\$ <u>32,100,018</u>

The deposit and investment policies of the Republic of Palau Civil Service Pension Trust Fund are as follows:

1. Any pertinent restrictions existing under the laws of the ROP with respect to the Fund, that may exist now or in the future, will be the governing restriction.
2. U.S. and non-U.S. equities, American Depository Receipts, convertible bonds, preferred stocks, fixed income securities, mutual funds and short-term securities are permissible investments.
3. No individual security or any issuer, other than that of the United States Government, shall constitute more than 10% (at cost) of any investment manager's portfolio.
4. Holdings of any issuer shall constitute no more than 5% of the outstanding securities of such issuer.
5. Investments in a registered mutual fund managed by the investment manager are subject to the prior approval of the Board of Trustees.
6. The following securities and transactions are not authorized without prior written Board of Trustees approval: letter stock and other unregistered securities; non-negotiable securities; commodities or other commodity contracts; options; futures; short sales; and, margin transactions.
7. An investment manager's portfolio shall not be excessively over weighted in any one industry (as compared to respective benchmark index) without prior approval by timely reporting and advice to the Board of Trustees.

Investments may be made in the following investment types:

Fixed Income:

- (A) All fixed income securities held in the portfolio shall have a Standard & Poor's credit quality rating of no less "BBB", or an equivalent credit quality rating from Moody's (Baa) or Fitch (BBB). U.S. Treasury and U.S. Government agencies, which are unrated securities, are qualified for inclusion in the portfolio and will be considered to be of the highest rating.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2012

(2) Deposits and Investments, Continued

B. Investments, Continued

Fixed Income, Continued:

- (B) No more than 20% of the market value of the portfolio shall be rated less than single "A" quality, unless the investment manager has specific prior written authorization from the Board of Trustees.
- (C) Total portfolio quality (capitalization weighted) shall maintain a credit quality rating of no less than "A".
- (D) It is the policy of the Board to place assets in Local Certificates of Deposit (Local CDs) issued by local banking institutions, with the express purpose of making funds available to the local community in the form of loans. While these Local CDs are held, they will be included in the "strategic asset allocation" as fixed income investments. However, these Local CDs and the local banking institutions must meet the following criteria on an ongoing basis:
 - a) Local CDs must offer a competitive return relative to alternative issuers.
 - b) The local banking institutions must provide annual audited financial statements for Board of Trustee review. The Board of Trustees is charged with monitoring the financial health of the local banking institutions. Should concerns arise with respect to the financial condition of the local banking institutions, the Board of Trustees shall take appropriate action.
 - c) The local banking institution shall promptly inform the Board of Trustees, in writing, of any significant or material matters pertaining to the institution, including, but not limited to: ownership; organizational structure; financial condition; and, any material proceedings affecting the firm.
 - d) Provide collateral, acceptable to the Board, to secure the Local CDs.

Equities:

- (A) Consistent with the desire to maintain broad diversification, allocations to any economic or industry sector should not be excessive.
- (B) Equity holdings shall be restricted to readily marketable securities of corporations that are traded on the major exchanges and over the counter.
- (C) The investment managers shall have the discretion to invest a portion of the assets in cash reserves when they deem appropriate. However, as per the IPS, they will be evaluated against their performance benchmarks and peers on the performance of the total funds under their direct management.
- (D) Common stock and preferred stock of any institution or entity created or existing under the laws of the United States or any other country are permissible investments.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2012

(2) Deposits and Investments, Continued

B. Investments, Continued

Cash/Cash Equivalents:

- (A) Cash equivalent reserves shall consist of cash instruments having a credit quality rating of Standard & Poor's A-1, Moody's P-1, or their equivalent. U.S. Treasury and Agency securities, Banker Acceptances, Certificate of Deposit, and Collateralized Repurchase Agreements are also acceptable investment vehicles. Custodial Sweep Accounts must be, in the judgment of the Investment Managers, of credit quality equal or superior to the standards described above.
- (B) In the case of Certificates of Deposit, except as discussed under Fixed Income with respect to the Local CDs, they must be issued by FDIC insured institutions. Deposits in institutions with less than \$10 million in assets may not be made in excess of \$100,000 (or prevailing FDIC insurance limit), unless the Deposit is fully collateralized by U.S. Treasury Securities.
- (C) No single issue shall have a maturity of greater than two years.
- (D) Custodial Sweep Account portfolios must have an average maturity of less than one year.

As of September 30, 2012, maturities of investments in fixed income securities for the Republic of Palau Civil Service Pension Trust Fund were as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (In Years)</u>				<u>Credit Rating</u>
		<u>Less Than 1</u>	<u>1 - 5</u>	<u>6 - 10</u>	<u>More Than 10</u>	
Mortgage-backed securities	\$ 4,667,138	\$ -	\$ -	\$ 528,180	\$ 4,138,958	AAA
Government bonds	340,933	-	-	-	340,933	AAA
Corporate bonds	520,677	-	-	520,677	-	AA+
Corporate bonds	80,084	-	-	80,084	-	AA-
Corporate bonds	164,916	-	-	164,916	-	A+
Corporate bonds	1,122,547	-	-	1,122,547	-	A
Corporate bonds	3,766,319	-	-	3,766,319	-	A-
Corporate bonds	<u>269,525</u>	<u>-</u>	<u>-</u>	<u>269,525</u>	<u>-</u>	BBB+
	<u>\$ 10,932,139</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,452,248</u>	<u>\$ 4,479,891</u>	

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2012

(2) Deposits and Investments, Continued

B. Investments, Continued

As of September 30, 2012, investments of the discretely presented component units are as follows:

Palau Community College (PCC):

	<u>Actual Allocation</u>	<u>Allocation Per Policy</u>	<u>Fair Value</u>
Fixed income	31%	30%	\$ 767,399
Domestic equities	45%	45%	1,117,328
Non-U.S. equities	24%	25%	<u>605,273</u>
			\$ <u>2,490,000</u>

Maturities of investments in fixed income securities for PCC's fixed income (money market funds) investments, by percentage of portfolio, are presented in the following table:

<u>Investment Maturities</u>	<u>Percentage of Portfolio</u>
Less than 1 year	11.0%
1 - 5 years	41.0%
5 - 9 years	26.0%
9 or more years	<u>22.0%</u>
	<u>100.0%</u>

PCC's fixed income investments at September 30, 2012, were rated as follows:

<u>Rating</u>	<u>Percentage of Portfolio</u>
Government Agency	56.6%
AA	13.0%
A+	6.2%
A	1.9%
A-	3.9%
BBB+	3.1%
BBB	6.4%
BBB-	8.6%
CCC+	<u>0.3%</u>
	<u>100.0%</u>

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2012

(2) Deposits and Investments, Continued

B. Investments, Continued

Palau National Communications Corporation (PNCC):

	<u>Actual Allocation</u>	<u>Allocation Per Policy</u>	<u>Fair Value</u>
Cash deposits	12%	10%	\$ 57,974
Fixed income	29%	30%	145,229
Domestic equities	49%	50%	247,197
Non-U.S. equities	10%	10%	<u>49,600</u>
			<u>\$ 500,000</u>

As of December 31, 2012, maturities of investments in fixed income securities for PNCC were as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (In Years)</u>				<u>Ratings</u>	
		<u>Less Than 1</u>	<u>1 - 5</u>	<u>6 - 10</u>	<u>More Than 10</u>	<u>Moody</u>	<u>Standard & Poor's</u>
Government securities	\$ 7,316	\$ -	\$ 7,316	\$ -	\$ -	AAA	No rating
Government securities	8,493	-	8,493	-	-	AAA	No rating
Government securities	8,936	-	8,936	-	-	AAA	No rating
Government securities	12,820	-	-	12,820	-	AAA	No rating
Government securities	4,044	-	-	4,044	-	AAA	No rating
Government securities	5,736	-	-	-	5,736	AAA	No rating
Government securities	4,105	-	-	-	4,105	AAA	No rating
Federal agencies	11,676	-	11,676	-	-	AAA	AA+
Federal agencies	13,546	-	13,546	-	-	AAA	AA+
Corporate bonds	4,278	-	4,278	-	-	A2	A
Corporate bonds	4,274	-	4,274	-	-	A-3	BBB+
Corporate bonds	5,004	-	-	5,004	-	BBA2	BBB-
Corporate bonds	4,996	-	-	4,996	-	A2-	A-
Corporate bonds	5,128	-	-	5,128	-	A1	AA
Corporate bonds	5,119	-	-	5,119	-	A3	A-
Corporate bonds	4,650	-	-	4,650	-	A3	A-
Corporate bonds	4,014	-	-	4,014	-	BAA3	BBB
Corporate bonds	4,311	-	-	4,311	-	A2	A+
Corporate bonds	4,338	-	-	4,338	-	BAA3	BBB-
Corporate bonds	5,090	-	-	5,090	-	BAA1	BBB
Corporate bonds	4,045	-	-	-	4,045	BAA2	BBB+
Corporate bonds	4,149	-	-	-	4,149	A2	A
Corporate bonds	4,227	-	-	-	4,227	A1	A
Corporate bonds	4,934	-	-	-	4,934	A1	AA+
	<u>\$ 145,229</u>	<u>\$ -</u>	<u>\$ 58,519</u>	<u>\$ 59,514</u>	<u>\$ 27,196</u>		

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2012

(2) Deposits and Investments, Continued

B. Investments, Continued

As of September 30, 2012, PNCC maintained investments in short-term money market mutual funds of \$3,661,576 held by the Bank of New York Mellon, an FDIC insured financial institution. Although these mutual funds are not insured by the FDIC, the mutual fund portfolio consists of U.S. Treasury bills and obligations guaranteed by the U.S. Department of the Treasury as well as repurchase agreements which are fully collateralized by such obligations. This mutual fund has a weighted average maturity of 45 days and is rated AAAM by Standard and Poor's and AAA-mf by Moody's.

(3) Receivables

Primary Government

Receivables as of September 30, 2012, for the primary government's individual major funds, and nonmajor governmental funds and fiduciary funds in the aggregate, including applicable allowances for uncollectible accounts, are as follows:

	<u>General</u>	<u>Grants</u>	<u>Compact Section 211(f)</u>	<u>Nonmajor Governmental Funds</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Taxes	\$ 4,239,802	\$ -	\$ -	\$ -	\$ -	\$ 4,239,802
General	1,578,714	1,277	-	13,734,579	11,628,786	26,943,356
Federal agencies	-	3,802,268	-	-	-	3,802,268
Accrued interest	15,540	-	597,277	-	419,246	1,032,063
Other	-	-	-	-	25,461	25,461
	<u>5,834,056</u>	<u>3,803,545</u>	<u>597,277</u>	<u>13,734,579</u>	<u>12,073,493</u>	<u>36,042,950</u>
Less: allowance for uncollectibles	<u>(867,000)</u>	<u>-</u>	<u>-</u>	<u>(13,732,510)</u>	<u>(1,741,769)</u>	<u>(16,341,279)</u>
Net receivables	<u>\$ 4,967,056</u>	<u>\$ 3,803,545</u>	<u>\$ 597,277</u>	<u>\$ 2,069</u>	<u>\$ 10,331,724</u>	<u>\$ 19,701,671</u>

Discretely Presented Component Units

Receivables as of September 30, 2012, for the discretely presented component units', including applicable allowances for uncollectible accounts, are as follows:

	<u>National Development Bank of Palau</u>	<u>Palau Community College</u>	<u>Palau National Communi- cations Corporation</u>	<u>Palau International Coral Reef Center</u>	<u>Palau Visitors Authority</u>	<u>Public Utilities Corporation</u>	<u>Palau District Housing Authority</u>	<u>Protected Areas Network Fund</u>	<u>Total</u>
General	\$ -	\$ 2,327,358	\$ 5,434,336	\$ -	\$ -	\$ 4,148,336	\$ 5,684	\$ -	\$11,915,714
Federal agencies	-	2,065,169	-	142,345	-	-	30,375	-	2,237,889
Loans	24,115,901	-	-	-	-	-	2,038,152	-	26,154,053
Accrued interest	232,728	-	-	-	-	-	9,590	-	242,318
Other	880,664	246,653	133,146	70,861	14,436	362,726	-	-	1,708,486
	<u>25,229,293</u>	<u>4,639,180</u>	<u>5,567,482</u>	<u>213,206</u>	<u>14,436</u>	<u>4,511,062</u>	<u>2,083,801</u>	<u>-</u>	<u>42,258,460</u>
Less allowance for uncollectible	<u>(2,723,510)</u>	<u>(1,148,474)</u>	<u>(4,083,262)</u>	<u>(46,556)</u>	<u>(1,239)</u>	<u>(410,000)</u>	<u>(87,994)</u>	<u>-</u>	<u>(8,501,035)</u>
	<u>\$ 22,505,783</u>	<u>\$ 3,490,706</u>	<u>\$ 1,484,220</u>	<u>\$ 166,650</u>	<u>\$ 13,197</u>	<u>\$ 4,101,062</u>	<u>\$ 1,995,807</u>	<u>\$ -</u>	<u>\$ 33,757,425</u>

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2012

(3) Receivables, Continued

Discretely Presented Component Units, Continued

National Development Bank of Palau (NDBP):

NDBP's loan portfolio is comprised of economic development loans under various loan programs, including housing, business, and energy efficiency subsidy loan programs. All loans are at fixed rates with interest rates primarily ranging from 6% per annum for microfinance, pre-development, and agriculture loans to 10% per annum for housing and business loans.

(4) Interfund Receivables and Payables

Primary Government

Receivables and payables between funds reflected as due to/from other funds in the governmental funds balance sheet at September 30, 2012, are summarized as follows:

Receivable Fund	Payable Fund	Amount
General	Grants	\$ 1,845,551
General	Nonmajor governmental funds	20,110
Grants	General	1,432,423
Compact Section 211(f)	General	1,902,793
Nonmajor governmental funds	General	<u>448,239</u>
		<u>\$ 5,649,116</u>

These balances result from the time lag between the dates 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, and are scheduled to be collected in the subsequent year.

Receivables and payables between funds reflected as due to/from component units at September 30, 2012, are summarized as follows:

	Due From	Due To
General Fund:		
Republic of Palau Social Security Retirement Fund	\$ -	\$ 2,955,413
Republic of Palau Civil Service Pension Trust Fund	-	3,147,716
National Development Bank of Palau	4,000,000	-
Palau Community College	-	659,551
Protected Areas Network Fund	<u>-</u>	<u>1,869,701</u>
	<u>4,000,000</u>	<u>8,632,381</u>
Republic of Palau Social Security Retirement Fund:		
National Development Bank of Palau	<u>5,563,337</u>	<u>-</u>
	<u>\$ 9,563,337</u>	<u>\$ 8,632,381</u>

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2012

(4) Interfund Receivables and Payables, Continued

Primary Government, Continued

The amount recorded by the General Fund represents a loan due from the National Development Bank of Palau (NDBP) in the initial amount of \$4,000,000 for the two-fold purpose of: (1) financing a loan to the Palau National Communications Corporation (PNCC) for the acquisition of underwater fiber-optic cable for \$3,000,000; and (2) financing additional NDBP lending activities. The loan is uncollateralized and is due and payable on May 17, 2022, with interest fixed at 2% per annum, payable in monthly installments. Principal payments commence thirty-six months after the advance of proceeds over the remaining period of the loan term; however, any principal payments received from PNCC within the first thirty-six months will be paid by NDBP to the Republic.

On March 18, 2013, NDBP received a letter from PNCC stating that PNCC will not be able to activate the loan earmarked for \$3,000,000. In turn, the Republic requested NDBP to return the \$3,000,000. Accordingly, this portion of the total loan due from NDBP is classified as a current liability.

The amount recorded by the Republic of Palau Social Security Retirement Fund (the Fund) due from NDBP of \$5,563,337 represents a loan agreement entered into in the initial amount of \$3,000,000 with a subsequent \$2,000,000 line of credit to be made available with terms and conditions to be agreed to by the parties at that time. On August 7, 2008, the Fund entered into a new agreement to restructure the existing loan with NDBP with the loan ceiling increasing to \$6,000,000. Principal and interest are payable in equal semi-annual installments of \$554,392 through December 31, 2025, with interest at a variable annual rate equal to the Fund's Fixed Income Fund Return Rate as reported monthly by the Fund's investment consultant, plus 0.5%; provided, that the interest rate to be charged and paid by NDBP shall not be less than 4.5% per annum nor more than 7.5% per annum after addition of the 0.5% to the prime rate. The loan is collateralized by the full faith and credit of the Republic.

Annual debt service requirements to maturity for principal and interest are as follows:

<u>Year ending</u> <u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 307,393	\$ 246,999	\$ 554,392
2014	321,401	232,991	554,392
2015	336,025	218,367	554,392
2016	350,772	203,620	554,392
2017	367,279	187,113	554,392
2018 - 2022	2,102,452	669,509	2,771,961
2023 - 2026	<u>1,778,015</u>	<u>162,375</u>	<u>1,940,390</u>
	<u>\$ 5,563,337</u>	<u>\$ 1,920,974</u>	<u>\$ 7,484,311</u>

The amount recorded as due to component units of the primary government of \$8,632,381 does not equal the corresponding due from primary government of the discretely presented component units of \$2,529,252 due to the recording of liabilities by the General Fund to the Republic of Palau Social Security Retirement Fund and the Republic of Palau Civil Service Pension Trust Fund of \$2,955,413 and \$3,147,716, respectively, which are recorded as contributions receivable within the fiduciary funds.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2012

(4) Interfund Receivables and Payables, Continued

Discretely Presented Component Units

Receivables and payables between funds reflected as due to/from primary government at September 30, 2012, are summarized as follows:

	Due From	Due To
National Development Bank of Palau:		
General Fund	\$ -	\$ 4,000,000
Republic of Palau Social Security Retirement Fund	-	5,563,337
Palau Community College:		
General Fund	659,551	-
Protected Areas Network Fund:		
General Fund	<u>1,869,701</u>	<u>-</u>
	<u>\$ 2,529,252</u>	<u>\$ 9,563,337</u>

(5) Capital Assets

Capital asset activities for the year ended September 30, 2012, are as follows:

Primary Government

	Balance at October 1, 2011	<u>Additions</u>	Deletions and Transfers	Balance at September 30, 2012
Depreciable capital assets:				
Buildings and other improvements	\$ 139,191,458	\$ 428,097	\$ 3,405,367	\$ 143,024,922
Machinery and equipment	22,450,752	2,031,585	-	24,482,337
Vehicles	6,508,465	8,288	-	6,516,753
Infrastructure	<u>238,222,337</u>	<u>2,668,472</u>	<u>2,736,385</u>	<u>243,627,194</u>
Total capital assets being depreciated	<u>406,373,012</u>	<u>5,136,442</u>	<u>6,141,752</u>	<u>417,651,206</u>
Accumulated depreciation:				
Buildings and other improvements	(48,197,763)	(6,834,942)	-	(55,032,705)
Machinery and equipment	(16,174,711)	(3,437,835)	203,644	(19,408,902)
Vehicles	(4,608,916)	(743,190)	230,063	(5,122,043)
Infrastructure	<u>(115,911,901)</u>	<u>(29,260,269)</u>	<u>-</u>	<u>(145,172,170)</u>
Total accumulated depreciation	<u>(184,893,291)</u>	<u>(40,276,236)</u>	<u>433,707</u>	<u>(224,735,820)</u>
Total depreciable capital assets, net	<u>221,479,721</u>	<u>(35,139,794)</u>	<u>6,575,459</u>	<u>192,915,386</u>
Non-depreciable capital assets:				
Land	3,691,850	158,444	-	3,850,294
Construction in progress	<u>11,375,598</u>	<u>13,688,261</u>	<u>(6,901,435)</u>	<u>18,162,424</u>
Total non-depreciable capital assets	<u>15,067,448</u>	<u>13,846,705</u>	<u>(6,901,435)</u>	<u>22,012,718</u>
Capital assets, net	<u>\$ 236,547,169</u>	<u>\$ (21,293,089)</u>	<u>\$ (325,976)</u>	<u>\$ 214,928,104</u>

REPUBLIC OF PALAU

Notes to Financial Statements September 30, 2012

(5) Capital Assets, Continued

Primary Government, Continued

Depreciation expense was charged to functions/programs of the primary government's governmental activities as follows:

General government	\$ 446,427
Education	359,148
Health and welfare	1,621,571
Public safety	1,252,335
Cultural affairs and recreation	700,875
Transportation and commerce	34,710,639
Unallocated	<u>1,185,241</u>
Total depreciation expense	<u>\$ 40,276,236</u>

Fiduciary Funds

	Estimated Useful Lives	Balance at October 1, 2011	Additions	Deletions	Balance at September 30, 2012
Depreciable capital assets:					
Office equipment and furniture	4 - 13 yrs	\$ 467,966	\$ 21,336	\$ -	\$ 489,302
Building and improvements	30 yrs	132,315	-	-	132,315
Vehicles	5 yrs	<u>110,344</u>	<u>-</u>	<u>-</u>	<u>110,344</u>
		710,625	21,336	-	731,961
Less accumulated depreciation		<u>(486,288)</u>	<u>(79,307)</u>	<u>-</u>	<u>(565,595)</u>
Total depreciable capital assets, net		224,337	(57,971)	-	166,366
Non-depreciable capital assets:					
Land		<u>207,018</u>	<u>-</u>	<u>-</u>	<u>207,018</u>
		<u>\$ 431,355</u>	<u>\$ (57,971)</u>	<u>\$ -</u>	<u>\$ 373,384</u>

Discretely Presented Component Units

	Estimated Useful Lives	Balance October 1, 2011	Additions	Retirements	Balance September 30, 2012
Depreciable capital assets:					
Buildings	3 - 30 yrs	\$ 20,929,030	\$ 25,224	\$ -	\$ 20,954,254
Utility plant	2 - 30 yrs	106,475,456	3,000,839	(3,415,785)	106,060,510
Machinery and equipment	2 - 20 yrs	3,283,320	447,281	(517,186)	3,213,415
Infrastructure	2 - 15 yrs	<u>3,728,744</u>	<u>6,547</u>	<u>(541,156)</u>	<u>3,194,135</u>
		<u>134,416,550</u>	<u>3,479,891</u>	<u>(4,474,127)</u>	<u>133,422,314</u>
Less accumulated depreciation		<u>(83,980,013)</u>	<u>(4,830,425)</u>	<u>2,644,496</u>	<u>(86,165,942)</u>
Total depreciable capital assets, net		50,436,537	(1,350,534)	(1,829,631)	47,256,372
Nondepreciable capital assets:					
Construction in progress		<u>431,241</u>	<u>2,538,337</u>	<u>(218,055)</u>	<u>2,751,523</u>
		<u>\$ 50,867,778</u>	<u>\$ 1,187,803</u>	<u>\$ (2,047,686)</u>	<u>\$ 50,007,895</u>

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2012

(6) Notes Payable

Primary Government

On June 28, 2002, the Republic's Washington Embassy entered into a loan agreement with a bank in the amount of \$160,000 for the purpose of funding overdraft facilities. Although the loan was due on May 20, 2004, including interest at 7% per annum, \$198,142 remains outstanding at September 30, 2012. This loan is in noncompliance with local requirements since only the President of the Republic is authorized to enter into debt agreements.

Discretely Presented Component Units

National Development Bank of Palau (NDBP):

NDBP entered into a \$300,000 revolving credit line on October 27, 2007, for the purpose of supplementing disbursements of approved loans and temporary cash requirements for operations. On October 21, 2008, NDBP renewed the credit line under essentially the same terms and conditions. The loan is payable one year from initial drawdown with interest at the time certificate of deposit (TCD) rate plus 1.50%. The loan is collateralized by assignment of \$452,281 in TCDs.

Changes in short-term note payable of NDBP for the year ended September 30, 2012, is as follows:

Balance at October 1, 2011	<u>Additions</u>	<u>Reductions</u>	Balance at September 30, 2012
\$ <u>300,000</u>	\$ <u>-</u>	\$ <u>(270,000)</u>	\$ <u>30,000</u>

(7) Long-Term Obligations

Primary Government

As of September 30, 2012, the primary government had the following long-term debt outstanding:

Mega International Commercial Bank (MICB):

Loan payable to MICB, formerly the International Commercial Bank of China, in the amount of \$20,000,000, interest at 3.5% per annum, principal payable in semi-annual installments of \$571,429 plus interest, due June 21, 2020. This loan was used for construction of a new national capital in Melekeok State and is uncollateralized. \$ 9,142,849

Loan payable to the MICB in the amount of \$8,000,000, interest at 3.5% per annum, principal payable in semi-annual installments of \$228,570 plus interest, due October 28, 2024. This loan was used to fund the Palau International Airport Repaving Project and is uncollateralized. 5,714,298

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2012

(7) Long-Term Obligations, Continued

Primary Government, Continued

Asian Development Bank (ADB):

Loan Number 2691 RMI - Water Sector Improvement Loan (\$12,600,000), interest at the ADB's pool-based variable lending rate system for U.S. dollar loans (5.03% at September 30, 2012), a front-end fee of 1%, and a commitment charge of 0.15% per annum on the amount of the loan unwithdrawn from the Loan Account. Semi-annual loan payments commence May 1, 2014 with graduated increases of 5% through November 1, 2025. 6,400,000

Loan Number 2692 PAL (SF) - Water Sector Improvement Loan (SDR 2,230,000), non-interest bearing with a service charge of 1% per annum on the amount of the loan withdrawn from the Loan Account. Semi-annual loan payments commence on May 1, 2019 in an amount of SDR 69,688, at which time the service charge increases to 1.5% per annum. 3,472,734

\$ 24,729,881

Annual debt service requirements to maturity for principal and interest are as follows:

<u>Year Ending</u> <u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 1,599,998	\$ 872,307	\$ 2,472,305
2014	1,743,812	816,307	2,560,119
2015	1,909,558	748,980	2,658,538
2016	1,941,288	676,547	2,617,835
2017	1,976,269	602,428	2,578,697
2018 - 2022	9,019,184	1,931,888	10,951,072
2023 - 2027	4,911,929	518,900	5,430,829
2028 - 2032	1,085,230	85,494	1,170,724
2033 - 2035	<u>542,613</u>	<u>12,229</u>	<u>554,842</u>
	<u>\$ 24,729,881</u>	<u>\$ 6,265,080</u>	<u>\$ 30,994,961</u>

As provided for in the Compact of Free Association, the Republic was awarded \$3,000,000, which it had agreed to repay in financial year 2005. On May 8, 2008, the U.S. Congress approved the forgiveness of the debt. The terms and conditions require the Republic to establish a trust fund wherein the Republic agrees to utilize the earnings of the trust fund solely for maintenance and upkeep of the Compact Road. The Republic has not established a trust fund as of September 30, 2012 and therefore has restricted assets of \$3,001,051 in the other governmental funds (Compact Section 211(b) Energy Fund) to fund this repayment in the event the terms and conditions of the forgiveness of the debt are not met. This debt of \$3,000,000 is presented as a long-term liability at the government-wide level until the terms and conditions are met (see Note 9).

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2012

(7) Long-Term Obligations, Continued

Primary Government, Continued

Changes in long-term liabilities of the primary government for the year ended September 30, 2012, are as follows:

	Balance October 1, 2011	<u>Additions</u>	<u>Reductions</u>	Balance September 30, 2012	Due Within One Year
Loans payable:					
MICB loans	\$ 16,457,145	\$ -	\$ (1,599,998)	\$ 14,857,147	\$ 1,599,998
ADB loans	-	<u>9,872,734</u>	-	<u>9,872,734</u>	-
	<u>16,457,145</u>	<u>9,872,734</u>	<u>(1,599,998)</u>	<u>24,729,881</u>	<u>1,599,998</u>
Other:					
Compensated absences	3,848,076	5,052,777	(5,052,777)	3,848,076	2,010,082
Due to U.S. Government	<u>3,000,000</u>	-	-	<u>3,000,000</u>	-
	<u>\$ 23,305,221</u>	<u>\$ 14,925,511</u>	<u>\$ (6,652,775)</u>	<u>\$ 31,577,957</u>	<u>\$ 3,610,080</u>

Discretely Presented Component Units

National Development Bank of Palau (NDBP):

Loan payable to the Mega International Commercial Bank (MICB) in the amount of \$5,000,000, due July 1, 2024 with interest at 3.5% per annum, principal payable in semi-annual installments of \$142,858 plus interest. This loan was used to fund various loan programs of NDBP and is guaranteed by the Republic.

\$ 3,428,121

Loan payable to the European Investment Bank (EIB) up to the amount of 5,000,000 Euro, due September 10, 2021 with interest at 3.679% - 5.175% per annum, principal and interest payable in semi-annual installments of \$234,750. Of the original amount, 3,260,573 Euro was drawn down in two tranches (\$1,391,285 and \$3,016,465, respectively). The loan is guaranteed by the Republic. On December 12, 2011, EIB cancelled the remaining balance of NDBP's credit line of 1,739,427 Euro.

3,339,577

\$ 6,767,698

Annual debt service requirements to maturity for principal and interest are as follows:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 613,852	\$ 256,396	\$ 870,248
2014	627,572	232,644	860,216
2015	641,881	208,301	850,182
2016	656,807	183,340	840,147
2017	672,375	157,734	830,109
2018 - 2022	2,983,845	385,951	3,369,796
2023 - 2025	<u>571,366</u>	<u>19,998</u>	<u>591,364</u>
	<u>\$ 6,767,698</u>	<u>\$ 1,444,364</u>	<u>\$ 8,212,062</u>

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2012

(7) Long-Term Obligations, Continued

Discretely Presented Component Units, Continued

Palau National Communications Corporation (PNCC):

Loan payable to the Rural Utilities Services (RUS) up to the amount of \$39,143,000, due October 2029 with interest at 4.59% per annum, principal and interest payable in monthly installments of \$192,181, including interest. The loan is guaranteed by the Republic, is collateralized by substantially all PNCC assets and a pledge of PNCC revenues.

\$ 26,391,326

Loan payable to Chunghwa Telecom Company due July 2017, non-interest bearing, principal payable in monthly installments of \$34,087 (net of unamortized discount of \$191,816 at December 31, 2012). The loan is collateralized by earth station and ground common equipment.

1,648,882

Loan payable to National Information Solutions Cooperative (NISC), non-interest bearing, payable in monthly installment of \$10,482 from January 2013 through March 2013, and thereafter \$13,325 monthly, due October 2017 (net of unamortized discount of \$100,875). The loan is uncollateralized.

663,423

\$ 28,703,631

Annual debt service requirements to maturity for principal and interest are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 1,572,477	\$ 1,294,110	\$ 2,866,587
2014	1,656,139	1,218,975	2,875,114
2015	1,734,917	1,140,198	2,875,115
2016	1,817,445	1,057,670	2,875,115
2017	1,671,353	972,590	2,643,943
2018 - 2022	7,720,593	3,810,285	11,530,878
2023 - 2027	9,708,030	1,822,848	11,530,878
2028 - 2029	<u>2,822,677</u>	<u>87,988</u>	<u>2,910,665</u>
	<u>\$ 28,703,631</u>	<u>\$ 11,404,664</u>	<u>\$ 40,108,295</u>

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2012

(7) Long-Term Obligations, Continued

Discretely Presented Component Units, Continued

Public Utilities Corporation (PUC):

Loan payable to MICB in the amount of \$7,000,000, due December 11, 2026 with interest at 3.5% per annum, principal payable in semi-annual installments of \$200,000 plus interest. This loan was used to finance the purchase of portable generators, crankshaft assembly and other necessary equipment to facilitate the overhaul of aging generators and is guaranteed by the Republic.

\$ 5,800,000

Loan payable to the National Development Bank of Palau in the amount of \$3,000,000, due January 31, 2026 with interest at 7.5% per annum, principal payable in monthly installments of \$27,810 plus interest. This loan was used to finance the purchase of two generator sets. The loan is collateralized by the generator sets inclusive of auxiliary equipment and is guaranteed by the Republic.

2,806,048

\$ 8,606,048

Annual debt service requirements to maturity for principal and interest are as follows:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 527,601	\$ 404,087	\$ 931,688
2014	537,507	379,987	917,494
2015	548,182	355,118	903,300
2016	559,183	330,350	889,533
2017	572,043	302,867	874,910
2018 - 2022	3,082,141	1,079,767	4,161,908
2023 - 2027	<u>2,779,391</u>	<u>270,816</u>	<u>3,050,207</u>
	<u>\$ 8,606,048</u>	<u>\$ 3,122,992</u>	<u>\$ 11,729,040</u>

Changes in long-term liabilities of the discretely presented component units for the year ended September 30, 2012, are as follows:

	<u>Balance October 1, 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance September 30, 2012</u>	<u>Due Within One Year</u>
Loans payable:					
NDBP	\$ 7,528,946	\$ -	\$ (761,248)	\$ 6,767,698	\$ 613,852
PNCC	29,515,002	1,179,561	(1,990,932)	28,703,631	1,572,477
PUC	9,125,051	-	(519,003)	8,606,048	527,601
Due to primary government	-	4,000,000	-	4,000,000	3,000,000
Due to fiduciary funds	<u>5,856,694</u>	<u>-</u>	<u>(293,357)</u>	<u>5,563,337</u>	<u>307,393</u>
	<u>\$ 52,025,693</u>	<u>\$ 5,179,561</u>	<u>\$ (3,564,540)</u>	<u>\$ 53,640,714</u>	<u>\$ 6,021,323</u>

REPUBLIC OF PALAU

Notes to Financial Statements September 30, 2012

(8) Restricted Assets

Primary Government

Restricted cash and cash equivalents of the primary government are as follows:

Deposit accounts established for the purpose of accounting of funds held by the Republic in a custodial capacity relating to court-ordered settlements. \$ 305,232

Restricted investments of the primary government are as follows:

Investments held in a trust fund for the purpose of accumulating resources to fund future government operations. \$ 169,296,471

Investments held in a trust fund for the purpose of funding a liability to the United States government. 3,001,051

\$ 172,297,522

Discretely Presented Component Units

Restricted cash and cash equivalents and time certificates of deposit of the discretely presented component units are as follows:

National Development Bank of Palau:

Time certificate of deposit collateralizing loan payable to a bank. \$ 452,281

Deposit account established in accordance with RPPL 4-48, Section 126, as amended by RPPL 5-37, for the purposes of a reserve account representing 10% of the total amount of all loan guarantees on commercial bank loans. 50,143

Deposit account collateralizing loans funded by Rural Housing Service. 523,645

Deposit account established for cash received from grantor agencies. 142,773

Palau Community College:

Deposit accounts established for library fund and endowment fund. 276,599

Public Utilities Corporation:

Deposit account established in accordance with MICB loan agreement. 124,844

\$ 1,570,285

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2012

(8) Restricted Assets, Continued

Discretely Presented Component Units, Continued

Restricted investments of the discretely presented component units are as follows:

Palau Community College:

Investments held for endowment purposes.	\$ 2,490,000
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Palau National Communications Corporation:

Investment account established in accordance with Rural Utilities Service loan agreement for the purposes of a reserve account.	<u>3,661,576</u>
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\$ 6,151,576

(9) Other Liabilities

Pursuant to a subsidiary agreement to the Compact of Free Association, entitled “Agreement Concerning Special Programs Related to the Entry into Force of the Compact of Free Association Between the Government of the United States and the Government of the Republic of Palau”, Article 5, the Republic is to pay the United States Government, by September 30, 2005, a total of \$3,000,000. This amount represents the mutually agreed net economic cost of the United States providing all \$28,000,000 of Compact Section 211(b) funds in a lump sum at inception of the Compact, rather than payments of \$2,000,000 annually for fourteen years. During the fiscal year ended September 30, 2012, the Republic made no payments under this agreement. Please refer to Note 7 for matters involving potential release of this liability.

(10) Transfers In/Out

Operating Fund Transfers

Operating transfers in/out for each major fund and nonmajor governmental funds in the aggregate, for the year ended September 30, 2012, are as follows:

	<u>Transfer Out</u>	<u>Transfer In</u>
General Fund:		
Grants Fund	\$ -	\$ 2,000,000
Compact Section 211(f) Fund	-	5,000,000
Other Governmental Funds	<u>-</u>	<u>456,903</u>
	<u>-</u>	<u>7,456,903</u>
Grants Fund:		
General Fund	<u>2,000,000</u>	<u>-</u>
Compact Section 211(f) Fund:		
General Fund	<u>5,000,000</u>	<u>-</u>

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2012

(10) Transfers In/Out, Continued

Operating Fund Transfers, Continued

Other Governmental Funds:

General Fund	<u>456,903</u>	<u>-</u>
	<u>\$ 7,456,903</u>	<u>\$ 7,456,903</u>

Operating transfers out were provided for under appropriation by the OEK. Transfers are used to (1) move revenues from the fund that statute requires to collect them to the fund that statute requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. During the year ended September 30, 2012, the Republic made a one-time transfer of \$456,903 from other governmental funds representing budgetary support for General Fund operations.

(11) Fund Balances

Classifications of fund balances comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The following table enumerates the fund balance classifications:

	General	Grants	Compact Section 211 (f)	Nonmajor Governmental Funds	Totals
Fund balances:					
Nonspendable:					
UMDA investment	\$ 1,185,575	\$ -	\$ -	\$ -	\$ 1,185,575
Loan receivable - NDBP	1,000,000	-	-	-	1,000,000
ServMart Inventory	46,468	-	-	-	46,468
Prepayments	24,318	377,454	-	20,413	422,185
Permanent fund principal	<u>-</u>	<u>-</u>	<u>171,796,541</u>	<u>-</u>	<u>171,796,541</u>
	<u>2,256,361</u>	<u>377,454</u>	<u>171,796,541</u>	<u>20,413</u>	<u>174,450,769</u>
Restricted:					
Water Sector Improvement	5,340,813	-	-	-	5,340,813
Compact Section 211(b) Energy	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,041,453</u>	<u>3,041,453</u>
	<u>5,340,813</u>	<u>-</u>	<u>-</u>	<u>3,041,453</u>	<u>8,382,266</u>
Committed:					
Health	-	-	-	235,009	235,009
Community and cultural affairs	-	-	-	416	416
Capital projects	-	8,960	-	-	8,960
Court judgments	72,556	-	-	-	72,556
International Monetary Fund	<u>386,720</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>386,720</u>
	<u>459,276</u>	<u>8,960</u>	<u>-</u>	<u>235,425</u>	<u>703,661</u>
Unassigned	<u>(7,657,217)</u>	<u>(353,742)</u>	<u>-</u>	<u>(35,609)</u>	<u>(8,046,568)</u>
	<u>\$ 399,233</u>	<u>\$ 32,672</u>	<u>\$ 171,796,541</u>	<u>\$ 3,261,682</u>	<u>\$ 175,490,128</u>

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2012

(12) Commitments and Contingencies

A. Sick Leave

It is the policy of the Republic to record expenditures for sick leave when leave is actually taken. Sick leave is compensated time for absence during work hours arising from employee illness or injury. The estimated accumulated amount of unused sick leave at September 30, 2012, amounted to \$7,522,027.

B. Promissory Notes

During 1998, the Republic executed four noninterest bearing, nonnegotiable promissory notes in the amounts of \$3,002,693, \$152,000, \$54,100 and \$21,714, respectively, to various international organizations in lieu of its membership fees. The notes are payable on demand. As of September 30, 2012, demand had not occurred. The notes are in the custody of a bank. The Republic has not recorded these notes as it believes the debt is essentially defeased by cash and deposits in the same amount with the organizations.

C. Federal Grants

Pursuant to the Compact of Free Association, substantially all federal grant activity provided by grantors other than the U.S. Department of the Interior is to phase out over the period of the Compact.

The Republic participates in a number of federally assisted grant programs funded by the United States Government. These programs are subject to financial and compliance audits to ascertain if Federal laws and guidelines have been followed. Cumulative questioned costs of \$2,754,298 have been set forth in the Republic's Single Audit Report for the year ended September 30, 2012. The ultimate disposition of these questioned costs can be determined only by final action of the respective grantor agencies. Therefore, no provision for any liability that may result upon resolution of this matter has been made in the accompanying financial statements.

D. Insurance Coverage

The Republic does not maintain insurance coverage for a significant amount of fixed assets or inventory. In the event of a loss, the Republic may be self-insured to a material extent. The Republic has not expensed material losses from this practice over the past three years.

E. Unfunded Liability

An actuarial valuation of the Republic of Palau Social Security Retirement Fund has determined that the Fund has an actuarial deficiency of approximately \$103,899,191 as of October 1, 2011. Unless the existing deficiency is corrected, the Fund's cash flows may eventually become negative, which may cause the Fund to become depleted to the point that the Fund may not be able to meet its benefit obligations. The Fund has not developed a formal plan as of September 30, 2012 to correct this funding deficiency. No recognition is given in the accompanying financial statements to the present value of liabilities of prospective benefit payments or the present value of future contributions required from employees or employers.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2012

(12) Commitments and Contingencies, Continued

F. Litigation

The Republic is party to standard litigation involving a government of its size. While litigation exists, management is of the opinion that resolution of such matters will not have a material impact on the accompanying financial statements.

G. Debt Commitments

Significant commitments of the primary government as of September 30, 2012, are as follows:

- a) Guaranteed bank debt of the National Development Bank of Palau (NDBP) with a letter of guarantee. At September 30, 2012, NDBP had guaranteed debt totaling \$6,767,698.
- b) Guaranteed a debt of NDBP in respect of a loan from the Republic of Palau Social Security Retirement Fund with a letter of guarantee. At September 30, 2012, NDBP had guaranteed debt associated with this loan totaling \$5,563,337.
- c) Guaranteed a debt of the Palau National Communications Corporation (PNCC) in respect to a loan from the United States Rural Utilities Service (RUS) with a letter of guarantee. At September 30, 2012, PNCC had guaranteed debt totaling \$26,391,326.
- d) Guaranteed bank debt of the Public Utilities Corporation (PUC) with a letter of guarantee. At September 30, 2012, PUC had guaranteed debt totaling \$5,800,000.
- e) Guaranteed a debt of PUC in respect of a loan from NDBP with a letter of guarantee. At September 30, 2012, PUC had guaranteed debt associated with this loan totaling \$2,806,048.

H. Civil Service Pension Trust Fund

As of September 30, 2012, the Republic is delinquent in payment of contributions to the Republic of Palau Civil Service Pension Trust Fund (the Pension Fund) in the amount of \$3,147,716. Interest associated with these delinquent contributions has been accrued as of September 30, 2012 in the amount of \$1,408,874. The Pension Fund has filed suit against the Republic for lost earnings as a result of failure to timely remit contributions. Unfavorable resolution of this matter could expose the Republic to additional penalties and interest. At September 30, 2012, the financial statements do not include any adjustments that might result from the outcome of this uncertainty. Management plans to negotiate a settlement agreement with the Pension Fund.

I. Other

In the normal course of business, the Republic periodically engages in disputes with its vendors. Management of the Republic is of the opinion that resolution of such disputes existing as of September 30, 2012, will not have a material impact on the accompanying financial statements.

REPUBLIC OF PALAU

Notes to Financial Statements September 30, 2012

(13) Republic of Palau Civil Service Pension Trust Fund

The Republic contributes to the Palau Civil Service Pension Trust Fund (the Pension Fund), a defined benefit, cost-sharing multi-employer pension plan established and administered by the Republic.

The Pension Fund provides retirement, security and other benefits to employees, and their spouses and dependents, of the Republic, Republic State Governments and Republic agencies, funds and public corporations, which are paid monthly and are two percent of each member's average monthly salary. Normal benefits are of credited total service up to a maximum of thirty years total service. Generally, benefits vest after three years of credited service. A member, who retires at or after age 60, or with 25 years of vesting service, is entitled to retirement benefits. RPPL No. 2-26 is the authority under which benefit provisions are established. Member contribution rates are established by RPPL No. 2-26 at six percent (6%) of total payroll and matched dollar for dollar by the employer. The Republic contributed \$1,554,455, \$1,765,740 and \$1,665,679 to the Pension Fund during the years ended September 30, 2012, 2011 and 2010, respectively. Per the provisions of RPPL No. 2-26 and RPPL No. 3-21, the Republic shall from time to time contribute additional sums to the Pension Fund in order to keep the Pension Fund on a sound actuarial basis. The Pension Fund issues a stand-alone financial report, which is available at its office site.

Under the provisions of the RPPL No. 2-26, the Pension Fund's Board of Trustees adopted a Trust Fund Operation Plan 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 Republic's payroll for fiscal year 2012 was covered in total by the Pension Fund's pension plan.

The Pension Fund utilizes the actuarial cost method termed "aggregate cost method" with actuarial assumptions used to compute the pension benefit obligation as follows: (a) a rate of return of 10% per year on the investment of present and future assets, (b) a 3% increase in employee salaries until retirement, and (c) members are assumed to retire at their normal retirement date.

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 Pension Fund's funding status on a going-concern basis, and evaluate progress made in accumulating adequate assets to pay benefits when due.

RPPL No. 5-45 earmarked \$1,000,000 to the Pension Fund, to be derived from revenues generated from a Virtual Pachinko Business. Of this \$1,000,000, RPPL No. 6-12, passed into law on September 30, 2002, allocated \$500,000 to the Pension Fund for the employer contribution of the Palau Community College (PCC) for employees of PCC electing to participate. PCC employees opting to retroactively participate shall be enrolled in the Pension Fund effective as of their start date with PCC or October 1, 1987, whichever is later. These employees are required to pay into the Pension Fund their proportionate contribution for each year of retroactive participation. The Pension Fund did not receive funds related to RPPL No. 5-45 and RPPL No. 6-12 from the Republic during the year ended September 30, 2012.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2012

(13) Republic of Palau Civil Service Pension Trust Fund, Continued

The Republic has determined that remaining amounts earmarked to the Pension Fund through RPPL No. 5-45 and RPPL No. 6-12 will only be remitted as revenues are generated from the Virtual Pachinko Business.

As a result of the provisions of RPPL No. 6-12, PCC employees who opted to claim prior year's service executed payment agreements with the Pension Fund totaling \$978,907 for prior year's service claimed. As these employees are not mandated to continue payment agreements and can elect to have contributions refunded upon termination of payment agreements, and due to the uncertainty of collection of the employee's share through RPPL No. 6-12, the Pension Fund has elected not to record PCC employee receivables for prior year service. The Pension Fund received \$27,456 from PCC employees during the year ended September 30, 2012.

The funded status as of October 1, 2011, the most recent actuarial valuation date, is as follows:

Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age Normal Cost Method (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b - a / c)
\$ 36,128,666	\$ 140,027,857	\$ 103,899,191	25.80%	\$ 37,035,338	280.54 %

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits.

Additional information as of the latest actuarial valuation follows:

Valuation Date:	October 1, 2011
Actuarial Cost Method:	Entry age normal cost method
Amortization Method:	Level percent open
Remaining Amortization Period:	30 years
Asset Valuation Method:	Market value, including accrued but unpaid contributions
Actuarial Assumptions:	
Investment rate of return:	7.5% per year
Projected salary increases:	3% per annum
COLAS:	0%

REPUBLIC OF PALAU

Notes to Financial Statements September 30, 2012

(14) Subsequent Event

On April 30, 2013, the Olbiil Era Kelulau enacted RPPL 9-2 that amended certain sections of the Palau Civil Service Pension Trust Fund (the Pension Fund) as follows:

- a. Elimination of mandatory service retirement after thirty years of service. After December 31, 2013, no employee shall be entitled to pension benefits until reaching the age of sixty.
- b. For members who retire after April 30, 2013, no member receiving monthly retirement benefits may receive greater than thirty thousand dollars (\$30,000) per year.
- c. For members who retire after April 30, 2013, the amount of benefits that a member receives shall not be recalculated if the member is re-employed after the member begins receiving benefits under the Pension Fund.
- d. For members who retire after April 30, 2013, a member shall not receive benefits during the time the member is re-employed subsequent to retirement.
- e. Surviving beneficiaries of an employee may only receive benefits up to the total present value of the employee's accrued benefit.
- f. Each employee of the Government and all State Governments shall contribute to the Pension Fund through payroll deduction. The Government shall make regular contributions to the Pension Fund equal to the amount contributed by each and every employee.
- g. An excise tax of four percent (4%) shall be levied against each non-citizen person who transfers money out of the Republic of Palau. The money transfer tax shall be remitted to the Pension Fund.

(15) Restatement

Subsequent to the issuance of the Republic's 2011 basic financial statements, it was determined that due to component units of the governmental activities/governmental funds was understated by \$2,444,061, that accrued payroll and other liabilities of the governmental activities/governmental funds was understated by \$1,077,903, and that certain infrastructure capital assets and related accumulated depreciation of the governmental activities was overstated by \$8,236,800. As a result of this determination, these account balances have been restated from the amounts previously reported as follows:

	<u>As Previously Reported</u>	<u>As Restated</u>
Governmental activities:		
At September 30:		
Noncurrent assets:		
Capital assets, net of accumulated depreciation	\$ <u>229,716,521</u>	\$ <u>221,479,721</u>
Current liabilities:		
Due to component units	\$ <u>5,120,909</u>	\$ <u>7,564,970</u>
Accrued payroll related liabilities	\$ <u>1,579,078</u>	\$ <u>2,656,981</u>
Net assets:		
Invested in capital assets, net of related debt	\$ <u>228,326,824</u>	\$ <u>220,090,024</u>
Unrestricted	\$ <u>(16,521,840)</u>	\$ <u>(20,043,804)</u>

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2012

(15) Restatement, Continued

	<u>As Previously Reported</u>	<u>As Restated</u>
Governmental activities, continued:		
Year Ended September 30:		
Program expenses:		
Ministry of Finance	\$ <u>2,202,714</u>	\$ <u>3,280,617</u>
Ministry of Public Infrastructure, Industry and Commerce	\$ <u>40,039,410</u>	\$ <u>48,276,210</u>
Independent Agencies	\$ <u>2,675,053</u>	\$ <u>5,119,114</u>
Change in Net Assets	\$ <u>(14,007,576)</u>	\$ <u>(25,766,340)</u>
Ending net assets	\$ <u>364,366,490</u>	\$ <u>352,607,726</u>
Governmental funds:		
General Fund:		
At September 30:		
Liabilities:		
Due to component units	\$ <u>5,120,909</u>	\$ <u>7,564,970</u>
Accrued payroll related liabilities	\$ <u>1,498,333</u>	\$ <u>2,576,236</u>
Fund balances:		
Unassigned	\$ <u>(10,725,021)</u>	\$ <u>(14,246,985)</u>
Year Ended September 30:		
Expenditures:		
Protected Area Network	\$ _____	\$ <u>2,444,061</u>
Pension plan interest	\$ _____	\$ <u>1,077,903</u>
Net change in fund balances	\$ <u>2,877,239</u>	\$ <u>(644,725)</u>
Ending fund balance	\$ <u>(8,980,545)</u>	\$ <u>(12,502,509)</u>

In addition, it was determined that the financial activities of the aggregate discretely presented component units were misstated due to the omission of the Protected Areas Network Fund from the Republic's 2011 basic financial statements. As a result of this determination, these account balances have subsequently been included resulting in a restatement of beginning net assets of \$2,444,061.

Finally, it was determined that GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, was not fully adopted. As a result of this determination, fund balances within the Statement of Revenues, Expenditures and Changes in Fund Balance for Governmental Funds have been restated due to reclassification of funds. Beginning fund balance for the Other Governmental Funds decreased by \$2,182,936 while the General Fund increased by \$2,182,936.

REPUBLIC OF PALAU

REQUIRED SUPPLEMENTARY INFORMATION
- BUDGETARY REPORTING

YEAR ENDED SEPTEMBER 30, 2012

REPUBLIC OF PALAU

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
General Fund (Fund 100100)
Year Ended September 30, 2012

	Original Budget	Final Budget	Actual - Budgetary Basis (see note 1)	Variance
Revenues:				
Local revenue	\$ 37,994,000	\$ 44,033,300	\$ 42,250,361	\$ (1,782,939)
Compact funding - Section 211(a)	6,000,000	6,000,000	6,000,000	-
Compact funding - Section 215 inflation adjustment	4,750,000	5,147,000	5,128,231	(18,769)
Net change in the fair value of investments	-	-	39,285	39,285
UMDA dividend	250,000	250,000	250,000	-
Total revenues	<u>48,994,000</u>	<u>55,430,300</u>	<u>53,667,877</u>	<u>(1,762,423)</u>
Expenditures - budgetary basis:				
Office of the President	882,830	1,109,539	1,105,301	4,238
Office of the Vice-President	304,169	447,190	454,480	(7,290)
Ministry of Finance	2,071,775	2,842,786	2,819,933	22,853
Ministry of State	2,056,821	2,269,926	2,263,880	6,046
Ministry of Community and Cultural Affairs	877,479	1,021,179	1,015,889	5,290
Ministry of Education	6,617,952	6,931,187	6,879,258	51,929
Ministry of Public Infrastructure, Industry and Commerce	7,220,074	9,579,365	9,426,802	152,563
Ministry of Justice	3,634,728	3,892,728	3,866,604	26,124
Ministry of Health	7,068,816	8,209,744	7,990,985	218,759
Ministry of Natural Resources, Environment and Tourism	1,079,015	1,242,915	1,219,755	23,160
Boards, Commissions and Authorities	636,606	716,706	616,304	100,402
Judicial Branch	2,175,000	2,200,000	2,199,311	689
Legislative Branch	3,812,310	3,942,110	3,917,604	24,506
State Block Grants	4,822,000	4,872,000	4,735,883	136,117
Independent Agencies	3,063,918	3,023,818	2,988,116	35,702
Other Agencies and Activities	1,823,290	2,218,290	2,067,922	150,368
Education Assistance	3,331,200	3,331,200	3,331,200	-
Other Appropriations	654,588	718,188	541,900	176,288
Total expenditures	<u>52,132,571</u>	<u>58,568,871</u>	<u>57,441,127</u>	<u>1,127,744</u>
Deficiency of revenues under expenditures	<u>(3,138,571)</u>	<u>(3,138,571)</u>	<u>(3,773,250)</u>	<u>(634,679)</u>
Other financing sources (uses):				
Loan proceeds	-	-	3,472,734	3,472,734
Operating transfers in	7,000,000	7,000,000	7,456,903	456,903
Operating transfers out	(3,983,000)	(3,983,000)	(3,425,420)	557,580
Total other financing sources (uses), net	<u>3,017,000</u>	<u>3,017,000</u>	<u>7,504,217</u>	<u>4,487,217</u>
	(121,571)	(121,571)	3,730,967	3,852,538
Other changes:				
Write-off of Pacific Savings Bank account	-	-	(49,888)	(49,888)
Pension plan interest	-	-	(330,971)	(330,971)
Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary purposes but in the year the supplies are received for financial reporting purposes	121,571	121,571	559,541	437,970
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,909,649</u>	<u>\$ 3,909,649</u>

See Accompanying Notes to Required Supplementary Information - Budgetary Reporting.

REPUBLIC OF PALAU

Notes to Required Supplementary Information - Budgetary Reporting September 30, 2012

(1) Budgetary Information

Budgets are adopted on a basis consistent with GAAP. The OEK enacts budgets for the General Fund. Before signing the Appropriations Act, the President of the Republic may veto or reduce any specific appropriation, subject to legislative override. If the veto or reduction is overridden, the President is constitutionally empowered to "impound" the subject funds. Impounding provides for recognition of the appropriation, but allows the President to withhold allotment of the funds for as long as deemed appropriate. Once passed and signed, the budget becomes the National Government's financial plan for the ensuing fiscal year.

Budgetary control is maintained at the departmental level. Budget revisions during the year, reflecting program changes, may be effected through OEK approval.

The Republic receives annual appropriations from the United States Congress to partially fund its operations. The OEK approves the allotment of these appropriations with budgetary control set at the departmental level. Supplemental appropriations are made during the fiscal year. Unless specifically required by the OEK, appropriations generally lapse as of the end of each fiscal year. Continuing appropriations are usually made only for allotments to the State governments, scholarship funding, and certain specific projects.

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is utilized in the governmental funds. Encumbrances outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

(2) Reconciliation - GAAP and Budgetary Bases of Accounting

	<u>Net Change in Fund Balance</u>	<u>Encumbrances</u>
General Fund (Fund 100100):		
Budgetary basis	\$ <u>3,909,649</u>	\$ <u>559,541</u>
GASB 54 Funds included within the General Fund:		
Financial Institutions Commission Fund (Fund 100116)	(14,874)	232
Scholarship Fund (Fund 100150)	66,638	-
Non-Lapsing Fund (Fund 100200)	(17,118)	342,746
Receivable Fund (Fund 100900)	(1)	5,620
Compact Section 211(e) Fund (Fund 311500)	97	-
Compact Section 213 Fund (Fund 313000)	545,889	-
Local CIP Fund (Fund 410100)	(29,321)	16,282
Compact Section 212 (b) Fund (Fund 500100)	1,341	-
ADB Proceeds Fund (Fund 700100)	6,340,813	-
Judiciary Fund	(84,307)	-
	<u>6,809,157</u>	<u>364,880</u>
	\$ <u>10,718,806</u>	\$ <u>924,421</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU
OTHER SUPPLEMENTARY INFORMATION
YEAR ENDED SEPTEMBER 30, 2012

REPUBLIC OF PALAU

GENERAL FUND

September 30, 2012

The general fund is used to account for resources traditionally associated with government, which are not required legally or by sound financial management to be accounted for in another fund.

Financial Institutions Commission Fund - This fund accounts for financial transactions related to the financial regulatory and supervisory system of financial institutions operating in the Republic.

Scholarship Fund - This fund accounts for expenditures and all financial transactions related to scholarship awards and student loans.

Compact Section 211(c) Communications Fund - This fund has been established to account for funds provided pursuant to the Compact of Free Association, Section 211(c).

Compact Section 211(d) Maritime, Health and Scholarship Fund - This fund has been established to account for funds provided pursuant to the Compact of Free Association, Section 211(d).

Compact Section 211(e) Maritime Fund - This fund has been established to account for funds provided pursuant to the Compact of Free Association, Section 211(e).

Compact Section 213 Defense Fund - This fund has been established to account for funds provided pursuant to the Compact of Free Association, Section 213.

Compact Section 221(b) Special Block Grants Fund - This fund has been established to account for funds provided pursuant to the Compact of Free Association Section 221(b).

Local Capital Projects Fund - To account for the expenditures and transfers of construction projects funded wholly by locally generated revenues or revenues derived from Compact of Free Association Section 211(a) funds or Section 215 inflation funds.

DOI Capital Projects Fund - To account for construction grants received from the Trust Territory of the Pacific Islands Government, prior to implementation of the Compact of Free Association.

Compact Section 212(b) Capital Account Fund - To account for construction activities funded by Compact Section 212(b) capital account funding and Compact Section 215 inflation funds.

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

GENERAL FUND

**Combining Schedule of Balance Sheet Accounts
September 30, 2012**

	100150	311300	311400	311500	313000	321000	
	General	Scholarship	Compact Section 211 (c)	Compact Section 211 (d)	Compact Section 211 (e)	Compact Section 213	Compact Section 221 (b)
ASSETS							
Cash and cash equivalents	\$ 10,783,582	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Investments	1,193,147	-	-	-	448,197	2,461,198	-
Receivables, net:							
Taxes	4,239,802	-	-	-	-	-	-
General	711,714	-	-	-	-	-	-
Accrued interest	-	-	-	-	-	5,340	-
Due from component units	-	-	-	-	-	-	-
Due from other funds	135,917,419	-	102,889	48,136	-	-	-
Advances	121,181	-	-	-	-	-	-
Inventory	46,468	-	-	-	-	-	-
Prepaid items	24,318	-	-	-	-	-	-
Restricted assets:							
Cash and cash equivalents	305,232	-	-	-	-	-	-
Total assets	<u>\$ 153,342,863</u>	<u>\$ -</u>	<u>\$ 102,889</u>	<u>\$ 48,136</u>	<u>\$ 448,197</u>	<u>\$ 2,466,538</u>	<u>\$ -</u>
LIABILITIES AND FUND BALANCES (DEFICIT)							
Liabilities:							
Note payable	\$ 198,142	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Accounts payable	5,125,058	9,851	-	-	-	-	-
Due to State governments	2,545,271	-	-	-	-	-	-
Due to component units	8,632,381	-	-	-	-	-	-
Due to other funds	140,215,634	775,146	-	-	-	-	-
Accrued payroll and others	3,135,523	1,082	-	-	-	-	-
Other liabilities and accruals	1,390,849	-	-	-	-	-	-
Deferred revenue	-	-	-	-	-	-	-
Income tax refunds	809,165	-	-	-	-	-	-
Total liabilities	<u>162,052,023</u>	<u>786,079</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances (deficit):							
Nonspendable	1,256,361	-	-	-	-	-	-
Restricted	-	-	-	-	-	-	-
Committed	459,276	-	-	-	-	-	-
Unassigned	(10,424,797)	(786,079)	102,889	48,136	448,197	2,466,538	-
Total fund balances (deficit)	<u>(8,709,160)</u>	<u>(786,079)</u>	<u>102,889</u>	<u>48,136</u>	<u>448,197</u>	<u>2,466,538</u>	<u>-</u>
Total liabilities and fund balances (deficit)	<u>\$ 153,342,863</u>	<u>\$ -</u>	<u>\$ 102,889</u>	<u>\$ 48,136</u>	<u>\$ 448,197</u>	<u>\$ 2,466,538</u>	<u>\$ -</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

GENERAL FUND

**Combining Schedule of Balance Sheet Accounts, Continued
September 30, 2012**

	410100	430100	500100	600000	700100		
	Local CIP	DOI CIP	Compact Section 212 (b)	Debt Service	ADB Loan Proceeds	Elimination	Total
ASSETS							
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10,783,582
Investments	-	-	44,320	-	-	-	4,146,862
Receivables, net:							
Taxes	-	-	-	-	-	-	4,239,802
General	-	-	-	-	-	-	711,714
Accrued interest	10,200	-	-	-	-	-	15,540
Due from component units	-	-	-	-	4,000,000	-	4,000,000
Due from other funds	289,152	261,567	72,303	-	2,381,520	(137,207,325)	1,865,661
Advances	-	2,026	-	-	-	-	123,207
Inventory	-	-	-	-	-	-	46,468
Prepaid items	-	-	-	-	-	-	24,318
Restricted assets:							
Cash and cash equivalents	-	-	-	-	-	-	305,232
Total assets	<u>\$ 299,352</u>	<u>\$ 263,593</u>	<u>\$ 116,623</u>	<u>\$ -</u>	<u>\$ 6,381,520</u>	<u>\$ (137,207,325)</u>	<u>\$ 26,262,386</u>
LIABILITIES AND FUND BALANCES (DEFICIT)							
Liabilities:							
Note payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 198,142
Accounts payable	11,215	-	-	-	40,707	-	5,186,831
Due to State governments	-	-	-	-	-	-	2,545,271
Due to component units	-	-	-	-	-	-	8,632,381
Due to other funds	-	-	-	-	-	(137,207,325)	3,783,455
Accrued payroll and others	-	-	-	-	-	-	3,136,605
Other liabilities and accruals	-	-	-	-	-	-	1,390,849
Deferred revenue	-	180,454	-	-	-	-	180,454
Income tax refunds	-	-	-	-	-	-	809,165
Total liabilities	<u>11,215</u>	<u>180,454</u>	<u>-</u>	<u>-</u>	<u>40,707</u>	<u>(137,207,325)</u>	<u>25,863,153</u>
Fund balances (deficit):							
Nonspendable	-	-	-	-	1,000,000	-	2,256,361
Restricted	-	-	-	-	5,340,813	-	5,340,813
Committed	-	-	-	-	-	-	459,276
Unassigned	288,137	83,139	116,623	-	-	-	(7,657,217)
Total fund balances (deficit)	<u>288,137</u>	<u>83,139</u>	<u>116,623</u>	<u>-</u>	<u>6,340,813</u>	<u>-</u>	<u>399,233</u>
Total liabilities and fund balances (deficit)	<u>\$ 299,352</u>	<u>\$ 263,593</u>	<u>\$ 116,623</u>	<u>\$ -</u>	<u>\$ 6,381,520</u>	<u>\$ (137,207,325)</u>	<u>\$ 26,262,386</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

GENERAL FUND

**Combining Schedule of Revenues, Expenditures By Function,
and Changes in Fund Balance (Deficit) Accounts
Year Ended September 30, 2012**

	100150	311300	311400	311500	313000	321000	
	General	Scholarship	Compact Section 211 (c)	Compact Section 211 (d)	Compact Section 211 (e)	Compact Section 213	Compact Section 221 (b)
Revenues:							
Taxes	\$ 35,797,619	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Compact funding	11,128,231	-	-	-	-	-	-
Net change in the fair value of investments	289,285	-	-	-	310	558,232	-
Fees and charges	6,333,541	-	-	-	-	-	-
Licenses and permits	2,193,544	-	-	-	-	-	-
Other	495,442	66,638	-	-	-	-	-
Total revenues	56,237,662	66,638	-	-	310	558,232	-
Expenditures:							
Current:							
Judicial Branch	2,283,618	-	-	-	-	-	-
Legislative Branch	3,897,278	-	-	-	-	-	-
Office of the President	1,097,569	-	-	-	-	-	-
Office of the Vice-President	450,710	-	-	-	-	-	-
Ministry of Finance	2,856,316	-	-	-	-	-	-
Ministry of State	2,263,037	-	-	-	-	-	-
Ministry of Community and Cultural Affairs	1,009,613	-	-	-	-	-	-
Ministry of Education	6,847,558	-	-	-	-	-	-
Ministry of Public Infrastructure, Industry and Commerce	9,389,976	-	-	-	-	-	-
Ministry of Justice	4,031,242	-	-	-	-	-	-
Ministry of Health	7,901,061	-	-	-	-	-	-
Ministry of Natural Resources, Environment and Tourism	1,218,662	-	-	-	-	-	-
Boards, Commissions, and Authorities	2,581,703	-	-	-	-	-	-
State Block Grants	4,735,883	-	-	-	-	-	-
Independent Agencies	2,962,086	-	-	-	-	-	-
Other Agencies and Activities	2,454,317	-	-	-	213	12,343	-
Education assistance	3,331,200	1,246,273	-	-	-	-	-
Pension plan interest	330,971	-	-	-	-	-	-
Financial and Compliance Audit	97,500	-	-	-	-	-	-
Compact Review Office	148,722	-	-	-	-	-	-
Festival of Arts	59,508	-	-	-	-	-	-
Capital projects	-	-	-	-	-	-	-
Debt service:							
Principal retirement	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-
Total expenditures	59,948,530	1,246,273	-	-	213	12,343	-
Excess (deficiency) of revenues over (under) expenditures	(3,710,868)	(1,179,635)	-	-	97	545,889	-
Other financing sources (uses):							
Loan proceeds	3,472,734	-	-	-	-	-	-
Operating transfers in	7,456,903	1,246,273	-	-	-	-	-
Operating transfers out	(3,425,420)	-	-	-	-	-	-
Total other financing sources (uses), net	7,504,217	1,246,273	-	-	-	-	-
Net change in fund balances (deficit)	3,793,349	66,638	-	-	97	545,889	-
Fund balances (deficit) at beginning of year, as previously reported	(8,980,545)	(852,717)	102,889	48,136	448,100	1,920,649	-
Prior-period adjustment	(3,521,964)	-	-	-	-	-	-
Fund balances (deficit) at beginning of year, as restated	(12,502,509)	(852,717)	102,889	48,136	448,100	1,920,649	-
Fund balances (deficit) at end of year	\$ (8,709,160)	\$ (786,079)	\$ 102,889	\$ 48,136	\$ 448,197	\$ 2,466,538	\$ -

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

GENERAL FUND

**Combining Schedule of Revenues, Expenditures By Function,
and Changes in Fund Balance (Deficit) Accounts, Continued
Year Ended September 30, 2012**

	410100	430100	500100	600000	700100		
	Local CIP	DOI CIP	Compact Section 212 (b)	Debt Service	ADB Loan Proceeds	Elimination	Total
Revenues:							
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 35,797,619
Compact funding	-	-	-	-	-	-	11,128,231
Net change in the fair value of investments	-	-	1,361	-	-	-	849,188
Fees and charges	265,142	-	-	-	-	-	6,598,683
Licenses and permits	-	-	-	-	-	-	2,193,544
Other	-	-	-	-	-	-	562,080
Total revenues	<u>265,142</u>	<u>-</u>	<u>1,361</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>57,129,345</u>
Expenditures:							
Current:							
Judicial Branch	-	-	-	-	-	-	2,283,618
Legislative Branch	-	-	-	-	-	-	3,897,278
Office of the President	-	-	-	-	-	-	1,097,569
Office of the Vice-President	-	-	-	-	-	-	450,710
Ministry of Finance	-	-	-	-	-	-	2,856,316
Ministry of State	-	-	-	-	-	-	2,263,037
Ministry of Community and Cultural Affairs	-	-	-	-	-	-	1,009,613
Ministry of Education	-	-	-	-	-	-	6,847,558
Ministry of Public Infrastructure, Industry and Commerce	-	-	-	-	-	-	9,389,976
Ministry of Justice	-	-	-	-	-	-	4,031,242
Ministry of Health	-	-	-	-	-	-	7,901,061
Ministry of Natural Resources, Environment and Tourism	-	-	-	-	-	-	1,218,662
Boards, Commissions, and Authorities	-	-	-	-	-	-	2,581,703
State Block Grants	-	-	-	-	-	-	4,735,883
Independent Agencies	-	-	-	-	59,187	-	3,021,273
Other Agencies and Activities	-	-	20	-	-	-	2,466,893
Education assistance	-	-	-	-	-	-	4,577,473
Pension plan interest	-	-	-	-	-	-	330,971
Financial and Compliance Audit	-	-	-	-	-	-	97,500
Compact Review Office	-	-	-	-	-	-	148,722
Festival of Arts	-	-	-	-	-	-	59,508
Capital projects	294,463	-	-	-	-	-	294,463
Debt service:							
Principal retirement	-	-	-	1,599,998	-	-	1,599,998
Interest	-	-	-	579,149	-	-	579,149
Total expenditures	<u>294,463</u>	<u>-</u>	<u>20</u>	<u>2,179,147</u>	<u>59,187</u>	<u>-</u>	<u>63,740,176</u>
Excess (deficiency) of revenues over (under) expenditures	(29,321)	-	1,341	(2,179,147)	(59,187)	-	(6,610,831)
Other financing sources (uses):							
Loan proceeds	-	-	-	-	6,400,000	-	9,872,734
Operating transfers in	-	-	-	2,179,147	-	(3,425,420)	7,456,903
Operating transfers out	-	-	-	-	-	3,425,420	-
Total other financing sources (uses), net	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,179,147</u>	<u>6,400,000</u>	<u>-</u>	<u>17,329,637</u>
Net change in fund balances (deficit)	<u>(29,321)</u>	<u>-</u>	<u>1,341</u>	<u>-</u>	<u>6,340,813</u>	<u>-</u>	<u>10,718,806</u>
Fund balances (deficit) at beginning of year, as previously reported	<u>317,458</u>	<u>83,139</u>	<u>115,282</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(6,797,609)</u>
Prior-period adjustment	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,521,964)</u>
Fund balances (deficit) at beginning of year, as restated	<u>317,458</u>	<u>83,139</u>	<u>115,282</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(10,319,573)</u>
Fund balances (deficit) at end of year	<u>\$ 288,137</u>	<u>\$ 83,139</u>	<u>\$ 116,623</u>	<u>\$ -</u>	<u>\$ 6,340,813</u>	<u>\$ -</u>	<u>\$ 399,233</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

GENERAL FUND

**Combining Schedule of Expenditures By Object
Year Ended September 30, 2012**

	100150		311300		311400		311500		313000		321000	
	General	Scholarship	Compact Section 211 (c)	Compact Section 211 (d)	Compact Section 211 (e)	Compact Section 213	Compact Section 221 (b)					
Expenditures:												
Salaries and wages	\$ 31,261,285	\$ 56,397	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Freight	14,090	-	-	-	-	-	-	-	-	-	-	-
Rentals	561,396	20	-	-	-	-	-	-	-	-	-	-
Communications and postage	730,243	1,055	-	-	-	-	-	-	-	-	-	-
Advertising	42,234	-	-	-	-	-	-	-	-	-	-	-
Medical referrals	321,934	-	-	-	-	-	-	-	-	-	-	-
Professional and contractual services	440,499	-	-	-	-	-	-	-	-	-	-	-
Supplies and materials	1,261,412	4,255	-	-	-	-	-	-	-	-	-	-
Petroleum products	943,103	700	-	-	-	-	-	-	-	-	-	-
Food stuffs	666,874	242	-	-	-	-	-	-	-	-	-	-
Books and library materials	149,587	-	-	-	-	-	-	-	-	-	-	-
Medical supplies	1,022,479	-	-	-	-	-	-	-	-	-	-	-
Travel	768,644	-	-	-	-	-	-	-	-	-	-	-
Equipment	182,617	1,909	-	-	-	-	-	-	-	-	-	-
Insurance	13,385	518	-	-	-	-	-	-	-	-	-	-
Training	15,633	-	-	-	-	-	-	-	-	-	-	-
Donations	287,372	-	-	-	-	-	-	-	-	-	-	-
Payments of allotments/benefits	8,517,415	-	-	-	-	-	-	-	-	-	-	-
Representation and entertainment	10,108	-	-	-	-	-	-	-	-	-	-	-
Investment management fees	-	-	-	-	-	213	-	12,343	-	-	-	-
Dues, fees and registration	260,961	-	-	-	-	-	-	-	-	-	-	-
Board compensation	84,277	5,775	-	-	-	-	-	-	-	-	-	-
Allowances	208,045	-	-	-	-	-	-	-	-	-	-	-
Repairs and maintenance	360,055	450	-	-	-	-	-	-	-	-	-	-
Construction	63,635	-	-	-	-	-	-	-	-	-	-	-
Machinery	48,000	-	-	-	-	-	-	-	-	-	-	-
Vehicles	110,442	-	-	-	-	-	-	-	-	-	-	-
Furniture and fixtures	650	-	-	-	-	-	-	-	-	-	-	-
Boats	100	-	-	-	-	-	-	-	-	-	-	-
Computer software	17,049	-	-	-	-	-	-	-	-	-	-	-
Improvements	-	-	-	-	-	-	-	-	-	-	-	-
Utilities	5,923,441	-	-	-	-	-	-	-	-	-	-	-
Principal retirement	-	-	-	-	-	-	-	-	-	-	-	-
Interest charges	-	-	-	-	-	-	-	-	-	-	-	-
Bad debts	49,888	-	-	-	-	-	-	-	-	-	-	-
Student loans	-	559,675	-	-	-	-	-	-	-	-	-	-
Scholarships	-	615,277	-	-	-	-	-	-	-	-	-	-
Bank service fee	1,170	-	-	-	-	-	-	-	-	-	-	-
Grants and contributions	4,985,888	-	-	-	-	-	-	-	-	-	-	-
Miscellaneous	624,619	-	-	-	-	-	-	-	-	-	-	-
Total expenditures	\$ 59,948,530	\$ 1,246,273	\$ -	\$ -	\$ 213	\$ 12,343	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

GENERAL FUND

**Combining Schedule of Expenditures By Object, Continued
Year Ended September 30, 2012**

	410100	430100	500100	600000	700100		
	Local CIP	DOI CIP	Compact Section 212 (b)	Debt Service	ADB Loan Proceeds	Elimination	Total
Expenditures:							
Salaries and wages	\$ -	\$ -	\$ -	\$ -	\$ 7,555	\$ -	\$ 31,325,237
Freight	-	-	-	-	-	-	14,090
Rentals	-	-	-	-	-	-	561,416
Communications and postage	-	-	-	-	2,485	-	733,783
Advertising	-	-	-	-	14,034	-	56,268
Medical referrals	-	-	-	-	-	-	321,934
Professional and contractual services	-	-	-	-	4,983	-	445,482
Supplies and materials	8,955	-	-	-	19,489	-	1,294,111
Petroleum products	4,143	-	-	-	-	-	947,946
Food stuffs	4,788	-	-	-	-	-	671,904
Books and library materials	-	-	-	-	-	-	149,587
Medical supplies	-	-	-	-	-	-	1,022,479
Travel	1,520	-	-	-	-	-	770,164
Equipment	9,915	-	-	-	8,849	-	203,290
Insurance	-	-	-	-	-	-	13,903
Training	-	-	-	-	-	-	15,633
Donations	-	-	-	-	375	-	287,747
Payments of allotments/benefits	-	-	-	-	-	-	8,517,415
Representation and entertainment	-	-	-	-	-	-	10,108
Investment management fees	-	-	20	-	-	-	12,576
Dues, fees and registration	-	-	-	-	-	-	260,961
Board compensation	-	-	-	-	1,342	-	91,394
Allowances	-	-	-	-	75	-	208,120
Repairs and maintenance	-	-	-	-	-	-	360,505
Construction	29,285	-	-	-	-	-	92,920
Machinery	8,400	-	-	-	-	-	56,400
Vehicles	-	-	-	-	-	-	110,442
Furniture and fixtures	-	-	-	-	-	-	650
Boats	-	-	-	-	-	-	100
Computer software	-	-	-	-	-	-	17,049
Improvements	227,457	-	-	-	-	-	227,457
Utilities	-	-	-	-	-	-	5,923,441
Principal retirement	-	-	-	1,599,998	-	-	1,599,998
Interest charges	-	-	-	579,149	-	-	579,149
Bad debts	-	-	-	-	-	-	49,888
Student loans	-	-	-	-	-	-	559,675
Scholarships	-	-	-	-	-	-	615,277
Bank service fee	-	-	-	-	-	-	1,170
Grants and contributions	-	-	-	-	-	-	4,985,888
Miscellaneous	-	-	-	-	-	-	624,619
Total expenditures	\$ 294,463	\$ -	\$ 20	\$ 2,179,147	\$ 59,187	\$ -	\$ 63,740,176

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

GENERAL FUND

Schedule of Revenues
Year Ended September 30, 2012
(With comparative totals for the year ended September 30, 2011)

	2012	2011
Compact funding:		
Section 211(a)	\$ 6,000,000	\$ 6,000,000
Section 215 inflation adjustment	5,128,231	4,267,000
Total compact funding	11,128,231	10,267,000
Taxes:		
Gross receipts	12,066,499	10,731,062
Salary and wage	7,143,717	7,129,747
Alcohol and tobacco	5,663,182	4,814,375
Hotel occupancy	3,307,835	2,776,511
Travelers head	2,546,128	2,225,097
General import	2,107,327	1,268,950
Fuel Excise	697,133	704,271
Penalties, interest and delinquencies	688,992	765,550
Fish export	623,525	581,394
Road Use	456,659	419,204
Beverage container tax	363,030	-
Vessel cabin and foreign water vessel	133,592	134,966
Other	-	818,031
Total taxes	35,797,619	32,369,158
Licenses and permits:		
Foreign labor permits	1,003,150	916,483
Fishing rights fees	361,143	777,394
Business licenses	225,982	203,656
Foreign investment permits and fees	208,427	204,724
Court fines and fees	162,182	591,342
Corporate filing fees	27,872	29,143
Other licenses and permits	204,788	785,544
Total licenses and fees	2,193,544	3,508,286
Fees and charges:		
Airport fees and rentals	1,924,676	1,481,452
Green fees	1,847,920	1,604,085
Water utility charges	1,189,721	936,109
Sewer utility charges	511,046	-
Postal service	392,330	350,991
Banking fees	122,651	105,000
Palau passport fees	82,370	83,129
Seaport fees	31,250	31,650
Belau Mariculture Demonstration Center sales	3,271	-
Property sales rental	-	464,575
Other	493,448	170,983
Total fees and charges	6,598,683	5,227,974
Net change in the fair value of investments	849,188	(8,644)
Other:		
Indirect cost recoveries	107,227	-
Other	454,853	231,377
Total other	562,080	231,377
Total revenues	\$ 57,129,345	\$ 51,595,151

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual - General Fund (Fund 100100)

Year Ended September 30, 2012

	Budgeted Amounts		Actual	Variance
	Original	Final		
Revenues:				
Local revenue	\$ 37,994,000	\$ 44,033,300	\$ 42,250,361	(1,782,939)
Compact funding - Section 211(a)	6,000,000	6,000,000	6,000,000	-
Compact funding - Section 215 inflation adjustment	4,750,000	5,147,000	5,128,231	(18,769)
Net change in the fair value of investments	-	-	39,285	39,285
UMDA dividend	250,000	250,000	250,000	-
Total revenues	<u>48,994,000</u>	<u>55,430,300</u>	<u>53,667,877</u>	<u>(1,762,423)</u>
Expenditures - budgetary basis:				
Office of the President:				
President's Office	680,051	898,160	895,013	3,147
Official Expenses	31,339	31,339	31,329	10
Grants Coordinator Office	70,050	77,050	76,109	941
Council of Chiefs	101,390	102,990	102,850	140
Total Office of the President	<u>882,830</u>	<u>1,109,539</u>	<u>1,105,301</u>	<u>4,238</u>
Office of the Vice-President:				
Vice-President's Office	223,979	327,000	334,406	(7,406)
National Emergency Management Office	80,190	120,190	120,074	116
Total Office of the Vice-President	<u>304,169</u>	<u>447,190</u>	<u>454,480</u>	<u>(7,290)</u>
Ministry of Finance:				
Indirect Costs	-	107,227	87,013	20,214
Administrative Overhead	-	27,784	27,007	777
Workmen's Compensation	36,868	36,868	36,745	123
Information System Support Service	156,693	190,793	190,643	150
Bureau of National Treasury	581,608	756,608	756,459	149
Bureau of Budget and Planning	179,475	241,375	241,122	253
Bureau of Public Service System	89,407	129,407	129,160	247
Bureau of Revenue, Customs and Taxation	1,027,724	1,352,724	1,351,784	940
Total Ministry of Finance	<u>2,071,775</u>	<u>2,842,786</u>	<u>2,819,933</u>	<u>22,853</u>
Ministry of State:				
Office of the Minister	58,000	58,000	57,821	179
Consulate Office in Guam	71,895	90,000	89,907	93
Embassy in Washington D.C.	278,361	278,361	277,888	473
Embassy in Japan	342,882	377,882	377,656	226
Embassy in Taiwan	79,268	79,268	78,637	631
Embassy in Manila, Philippines	120,745	120,745	119,686	1,059
International Organizations Obligations	230,431	230,431	230,431	-
Office of the Public Defender	125,355	125,355	125,208	147
Bureau of Foreign Affairs	198,171	198,171	197,658	513
European Union Representation	23,043	23,043	22,785	258
Bureau of Domestic Affairs	247,944	267,944	267,458	486
Office of the Administration, Passport and Protocol	32,909	152,909	152,805	104
Bureau of International Trade and Technical Assistance	49,718	69,718	69,031	687
United Nations Representative Office	198,099	198,099	196,909	1,190
Total Ministry of State	<u>2,056,821</u>	<u>2,269,926</u>	<u>2,263,880</u>	<u>6,046</u>
Ministry of Community and Cultural Affairs:				
Office of the Minister	59,200	67,900	67,553	347
Sports Facilities Maintenance and Utilities	76,503	87,903	87,836	67
Bureau of National Archives	68,208	68,208	67,503	705
Palau Severely Disabled Assistance Fund	186,188	227,188	225,215	1,973
Administrative Expenses (Earmarked)	470	470	65	405
Bureau of Youth, Sports and Recreation	124,433	166,033	165,645	388
Bureau of Arts and Culture	138,259	138,259	138,211	48
Olechotel Belau Fair	23,043	23,043	23,043	-
Bureau of Aging and Gender	201,175	242,175	240,818	1,357
Total Ministry of Community and Cultural Affairs	<u>877,479</u>	<u>1,021,179</u>	<u>1,015,889</u>	<u>5,290</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

Schedule of Revenues, Expenditures, and Changes in Fund Balance, Continued
Budget and Actual - General Fund (Fund 100100)

Year Ended September 30, 2012

	Budgeted Amounts		Actual	Variance
	Original	Final		
Ministry of Education:				
Office of the Minister	58,000	58,000	56,451	1,549
School Books, Supplies and Instructional Equipment	291,000	227,000	217,182	9,818
Food Services Program	620,000	700,000	698,091	1,909
Bureau of School Administration	5,276,952	5,562,952	5,525,058	37,894
Bureau of Curriculum	372,000	383,235	382,476	759
Total Ministry of Education	<u>6,617,952</u>	<u>6,931,187</u>	<u>6,879,258</u>	<u>51,929</u>
Ministry of Public Infrastructure, Industry and Commerce:				
Office of the Minister	58,000	58,000	57,894	106
Palau Small Business Development Center (UOG)	30,000	30,000	30,000	-
Pacific Business Center Program (UH)	18,435	18,435	-	18,435
PALARIS	111,529	118,500	114,673	3,827
Bureau of Aviation	943,764	1,523,884	1,487,323	36,561
Bureau of Commercial Development	193,157	193,157	192,592	565
Rural Sanitation Project	122,674	110,474	106,923	3,551
Capital Improvement Office	28,573	28,573	25,813	2,760
OMIP, UNDP and Other Match	460,862	414,862	364,243	50,619
National Capitol Electricity	696,000	1,266,000	1,265,718	282
Landfill Operations	38,712	38,712	38,698	14
Melekeok/Capitol Sewer System	76,503	221,903	207,893	14,010
Bureau of Public Works	1,254,885	1,254,885	1,254,373	512
Water and Sewer Operations	2,487,391	3,527,391	3,515,080	12,311
Bureau of Lands and Survey	699,589	774,589	765,579	9,010
Total Ministry of Public Infrastructure, Industry and Commerce	<u>7,220,074</u>	<u>9,579,365</u>	<u>9,426,802</u>	<u>152,563</u>
Ministry of Justice:				
Office of the Minister	58,968	58,968	58,311	657
Office of the Attorney General	454,297	414,297	397,804	16,493
Bureau of Immigration	245,500	285,500	283,195	2,305
Bureau of Public Safety	2,273,516	2,481,516	2,476,729	4,787
Division of Marine Law Enforcement	602,447	652,447	650,565	1,882
Total Ministry of Justice	<u>3,634,728</u>	<u>3,892,728</u>	<u>3,866,604</u>	<u>26,124</u>
Ministry of Health:				
Office of the Minister	58,000	58,000	57,820	180
National Cancer Control Prevention Administrative Cost	-	72,489	113,076	(40,587)
Health Administration	1,887,918	2,505,918	2,494,152	11,766
Manila Medical Referral Office	80,000	96,660	96,515	145
Hawaii Medical Referral Office	105,000	105,000	104,994	6
Medical Supplies and Drugs	604,564	604,564	602,869	1,695
Medical Referrals	300,232	540,232	296,106	244,126
Bureau of Public Health	1,109,000	1,046,000	1,045,602	398
Bureau of Clinical Service	2,404,000	2,665,679	2,664,661	1,018
Hemodialysis	520,102	515,202	515,190	12
Total Ministry of Health	<u>7,068,816</u>	<u>8,209,744</u>	<u>7,990,985</u>	<u>218,759</u>
Ministry of Natural Resources, Environment, and Tourism:				
Office of the Minister	58,000	58,000	57,879	121
Bureau of Agriculture	343,102	411,202	405,993	5,209
Bureau of Marine Resources	451,644	517,444	513,384	4,060
Bureau of Labor and Human Resources	226,269	256,269	242,499	13,770
Total Ministry of Natural Resources, Environment, and Tourism	<u>1,079,015</u>	<u>1,242,915</u>	<u>1,219,755</u>	<u>23,160</u>
Total Executive Branch	<u>31,813,659</u>	<u>37,546,559</u>	<u>37,042,887</u>	<u>503,672</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

Schedule of Revenues, Expenditures, and Changes in Fund Balance, Continued
Budget and Actual - General Fund (Fund 100100)

Year Ended September 30, 2012

	Budgeted Amounts		Actual	Variance
	Original	Final		
Boards, Commissions and Authorities:				
Foreign Investment Board	70,000	63,000	52,710	10,290
Palau Election Commission	155,236	259,236	205,973	53,263
Palau Public Lands Authority	125,418	112,918	96,989	15,929
Parole Board	20,000	21,800	20,665	1,135
Palau Housing Authority	58,990	58,990	58,990	-
Financial Intelligence Unit	50,209	50,209	47,912	2,297
Financial Institutions Commission	25,581	25,581	25,548	33
Ethics Commission	35,947	32,447	21,395	11,052
Ngardmau Free Trade Zone Authority	18,434	21,134	21,134	-
Palau National Code Commission	37,791	34,091	21,388	12,703
PSB Investigation	-	-	6,316	(6,316)
Language Commission	39,000	37,300	37,284	16
Total Boards, Commissions and Authorities	636,606	716,706	616,304	100,402
Judicial Branch:				
Judiciary	2,175,000	2,200,000	2,199,311	689
Total Judicial Branch	2,175,000	2,200,000	2,199,311	689
Olbiil Era Kelulau:				
Senate	846,100	913,100	877,172	35,928
Senate Staff	366,000	366,000	430,266	(64,266)
Senate Legal Counsel Office	150,000	147,000	141,297	5,703
Senate Committees	290,710	290,710	253,268	37,442
House of Delegates	1,111,050	1,118,650	1,101,379	17,271
House of Delegates Vice Speaker Office	24,000	24,000	20,956	3,044
House of Delegates Floor Leader Office	24,000	24,000	22,476	1,524
Delegate Staff	453,500	453,500	443,322	10,178
Delegates Legal Counsel Office	150,700	172,700	172,448	252
House of Delegates Committees	192,250	192,250	219,321	(27,071)
Joint Staff	194,000	230,200	228,899	1,301
Association of Pacific Island Legislatures	5,000	5,000	5,000	-
Asian-Pacific Parliamentarians' Union	5,000	5,000	1,800	3,200
Total Legislative Branch	3,812,310	3,942,110	3,917,604	24,506
State Block Grants	4,822,000	4,872,000	4,735,883	136,117
Independent Agencies:				
Office of the Public Auditor	376,797	362,797	345,958	16,839
Office of the Special Prosecutor	108,764	97,964	89,709	8,255
Palau Environmental Quality Protection Board	372,760	336,160	326,027	10,133
National Postal Service	327,539	324,539	324,410	129
Palau Visitors Authority	625,000	625,000	625,000	-
Palau Public Utility Corporation Emergency	1,125,854	1,125,854	1,125,592	262
National Aviation Administration	127,204	151,504	151,420	84
Total Independent Agencies	3,063,918	3,023,818	2,988,116	35,702
Other Agencies and Activities:				
Casino Gaming	766	766	528	238
Palau National Museum	148,398	163,398	163,398	-
Micronesia Legal Services	125,000	125,000	125,000	-
WIA Grant Contribution	89,407	89,407	89,316	91
Palau Community Action Agency	176,000	196,000	196,000	-
Head Start Program Grant Match Funds	93,094	93,094	93,094	-
Civic Action Team Share	250,000	250,000	250,000	-
PNOC and Sports Organizations	149,700	169,700	165,613	4,087
Palau International Coral Reef Center	356,708	356,708	356,708	-
Peace Corps Contribution	25,000	25,000	22,556	2,444
Medical Savings Fund - Subscription Costs	400,000	400,000	304,063	95,937
2012 World Expo	-	15,000	13,949	1,051
Cost of Living Allowance	-	325,000	278,480	46,520
Palau Red Cross	9,217	9,217	9,217	-
Total Other Agencies and Activities	1,823,290	2,218,290	2,067,922	150,368

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

Schedule of Revenues, Expenditures, and Changes in Fund Balance, Continued
Budget and Actual - General Fund (Fund 100100)

Year Ended September 30, 2012

	Budgeted Amounts		Actual	Variance
	Original	Final		
Education Assistance:				
Palau Community College Operations	2,558,200	2,558,200	2,558,200	-
PCC Board of Trustees	38,000	38,000	38,000	-
COM Board of Regents	25,000	25,000	25,000	-
PCC CRE Program	35,000	35,000	35,000	-
Aid to Non-Public Schools	675,000	675,000	675,000	-
Total Education Assistance	<u>3,331,200</u>	<u>3,331,200</u>	<u>3,331,200</u>	<u>-</u>
Other Appropriations:				
Financial and Compliance Audit	425,000	425,000	325,000	100,000
Compact Review Office	154,588	154,588	153,882	706
Low-Income Assistance	75,000	75,000	-	75,000
11th Festival of Pacific Arts	-	63,600	63,018	582
Total Other Appropriations	<u>654,588</u>	<u>718,188</u>	<u>541,900</u>	<u>176,288</u>
Total expenditures	<u>52,132,571</u>	<u>58,568,871</u>	<u>57,441,127</u>	<u>1,127,744</u>
Deficiency of revenues under expenditures	<u>(3,138,571)</u>	<u>(3,138,571)</u>	<u>(3,773,250)</u>	<u>(634,679)</u>
Other financing sources (uses):				
Loan proceeds	-	-	3,472,734	3,472,734
Operating transfers in:				
Palauan Ed Textbook Development and Sales Fund	-	-	21,303	21,303
Public and Law Access Unit Fund	-	-	107,794	107,794
Operator License Fund	-	-	210,619	210,619
EQPB Trust Fund	-	-	117,187	117,187
Compact Section 211(f) Trust Fund	5,000,000	5,000,000	5,000,000	-
Compact Direct Economic Assistance Fund	2,000,000	2,000,000	2,000,000	-
Total other financing sources	<u>7,000,000</u>	<u>7,000,000</u>	<u>10,929,637</u>	<u>3,929,637</u>
Operating transfers out:				
Debt Service Fund	(2,713,000)	(2,713,000)	(2,179,147)	533,853
National Scholarship Fund	(1,270,000)	(1,270,000)	(1,246,273)	23,727
Total other financing uses	<u>(3,983,000)</u>	<u>(3,983,000)</u>	<u>(3,425,420)</u>	<u>557,580</u>
Total other financing sources (uses), net	<u>3,017,000</u>	<u>3,017,000</u>	<u>7,504,217</u>	<u>4,487,217</u>
	(121,571)	(121,571)	3,730,967	3,852,538
Other changes:				
Write-off of Pacific Savings Bank account	-	-	(49,888)	(49,888)
Pension plan interest	-	-	(330,971)	(330,971)
Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary purposes but in the year the supplies are received for financial reporting purposes	<u>121,571</u>	<u>121,571</u>	<u>559,541</u>	<u>437,970</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,909,649</u>	<u>\$ 3,909,649</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

GRANTS FUND

September 30, 2012

The grants fund is used to account for grants received from the United States government and other countries.

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

GRANTS FUND

Combining Balance Sheet
September 30, 2012

	341000	350100	350200	360100	420100	440100	
	Compact Direct Economic Assistance	U.S. Federal Grants	OTIA Direct Grants	Other Non U.S. Federal Grants	Non-DOI Capital Projects	Other Country Grants	Total
<u>ASSETS</u>							
Receivables, net:							
General	\$ -	\$ 1,277	\$ -	\$ -	\$ -	\$ -	\$ 1,277
Federal agencies	-	1,725,617	391,707	-	1,684,944	-	3,802,268
Due from other funds	-	-	-	762,494	-	669,929	1,432,423
Advances	-	86,532	1,474	53,974	180	4,244	146,404
Prepaid items	-	216,403	30	62,272	-	98,749	377,454
Total assets	<u>\$ -</u>	<u>\$ 2,029,829</u>	<u>\$ 393,211</u>	<u>\$ 878,740</u>	<u>\$ 1,685,124</u>	<u>\$ 772,922</u>	<u>\$ 5,759,826</u>
<u>LIABILITIES AND FUND BALANCES</u>							
<u>(DEFICIT)</u>							
Liabilities:							
Accounts payable	\$ -	\$ 585,791	\$ 31,331	\$ 182,148	\$ -	\$ -	\$ 799,270
Contracts payable	-	65,049	-	-	1,473,538	531,140	2,069,727
Deferred revenues	-	-	-	690,271	-	236,644	926,915
Other liabilities and accruals	-	73,432	502	6,321	298	5,138	85,691
Due to other funds	-	1,270,861	352,388	-	222,302	-	1,845,551
Total liabilities	<u>-</u>	<u>1,995,133</u>	<u>384,221</u>	<u>878,740</u>	<u>1,696,138</u>	<u>772,922</u>	<u>5,727,154</u>
Fund balances (deficit):							
Nonspendable	-	216,403	30	62,272	-	98,749	377,454
Restricted	-	-	8,960	-	-	-	8,960
Unassigned	-	(181,707)	-	(62,272)	(11,014)	(98,749)	(353,742)
Total fund balances (deficit)	<u>-</u>	<u>34,696</u>	<u>8,990</u>	<u>-</u>	<u>(11,014)</u>	<u>-</u>	<u>32,672</u>
Total liabilities and fund balances	<u>\$ -</u>	<u>\$ 2,029,829</u>	<u>\$ 393,211</u>	<u>\$ 878,740</u>	<u>\$ 1,685,124</u>	<u>\$ 772,922</u>	<u>\$ 5,759,826</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

GRANTS FUND

Combining Statement of Revenues, Expenditures By Function,
and Changes in Fund Balances (Deficit)
Year Ended September 30, 2012

	341000	350100	350200	360100	420100	440100	
	Compact Direct Economic Assistance	U.S. Federal Grants	OTIA Direct Grants	Other Non U.S. Federal Grants	Non-DOI Capital Projects	Other Country Grants	Total
Revenues:							
Federal contributions	\$ -	\$ 9,824,939	\$ 655,188	\$ -	\$ 4,402,753	\$ -	\$ 14,882,880
Compact funding	2,000,000	-	-	-	-	-	2,000,000
Other grants	-	-	-	1,950,903	-	13,209,766	15,160,669
Total revenues	2,000,000	9,824,939	655,188	1,950,903	4,402,753	13,209,766	32,043,549
Expenditures:							
Current:							
Legislative Branch	-	-	-	1,989	-	-	1,989
Office of the President	-	298,504	-	928,829	-	-	1,227,333
Ministry of Finance	-	-	84,776	6,319	-	-	91,095
Ministry of State	-	-	-	38,086	-	-	38,086
Ministry of Community and Cultural Affairs	-	-	-	1,372	-	-	1,372
Ministry of Education	-	4,203,625	-	99,208	-	-	4,302,833
Ministry of Public Infrastructure, Industry and Commerce	-	208,027	-	86,528	-	-	294,555
Ministry of Justice	-	109,291	17,957	-	-	-	127,248
Ministry of Health	-	4,723,718	-	321,078	-	-	5,044,796
Ministry of Natural Resources, Environment and Tourism	-	281,774	-	22,021	-	-	303,795
Independent Agencies	-	-	98,356	257,820	-	-	356,176
Financial and Compliance Audit	-	-	68,500	-	-	-	68,500
Capital projects	-	-	411,545	-	4,402,753	13,120,176	17,934,474
Total expenditures	-	9,824,939	681,134	1,763,250	4,402,753	13,120,176	29,792,252
Excess (deficiency) of revenues over (under) expenditures	2,000,000	-	(25,946)	187,653	-	89,590	2,251,297
Other financing uses:							
Operating transfers out	(2,000,000)	-	-	-	-	-	(2,000,000)
Net change in fund balances (deficit)	-	-	(25,946)	187,653	-	89,590	251,297
Fund balances (deficit) at beginning of year	-	34,696	34,936	(187,653)	(11,014)	(89,590)	(218,625)
Fund balances (deficit) at end of year	\$ -	\$ 34,696	\$ 8,990	\$ -	\$ (11,014)	\$ -	\$ 32,672

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

GRANTS FUND

Combining Schedule of Expenditures By Object
Year Ended September 30, 2012

	341000	350100	350200	360100	420100	440100	
	Compact Direct Economic Assistance	U.S. Federal Grants	OTIA Direct Grants	Other Non U.S. Federal Grants	Non-DOI Capital Projects	Other Country Grants	Total
Expenditures:							
Salaries and wages	\$ -	\$ 3,465,684	\$ 31,917	\$ 350,316	\$ 19,342	\$ 365,471	\$ 4,232,730
Freight	-	23,340	-	700	-	54	24,094
Rentals	-	199,832	-	31,035	-	3,238	234,105
Communications and postage	-	135,118	4,586	8,661	-	52,742	201,107
Advertising	-	57,277	2,515	13,694	-	9,238	82,724
Professional and contractual services	-	1,510,912	205,186	224,938	-	901,588	2,842,624
Supplies and materials	-	524,498	5,297	103,841	-	289,596	923,232
Petroleum products	-	156,623	-	35,890	-	90,918	283,431
Food stuffs	-	33,583	-	50,349	-	3,006	86,938
Books and library materials	-	86,809	-	-	-	-	86,809
Medical supplies	-	170,711	-	2,945	-	-	173,656
Travel	-	1,116,111	12,002	123,977	-	15,135	1,267,225
Equipment	-	274,751	259,417	55,373	(8,400)	158,597	739,738
Insurance	-	504	-	739	-	-	1,243
Training	-	24,225	-	13,835	-	-	38,060
Donations	-	-	-	820	-	50	870
Payments of allotments/benefits	-	302,234	-	651,679	-	237,916	1,191,829
Dues, fees and registration	-	51,871	-	945	-	-	52,816
Board compensation	-	158,255	-	54,863	-	-	213,118
Allowances	-	9,230	-	-	-	-	9,230
Repairs and maintenance	-	69,080	-	4,235	-	6,208	79,523
Construction	-	455,348	160,214	-	4,391,811	10,341,936	15,349,309
Vehicles	-	57,839	-	-	-	20,895	78,734
Buildings	-	-	-	-	-	552,128	552,128
Capital outlays	-	7,889	-	-	-	-	7,889
Utilities	-	57,630	-	150	-	71,460	129,240
Scholarships	-	684,688	-	34,000	-	-	718,688
Miscellaneous	-	190,897	-	265	-	-	191,162
Total expenditures	\$ -	\$ 9,824,939	\$ 681,134	\$ 1,763,250	\$ 4,402,753	\$ 13,120,176	\$ 29,792,252

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS

September 30, 2012

Special revenue funds are used to account for specific revenues that are legally restricted to expenditures for particular purposes.

Palauan Ed Textbook Development and Sales Fund - This fund accounts for the sales and purchase of education textbooks.

Public and Law Access Unit Fund - This fund accounts for the Publication and Law Access Unit which provides digital and hard copy publications of ROP national and state laws, court decisions, and other laws including rules, regulations, treaties, and executive orders and directives.

Drug Fine Collection Fund - This fund accounts for receipt of drug fines to be used to supplement rewards offered by the Crime Stoppers program for information regarding drug-related crimes and for the operation of drug treatment and counseling programs.

Sports Facilities Fund – This fund accounts for receipt of sports facilities use fees to be used to maintain the sports facilities.

Hospital Trust Fund - This fund accounts for receipt of hospital fee collections. Of the amount collected, all funds are to be used at the direction of the Minister of Health exclusively for medical and pharmaceutical supplies except collections from medical referral patients shall apply to future medical referrals.

EQPB Trust Fund - This fund accounts for receipt of fines and penalties for violations of the Environmental Quality Protection Act.

AgriFund – This fund accounts for sales and purchase of agriculture items.

Operator License Fund – This fund accounts for receipt of vehicle operator license fees to be used to cover expenses of the improved vehicle operator licenses.

Compact Section 211(b) Energy Fund - This fund has been established to account for funds provided pursuant to the Compact of Free Association, Section 211(b).

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS

Combining Balance Sheet
September 30, 2012

	100115	100130	100140	100145	100147	100148	100160	300100	311120	
	Drug Fine Collection	Hospital Trust	Palauan Ed Textbook Development and Sales	Public and Law Access Unit	Sports Facilities Trust	Operator License	EQPB Trust	Agrifund	Compact Section 211(b) Energy	Total
ASSETS										
Investments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 29	\$ 29
Receivables, net:										
General	-	2,069	-	-	-	-	-	-	-	2,069
Due from other funds	-	407,450	-	-	416	-	-	-	40,373	448,239
Advances	-	480	-	-	-	-	-	-	-	480
Prepaid items	-	20,413	-	-	-	-	-	-	-	20,413
Restricted assets:										
Investments	-	-	-	-	-	-	-	-	3,001,051	3,001,051
Total assets	<u>\$ -</u>	<u>\$ 430,412</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 416</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,041,453</u>	<u>\$ 3,472,281</u>
LIABILITIES AND FUND BALANCES										
(DEFICIT)										
Liabilities:										
Accounts payable	\$ -	\$ 174,990	\$ -	\$ 157	\$ -	\$ 8,405	\$ 6,813	\$ -	\$ -	\$ 190,365
Accrued payroll and others	-	-	-	-	-	-	124	-	-	124
Due to other funds	17,611	-	-	-	-	-	-	2,499	-	20,110
Total liabilities	<u>17,611</u>	<u>174,990</u>	<u>-</u>	<u>157</u>	<u>-</u>	<u>8,405</u>	<u>6,937</u>	<u>2,499</u>	<u>-</u>	<u>210,599</u>
Fund balances (deficit):										
Nonspendable	-	20,413	-	-	-	-	-	-	-	20,413
Restricted	-	-	-	-	-	-	-	-	3,041,453	3,041,453
Committed	-	235,009	-	-	416	-	-	-	-	235,425
Unassigned	(17,611)	-	-	(157)	-	(8,405)	(6,937)	(2,499)	-	(35,609)
Total fund balances (deficit)	<u>(17,611)</u>	<u>255,422</u>	<u>-</u>	<u>(157)</u>	<u>416</u>	<u>(8,405)</u>	<u>(6,937)</u>	<u>(2,499)</u>	<u>3,041,453</u>	<u>3,261,682</u>
Total liabilities and fund balances	<u>\$ -</u>	<u>\$ 430,412</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 416</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,041,453</u>	<u>\$ 3,472,281</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS

Combining Statement of Revenues, Expenditures by Function,
and Changes in Fund Balances (Deficit)
Year Ended September 30, 2012

	100115	100130	100140	100145	100147	100148	100160	300100	311120	
	Drug Fine Collection	Hospital Trust	Palauan Ed Textbook Development and Sales	Public and Law Access Unit	Sports Facilities Trust	Operator License Fund	EQPB Trust	Agrifund	Compact Section 211(b) Energy	Total
Revenues:										
Fees and charges	\$ 5,255	\$ 2,793,829	\$ -	\$ 20,201	\$ -	\$ 58,410	\$ 33,420	\$ 13,430	\$ -	\$ 2,924,545
Licenses and permits	-	1,030	-	-	-	-	-	-	-	1,030
Net change in the fair value of investments	-	-	-	-	-	-	-	-	3,333	3,333
Total revenues	5,255	2,794,859	-	20,201	-	58,410	33,420	13,430	3,333	2,928,908
Expenditures:										
Current:										
Ministry of State	-	-	-	3,435	-	-	-	-	-	3,435
Ministry of Community and Cultural Affairs	-	-	-	-	1,108	-	-	-	-	1,108
Ministry of Justice	25,700	-	-	-	-	30,420	-	-	-	56,120
Ministry of Health	-	2,689,564	-	-	-	-	-	-	-	2,689,564
Ministry of Natural Resources, Environment and Tourism	-	-	-	-	-	-	-	11,220	-	11,220
Independent Agencies	-	-	-	-	-	-	38,319	-	-	38,319
Investment management fees	-	-	-	-	-	-	-	-	2,282	2,282
Total expenditures	25,700	2,689,564	-	3,435	1,108	30,420	38,319	11,220	2,282	2,802,048
Excess (deficiency) of revenues over (under) expenditures	(20,445)	105,295	-	16,766	(1,108)	27,990	(4,899)	2,210	1,051	126,860
Other financing uses:										
Operating transfers out	-	-	(21,303)	(107,794)	-	(210,619)	(117,187)	-	-	(456,903)
Net change in fund balances (deficit)	(20,445)	105,295	(21,303)	(91,028)	(1,108)	(182,629)	(122,086)	2,210	1,051	(330,043)
Fund balances (deficit) at beginning of year	2,834	150,127	21,303	90,871	1,524	174,224	115,149	(4,709)	3,040,402	3,591,725
Fund balances (deficit) at end of year	\$ (17,611)	\$ 255,422	\$ -	\$ (157)	\$ 416	\$ (8,405)	\$ (6,937)	\$ (2,499)	\$ 3,041,453	\$ 3,261,682

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS

Combining Schedule of Expenditures by Object
Year Ended September 30, 2012

	100115	100130	100140	100145	100147	100148	100160	300100	311120	
	Drug Fine Collection	Hospital Trust	Palauan Ed Textbook Development and Sales	Public and Law Access Unit	Sports Facilities Trust	Operator License Fund	EQPB Trust	Agrifund	Compact Section 211(b) Energy	Total
Expenditures:										
Salaries and wages	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 343	\$ -	\$ -	\$ 343
Rentals	-	4,200	-	-	-	-	7,068	-	-	11,268
Communications and postage	-	-	-	431	-	-	208	-	-	639
Medical referrals	-	1,225,000	-	-	-	-	-	-	-	1,225,000
Professional and contractual services	-	-	-	-	-	200	133	-	-	333
Supplies and materials	-	48,731	-	3,004	1,108	20,195	19,352	-	-	92,390
Food stuffs	-	-	-	-	-	-	252	-	-	252
Medical supplies	-	1,248,352	-	-	-	-	-	-	-	1,248,352
Travel	-	62,991	-	-	-	-	10,963	-	-	73,954
Equipment	-	-	-	-	-	2,498	-	-	-	2,498
Payments of allotments/benefits	-	-	-	-	-	-	-	11,220	-	11,220
Investment management fees	-	-	-	-	-	-	-	-	2,282	2,282
Dues, fees and registration	-	782	-	-	-	-	-	-	-	782
Repairs and maintenance	-	-	-	-	-	7,527	-	-	-	7,527
Miscellaneous	25,700	99,508	-	-	-	-	-	-	-	125,208
Total expenditures	<u>\$ 25,700</u>	<u>\$ 2,689,564</u>	<u>\$ -</u>	<u>\$ 3,435</u>	<u>\$ 1,108</u>	<u>\$ 30,420</u>	<u>\$ 38,319</u>	<u>\$ 11,220</u>	<u>\$ 2,282</u>	<u>\$ 2,802,048</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

OTHER INFORMATION

September 30, 2012

A brief discussion of other information presented for additional analysis as of September 30, 2012, follows:

Combining Schedule of Expenditures By Object:
All Governmental Funds

Other Country Grants:
Schedule of Expenditures of Other Country Grants

Other Grants:
Schedule of Expenditures of Other Grants

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

Combining Schedule of Expenditures by Object
Governmental Funds
Year Ended September 30, 2012

	General	Special	Permanent	Other	Total
		Revenue		Governmental	
		Grants	Compact	Funds	
			Section 211(f)		
Expenditures:					
Salaries and wages	\$ 31,325,237	4,232,730	\$ -	\$ 343	\$ 35,558,310
Freight	14,090	24,094	-	-	38,184
Rentals	561,416	234,105	-	11,268	806,789
Communications and postage	733,783	201,107	-	639	935,529
Advertising	56,268	82,724	-	-	138,992
Medical referrals	321,934	-	-	1,225,000	1,546,934
Professional and contractual services	445,482	2,842,624	-	333	3,288,439
Supplies and materials	1,294,111	923,232	-	92,390	2,309,733
Petroleum products	947,946	283,431	-	-	1,231,377
Food stuffs	671,904	86,938	-	252	759,094
Books and library materials	149,587	86,809	-	-	236,396
Medical supplies	1,022,479	173,656	-	1,248,352	2,444,487
Travel	770,164	1,267,225	-	73,954	2,111,343
Equipment	203,290	739,738	-	2,498	945,526
Insurance	13,903	1,243	-	-	15,146
Training	15,633	38,060	-	-	53,693
Donations	287,747	870	-	-	288,617
Payments of allotments/benefits	8,517,415	1,191,829	-	11,220	9,720,464
Representation and entertainment	10,108	-	-	-	10,108
Investment management fees	12,576	-	1,196,528	2,282	1,211,386
Dues, fees and registration	260,961	52,816	-	782	314,559
Board compensation	91,394	213,118	-	-	304,512
Allowances	208,120	9,230	-	-	217,350
Repairs and maintenance	360,505	79,523	-	7,527	447,555
Construction	92,920	15,349,309	-	-	15,442,229
Machinery	56,400	-	-	-	56,400
Vehicles	110,442	78,734	-	-	189,176
Furniture and fixtures	650	-	-	-	650
Boats	100	-	-	-	100
Computer software	17,049	-	-	-	17,049
Buildings	-	552,128	-	-	552,128
Improvements	227,457	-	-	-	227,457
Capital outlays	-	7,889	-	-	7,889
Utilities	5,923,441	129,240	-	-	6,052,681
Principal retirement	1,599,998	-	-	-	1,599,998
Interest charges	579,149	-	-	-	579,149
Bad debts	49,888	-	-	-	49,888
Student loans	559,675	-	-	-	559,675
Scholarships	615,277	718,688	-	-	1,333,965
Bank service fee	1,170	-	-	-	1,170
Grants and contributions	4,985,888	-	-	-	4,985,888
Miscellaneous	624,619	191,162	-	125,208	940,989
	<u>\$ 63,740,176</u>	<u>\$ 29,792,252</u>	<u>\$ 1,196,528</u>	<u>\$ 2,802,048</u>	<u>\$ 97,531,004</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

OTHER COUNTRY GRANTS FUND

Schedule of Expenditures of Other Country Grants
Year Ended September 30, 2012

Cost Center	Grantor Account Title	Budget Authorizations	Receivable from Grantor (Deferred Revenue) at 10/1/11	Cash Receipts FY2012	Expenditures FY2012	Receivable from Grantor (Deferred Revenue) at 9/30/12
<u>ROC TAIWAN GRANT 2000</u>						
F03135	FI/TAX ADVISORY SERVICES	\$ 69,625	\$ -	\$ -	\$ -	\$ -
R03097	HATOHOBEL STATE PROJECT	80,000	-	-	-	-
R03099	SONSOROL STATE PROJECT	100,000	-	-	-	-
R03108	PALAU INT'L AIRPORT IMPV	843,976	-	-	-	-
R03109	PELELIU PRIMARY RD ASPHLT	1,233,000	-	-	-	-
R03111	MALAKAL BRIDGE INSPECTION	37,637	-	-	-	-
R03114	NGERIKIL PUMP REPLACEMENT	140,286	-	-	-	-
R03115	AIRAI WTP MOTOR CENTR&STO	460,279	-	-	-	-
R03116	FACILITIES REPAIR & RENOV	356,378	-	-	-	-
R03117	GOVT OFFICE FACIL IMPROV	353,669	-	-	-	-
R03118	KAYANGEL WATER SYSTEM	300,000	-	-	-	-
R03136	NTF AGRICULTURE DEVEL	69,037	-	-	-	-
R03137	ROC PROJECT MANAGEMENT	106,563	-	-	-	-
R24941	CENTRAL MRKT & CULT. CNTR	2,500,000	-	-	-	-
R24940	PALAU NAT'L MUSEUM COMPLX	2,600,000	(26,981)	(33,348)	-	6,367
R03120	AIRPORT GENERATOR	95,612	(6,367)	-	-	(6,367)
	SUB TOTAL	9,346,062	(33,348)	(33,348)	-	-
<u>STATE ECONOMIC STIMULUS PACKAGE 2002</u>						
B20102	ELECHUI ROAD EXT/IMPROVMT	20,000	-	-	-	-
B20103	MEDORM ROAD EXT/IMPROVMT	30,000	-	-	-	-
B20301	DOCK IMPROVEMENT STUDY	14,000	-	-	-	-
B20302	ANGAUR ROAD EXTENSION	60,000	-	-	-	-
B20304	ANGAUR WATER LINE PROJECT	50,000	-	-	-	-
B20701	HEADSTART BUILDING CONST	50,000	-	-	-	-
B20702	NGERULIANG ROAD PAVING	30,000	-	-	-	-
B20703	OLD AGE CENTER	20,000	-	-	-	-
B21102	STATE ROAD IMPROVEMENTS	50,000	-	-	-	-
B21501	ELOCHEL DOCK TERMINAL/OFF	100,000	-	-	-	-
R24870	CLASSROOM & FACILITY PROJ	174,665	-	-	-	-
B21001	NGARDMAU ROAD & DOCK PROJ	100,000	(530)	-	-	(530)
R24890	SDA SCHL ROAD IMPV PROJ	100,000	(4,497)	(5,027)	-	530
	SUB TOTAL	798,665	(5,027)	(5,027)	-	-
<u>STATE ECONOMIC STIMULUS PACKAGE 2003</u>						
B30103	MEDORM ABAI ROOFING EXTEN	8,000	-	-	-	-
B30502	DESPENSARY FACILITY IMPRV	120,000	-	-	-	-
B30603	NGERBECHED LANDFIL DRAIN	10,000	-	-	-	-
B30604	KOROR CBD/CAUSEWAY RD POS	10,000	-	-	-	-
B30605	MEYUNS ELEMENTARY PHAS2&3	7,000	-	-	-	-
B30702	MAIN ROAD STRIP CONCR PAV	100,000	-	-	-	-
B30802	CHOLL VARIOUS PROJECTS	50,000	-	-	-	-
B30902	OKOTOL ROAD CONSTRUCT/IMP	100,000	-	-	-	-
B30904	OLLEI STORAGE TANK PROJ	20,000	-	-	-	-
B31101	ROAD CONSTRUCTION & IMPRO	70,000	-	-	-	-
B31201	NGATPANG DOCK/AQUA IMPROV	50,000	-	-	-	-
B31202	AQUACULTURE PROJECT	50,000	-	-	-	-
B31301	CONCRETE ROAD PAVING/IMPR	100,000	-	-	-	-
B31401	WATER PUMP	8,000	-	-	-	-
B31501	PELELIU INCINERATOR PROJ	46,000	-	-	-	-
B31601	TELECOMMUNICATION UPGRADE	75,000	-	-	-	-
R34838	TEAKWOOD AND LUMBER	35,000	-	-	-	-
R34840	FISHING AGGREGATE DEVICES	100,000	-	-	-	-
R34843	BLS LAND SURVEYING EQUIP	85,000	-	-	-	-
F34817	NEW PRODUCT DEV COMMITTEE	75,000	-	-	-	-
R34960	NORTHERN BABLD'D WTRLINE	1,100,000	-	-	-	-
R34891	PELELIU CONCRETE RD EXT	500,000	-	-	-	-
R44893	INTER-ISLAND WATER TRANS	791,000	-	-	-	-
J34920	BPS EQUIP IMPRV. GRANTS	664,000	-	-	-	-
R24831	COMPLETION OF CAPITAL,ETC	6,799,000	-	-	-	-
R24832	ROADS,PARKING LOTS & ETC	2,750,000	-	-	-	-
R24834	LANDSCAPING & ETC	451,000	-	-	-	-
B30102	ELECHUI WATER SYSTEM	70,000	(31)	-	-	(31)
B30104	MEDORM RD EXTENTION/IMPRO	30,000	(17,646)	(5,424)	-	(12,222)

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Schedule of Expenditures of Other Country Grants, Continued
Year Ended September 30, 2012

Cost Center	Grantor Account Title	Budget Authorizations	Receivable from Grantor (Deferred Revenue) at 10/1/11	Cash Receipts FY2012	Expenditures FY2012	Receivable from Grantor (Deferred Revenue) at 9/30/12
<u>STATE ECONOMIC STIMULUS PACKAGE 2003, CONTINUED</u>						
B30202	NGERIKIL PUMP STATION	30,000	(8,857)	-	-	(8,857)
B30303	STATE BOAT DRYDOCK	35,000	35,000	-	-	35,000
B30306	ANGARU STATE OFFICE RENOV	15,000	(5,000)	-	-	(5,000)
B31403	CLAM FARM	10,000	(4,913)	-	-	(4,913)
B31502	CAMP BECK DREDGING	50,000	14,712	-	-	14,712
R34839	CLAM FARMING PROJECTS	100,000	(326)	-	-	(326)
R34841	NATL CAPITAL REL PH III	3,450,000	(18,363)	-	-	(18,363)
	SUB TOTAL	17,964,000	(5,424)	(5,424)	-	-
<u>STATE ECONOMIC STIMULUS PACKAGE 2004</u>						
B40101	MEDORM/ELECHUI RD IMPROVE	735,001	-	-	-	-
B40201	KASEBELAU RD EXT/FIRE HYD	126,000	-	-	-	-
B40301	ANGAUR STATE BOAT DRYDOCK	35,000	-	-	-	-
B40604	ENVIRON ASSESSMENT STUDY	-	-	-	-	-
B40702	MELEKEOK ROAD IMPROVEMENT	100,000	-	-	-	-
B40801	ROAD CONSTRUCT/IMPROVE	100,000	-	-	-	-
B41001	ROAD CONSTRUCT/IMPROVE	50,000	-	-	-	-
B41101	ROAD CONSTRUCT/IMPROVE	50,000	-	-	-	-
B41401	NGIRNGEMELAS SQUARE	50,000	-	-	-	-
B41501	ASPHALT RD REPAIR/IMPROV	300,000	-	-	-	-
B41502	PELELIU WAR MEMORIAL	5,000	-	-	-	-
R44847	NEW CAPITOL FINISHING PRO	100,000	-	-	-	-
R44873	PUBLIC SCHOOLS FAC IMPROV	200,000	-	-	-	-
R44896	KOROR CNT PAVEMENT REPAIR	171,000	-	-	-	-
R44963	KOROR WTR/WASTEWTR PARTS	145,448	-	-	-	-
T44895	INTERNAT'L WATER TRANSPOR	137,000	-	-	-	-
F44818	NEW PRODUCT DEV COMMITTEE	25,000	-	-	-	-
R44962	CAPITAL PH III - SEWER	2,783,000	-	-	-	-
R44826	MELEKEOK/NGI WAL INCINERAT	495,000	-	-	-	-
R54822	INT/EXTERIOR OF CAPITOL B	3,200,000	-	-	-	-
R54827	N BABELDAOB WATERLINE EXT	50,000	-	-	-	-
R54828	CUSTOMS MODERNIZATION PRO	360,000	-	-	-	-
R54829	GUAM/PALAU COMM CENTER	100,000	-	-	-	-
B40701	MELEKEOK STATE BUILDING	11,000	(9,351)	(9,351)	-	-
B40401	WATER SYSTEM IMPROVEMENT	80,000	-	-	-	-
B40402	WAVE RETAINING WALL/EROSI	15,000	(5,321)	(5,321)	-	-
B40501	ISLAND RING ROAD	92,000	(17,097)	(17,097)	-	-
B40601	T-DOCK REPAIR	500,000	(1,441)	(1,441)	-	-
	SUB TOTAL	10,015,449	(33,210)	(33,210)	-	-
<u>STATE ECONOMIC STIMULUS PACKAGE 2005</u>						
B50101	NEKKEN WATER SYS IMPROVE	150,000	-	-	-	-
B50104	MONGAMI ROAD IMPROVEMENT	25,000	-	-	-	-
B50202	AIRAI ROAD IMPROVEMENT	100,000	-	-	-	-
B50302	ANGAUR OLD AGE CNTR IMPRO	50,000	-	-	-	-
B50304	ANGAUR COMM CNTR IMPROVE	25,000	-	-	-	-
B50305	ANGAUR ELEM SCH WALKWAY	5,000	-	-	-	-
B50306	ANGAUR STATE OFFICE RENOV	-	-	-	-	-
B50401	TOBI SOLAR LIGHTING SYSTE	25,000	-	-	-	-
B50402	TOBI STATE BOAT DRYDOCK	75,000	-	-	-	-
B50503	KAYANGEL OLD AGE CENTER	28,000	-	-	-	-
B50504	KAYANGEL DISPENSARY IMPRO	-	-	-	-	-
B50601	NGARACHAMAYONG ABAI CONST	150,000	-	-	-	-
B50801	NGARAARD ROAD IMPROVEMENT	150,000	-	-	-	-
B50802	NGEBUKED ABAI KITCHEN IMP	60,000	-	-	-	-
B50804	REMACHEL TO ULUCHEL ROAD	50,000	-	-	-	-
B50901	NGARCHELONG ROAD IMPROVE	100,000	-	-	-	-
B50902	MENGELLANG ABAI/TYPHOON S	50,000	-	-	-	-
B50904	OLLEI WATER STORAGE TANKS	-	-	-	-	-
B51001	NGARDMAU DOCK IMPROVEMENT	100,000	-	-	-	-
B51101	NGAREMLENGUI ROAD IMPROVE	170,000	-	-	-	-
B51203	NGATPANG AQUACULTURE PROJ	120,000	-	-	-	-
B51301	NGCHESAR ROAD IMPROVEMENT	200,000	-	-	-	-

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Schedule of Expenditures of Other Country Grants, Continued
Year Ended September 30, 2012

Cost Center	Grantor Account Title	Budget Authorizations	Receivable from Grantor (Deferred Revenue) at 10/1/11	Cash Receipts FY2012	Expenditures FY2012	Receivable from Grantor (Deferred Revenue) at 9/30/12
<u>STATE ECONOMIC STIMULUS PACKAGE 2005, CONTINUED</u>						
B51401	NGIWAL ROAD IMPROVEMENT	100,000	-	-	-	-
B51402	NGIWAL 2007 IMPROV PROJ	75,000	-	-	-	-
B51501	PELELIU REV OSMOSIS WTR S	-	-	-	-	-
B51602	SONSOROL WATER SYSTEM	8,000	-	-	-	-
B51604	SONSOROL STATE BOAT	100,000	-	-	-	-
R54847	NEW CAPITOL RELOCATION	55,000	-	-	-	-
H54852	MOH AHU SYSTEM	190,000	-	-	-	-
C54964	SOUTH PACIFIC MINI GAMES	1,290,000	-	-	-	-
B50602	T-DOCK POOL FILL & PAVING	20,000	(19,000)	(19,000)	-	-
B51601	SONSOROL INTERSTATE TRANS	92,000	(22,087)	(22,087)	-	-
	SUB TOTAL	3,563,000	(41,087)	(41,087)	-	-
<u>STATE ECONOMIC STIMULUS PACKAGE 2006</u>						
B60101	MEDORM ROAD IMPROVEMENT	100,000	-	-	-	-
B60102	ELECHUI ROAD IMPROVEMENT	20,000	-	-	-	-
B60201	ORDOMEL ROAD REPAIR PROJ	350,000	-	-	-	-
B60202	AIRAI ROAD IMPROVE PORJ.	200,000	-	-	-	-
B60301	ANGAUR ROAD IMP PROJ FY06	105,000	-	-	-	-
B60302	ANGAUR BAI RENOV FY06	21,500	-	-	-	-
B60303	ANGAUR BOAT REPAIR FY06	33,500	-	-	-	-
B60401	HELEN REEF CONSERV PROJ.	55,000	-	-	-	-
B60406	HATOHOBEL SOLAR PROJECT	25,000	-	-	-	-
B60407	TOBI WATER SYSTEM IMPROV	15,000	-	-	-	-
B60408	TOBI MEDICAL DISPENSARY	35,000	-	-	-	-
B60409	TOBI HOUSING PRESERVATION	35,000	-	-	-	-
B60501	KAYANGEL WATER SYSTEM P3	215,000	-	-	-	-
B60603	KB BRIDGE WTRLINE REPAIR	40,000	-	-	-	-
B60605	MARINE RESOURCE ROAD PROJ	100,000	-	-	-	-
B60606	KOROR PARKS IMPROVEMENT	50,000	-	-	-	-
B60701	MELKEOK MAIN ROAD REHAB	100,000	-	-	-	-
B60801	NGARAARD BASEBALL FIELD	150,000	-	-	-	-
B60901	MENGELLANG ABAI ADDTNL	10,000	-	-	-	-
B60902	NGARCHELONG ROAD IMPROV	100,000	-	-	-	-
B61001	NGARDMAU WATERFALL PARKIN	100,000	-	-	-	-
B61201	NGATPANG AQUACULTURE FY06	100,000	-	-	-	-
B61601	SOLAR LIGHTING SYSTEM	50,000	-	-	-	-
R64816	POST OFFICE BLDG EXPANSIO	45,000	-	-	-	-
R64819	CULTURAL CENTER AUDIO/VIS	175,000	-	-	-	-
R64846	PELELIU/ANGAUR RUNWAY LGH	58,000	-	-	-	-
R64847	CAPITOL FINISHING-ADDN'L	432,000	-	-	-	-
R64849	NTF AGRICULTURE DEV/BIODI	20,000	-	-	-	-
R64889	K/A RD REPAIR&LANDFILL 06	50,000	-	-	-	-
R64966	CAPITOL/MELEKEOK SEWER SY	300,000	-	-	-	-
R64967	AIRAI WTR TREATMENT SYSTE	250,000	-	-	-	-
R64968	STATE WATER SYSTEMS	150,000	-	-	-	-
R64969	WATER METERING	200,000	-	-	-	-
R64966	CAPITOL/MELEKEOK SEWER SY	300,000	-	-	-	-
R64967	AIRAI WTR TREATMENT SYSTE	250,000	-	-	-	-
R64968	STATE WATER SYSTEMS	150,000	-	-	-	-
R64969	WATER METERING	200,000	-	-	-	-
R64998	MUSEUM PROJECT FY06	125,000	-	-	-	-
J64923	PTRL BOAT DRYDOCK/REFIT06	200,000	-	-	-	-
J64924	PS PATROL MOTORCYCLES	200,000	-	-	-	-
H64853	MOH PAC SYSTEM	350,000	-	-	-	-
A64834	OPERATION COUNTER INVASIO	100,000	-	-	-	-
A64834	OPERATION COUNTER INVASIO	-	-	-	-	-
F64815	2007 FEMM	10,000	-	-	-	-
R64970	KOROR WASTEWTR COLLECT SY	2,000,000	-	-	-	-
R64873	SCHOOL FACILITIES FY'06	1,000,000	-	-	-	-
R64898	AIRPORT-NERIKIL RD. FY06	3,000,000	-	-	-	-
R64899	NGARAARD ROAD FY'06	1,000,000	-	-	-	-
R54845	OKOTOL HARBOR IMPROV PROJ	200,000	-	-	-	-
R64827	NORTH BABELDAOB WATERLINE	115,000	5,508	-	-	5,508

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Cost Center	Grantor Account Title	Budget Authorizations	Receivable from Grantor (Deferred Revenue) at 10/1/11	Cash Receipts FY2012	Expenditures FY2012	Receivable from Grantor (Deferred Revenue) at 9/30/12
<u>STATE ECONOMIC STIMULUS PACKAGE 2006, CONTINUED</u>						
R64836	WB PETROLEUM T/A MATCHING	200,000	19,600	-	-	19,600
R84898	PHASE IV-FINAL A/N ROAD	3,100,000	-	46,295	-	(46,295)
	SUB TOTAL	16,190,000	25,108	46,295	-	(21,187)
<u>BABELDAOB INTRA-STATE ROADS & DOCK IMPROVEMENTS</u>						
B70901	NGARCHELONG ROAD REHAB	-	-	-	-	-
G70001	BABL INTRA ST RD IMPROVEM	-	-	-	-	-
G70102	AIMELIIK-COFA CONNECT RD	200,000	-	-	-	-
G70201	NGERUSAR-KED RD IMPROVE	200,000	-	-	-	-
G70801	NGARAARD STATE RD IMPROVE	245,000	-	-	-	-
G70901	NGARCHELONG MAIN RD REHAB	200,000	-	-	-	-
G71101	NGAREMLENGUI STATE RD IMP	100,000	-	-	-	-
G71301	NGCHESAR ROAD PROJECT	200,000	-	-	-	-
F73966	PM & SP CAPACITY BLDG PRO	75,000	-	-	-	-
R74898	AIRPORT TO NGERIKIL ROAD	3,300,000	-	-	-	-
R74845	OKOTOL DOCK IMPROVE PH II	1,000,000	-	-	-	-
R74848	CAPITOL STANDBY GENERATOR	1,600,000	-	-	-	-
G70101	MEDORM HAMLET RD REPAIR	200,000	3,866	3,813	-	53
G71401	IMEKANG DOCK IMPROVE	200,000	(53)	-	-	(53)
	SUB TOTAL	7,520,000	3,813	3,813	-	-
<u>STATE ECONOMIC STIMULUS PACKAGE 2008</u>						
B80101	AIMELIIK ROAD REPAIR PROJ	25,000	-	-	-	-
B80102	ELECHUI WATER SYS - PH II	150,000	(7,234)	-	-	(7,234)
B80103	AIMELIIK PUBL WORKS BLDG	50,000	(16,750)	-	11,750	(5,000)
B80202	AIRAI ROAD IMPROVEMENT PR	239,000	-	-	-	-
B80401	TOBI VARIOUS IMPROV PROJ	-	-	-	-	-
B80501	KAYANGEL GARBAGE FACILITY	65,000	(38,429)	-	-	(38,429)
B80601	KOROR KB BRIDGE PARK PROJ	-	-	-	-	-
B80701	MELEKEOK ROAD IMPROVEMENT	100,000	-	-	-	-
B80801	CHOLL TYPHOON SHELTER	200,000	160,683	-	43,094	203,777
B80803	NGARAARD NEW ROAD PROJ	100,000	(30,631)	-	-	(30,631)
B80804	NGARAARD WATER PUMP STATI	50,000	(48,341)	-	-	(48,341)
B80805	ORREDAKL TO ULIMANG ROAD	300,000	(81)	-	-	(81)
B80901	NGARCHELONG MAIN ROAD IMP	100,000	(4,073)	-	-	(4,073)
B81001	NGARDMAU ROAD PAVING PROJ	250,000	(96)	-	-	(96)
B81101	NGERMETENGEL COMM BAI	225,000	(412)	-	-	(412)
B81102	NGERMETENGEL DOCK IMPROVE	125,000	(68,266)	-	53,100	(15,166)
B81103	NGAREM ROAD IMPR PH IV	40,000	(345)	-	-	(345)
B81104	NGAREML ELEM ROAD PAVEMNT	60,000	(8,521)	-	-	(8,521)
B81105	NGARMESKANG WTRFALLS ROAD	100,000	(98,886)	-	76,500	(22,386)
B81201	AQUACULTURE PROJ PHIV	150,000	(96)	-	-	(96)
B81301	NGCHESAR MAIN ROAD IMPROV	200,000	(32,204)	-	-	(32,204)
B81401	NGIWAL WATER SYSTEM IMPRO	160,000	99,993	-	-	99,993
B81402	NGIWAL DOCK REPAIR	40,000	(20,053)	-	-	(20,053)
B81501	PELELIU STATE BOAT REPAIR	330,000	(9,604)	-	-	(9,604)
S78969	PALAU DIGITAL ARCHIVING	125,000	(3,191)	-	-	(3,191)
S84813	CNMI CONSUL ABAI CONTRIB	25,000	-	-	-	-
P84810	COMPACT REVIEW	175,000	-	-	-	-
P84811	PRES DIGITAL ARCHIV/OTHER	225,000	(36)	-	-	(36)
F84812	CAPITOL COMPLX INFO SUPPL	347,000	(161,307)	-	6,350	(154,957)
F84814	CAPITOL COMPLEX MIS-PH2	1,000,000	(100,400)	-	-	(100,400)
H84854	HOSP SOLAR LIGHTING PROJ	2,500,000	(56,388)	-	-	(56,388)
R84971	KOROR SEWER SYS PROJ PH 2	2,255,000	247,652	-	-	247,652
	SUB TOTAL	9,711,000	(197,016)	-	190,794	(6,222)
<u>STATE ECONOMIC STIMULUS PACKAGE 2009</u>						
B90701	MELEKEOK MAIN ROAD	850,000	(67,720)	-	62,088	(5,632)
R94823	IMEKANG DOCK	1,000,000	6,053	-	-	6,053
J94825	GLOBAL POSITIONING SYSTEM	1,900,000	(2,000)	-	-	(2,000)
J94826	LIGHT EMITTING DIODE	800,000	2,203	-	-	2,203
B90901	NGERCHELONG MAIN ROAD	810,000	(3,691)	-	6,930	3,239
B91101	NGERMLENGUI BRIDGE	640,000	(3,218)	-	-	(3,218)
R94824	KOKSAI/NGCHESAR ACCESS RD	5,000,000	(21,142)	(14,995)	-	(6,147)
	SUB TOTAL	11,000,000	(89,515)	(14,995)	69,018	(5,502)

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Year Ended September 30, 2012

Cost Center	Grantor Account Title	Budget Authorizations	Receivable from Grantor (Deferred Revenue) at 10/1/11	Cash Receipts FY2012	Expenditures FY2012	Receivable from Grantor (Deferred Revenue) at 9/30/12
STATE ECONOMIC STIMULUS PACKAGE 2010						
B00201	RABIT FISH HATCHERY FY2010	400,000	(25,992)	-	23,710	(2,282)
B01001	NGARDMAU CONCRETE ROAD FY2010	500,000	(25,795)	-	-	(25,795)
B01002	NGARDMAU BOTANICAL GARDEN FY2010	30,000	-	-	-	-
B01201	TWN EXPERT AQUACULTURE FY2010	150,000	(3,061)	-	33,157	30,096
B01301	NGCHESAR CONCRETE ROAD FY2010	600,000	(34,385)	-	506	(33,879)
H04850	MOH EQUIP & OTHERS FY2010	1,500,000	(20,380)	(17,113)	-	(3,267)
R04821	ENERGY EFFICIENT BUILDING FY2010	445,000	(19,472)	(19,472)	-	-
R04824	KOKSAI-NGCHESAR ROAD II FY2010	3,000,000	352,348	-	4,850	357,198
R04830	AGRI DEV. CENTER FY2010	750,000	(39,512)	(16,289)	23,166	(57)
R04835	COCONUT TREE PLANTING FY2010	175,000	(10,488)	(9,628)	-	(860)
R04837	MALAKAL MARINE RESOURCE FY2010	750,000	(72,954)	-	72,750	(204)
R04840	STATE MARINE SANCTUARY FY2010	400,000	(45,424)	(37,251)	6,917	(1,256)
R04842	TWN EXPERT AGRICULTURE FY2010	150,000	(1,608)	-	28	(1,580)
R04844	BEAUTIFICATION PROJECT FY2010	100,000	(5,000)	-	25,000	20,000
R04871	PCC SCHOOL OF EXCELENCE FY2010	300,000	-	-	-	-
R04872	BASKETBALL COURTS FY2010	150,000	68	-	-	68
R04873	MOE SOLAR PROJECT FY2010	600,000	(61,981)	(61,981)	-	-
	SUB TOTAL	10,000,000	(13,636)	(161,734)	190,084	338,182
STATE ECONOMIC STIMULUS PACKAGE 2011						
B10101	KOKSAI-NEKKEN RD. FY2011	525,000	(95,450)	289,250	383,693	(1,007)
B10201	RABIT FISH HATCH EQP FY11	30,000	(30,000)	-	30,000	-
B10202	AIRAI ROAD FY2011	350,000	64,023	192,500	128,277	(200)
B10601	NGERMID RD PROJ. PHI FY11	400,000	5,471	220,000	214,180	(349)
B10602	T/M-DOCK RD. REHAB FY2011	500,000	29,880	250,000	219,482	(638)
B10701	MELKEOK HIST PIER FY2011	200,000	29,667	110,000	75,337	(4,996)
B10801	NGARARD RD. ULI-ELAB FY11	150,000	(49,439)	-	124,351	74,912
B10802	NGARARD RD. NGKEKLAU FY11	250,000	(62,097)	107,500	192,405	22,808
B10901	NGARCHELONG ROAD FY2011	275,000	(5,457)	151,250	156,703	(4)
B10902	BADRULCHAU TOUR.CNTR FY11	50,000	(39,933)	10,000	38,023	(11,910)
B11001	NGARDMAU RD. PHIII FY2011	250,000	(586)	112,500	107,771	(5,315)
B11101	NGERML ROAD REHAB FY2011	500,000	(48,109)	275,000	303,886	(19,223)
B11201	TWN EXPERT AQUA FY2011	29,000	(14,500)	14,500	19,500	(9,500)
B11301	NGCHESAR ST. ROAD FY2011	250,000	(83,360)	-	220,804	137,444
C14821	JUDICIARY INFO SYST FY'11	820,000	41,534	630,000	577,465	(11,001)
R14824	KOKSAI-NGCHSR RD PII FY11	4,000,000	(219,414)	2,200,000	2,422,982	3,568
R14830	LIVESTOCK DEV. PROJ FY'11	173,000	(89,720)	30,000	155,376	35,656
R14837	MALAKAL MRN RES PHII FY11	500,000	(101,210)	305,000	406,208	(2)
R14842	TWN EXPERT AGRY FY2011	29,000	(14,500)	14,500	29,000	-
R14844	GREEN REVLTN PHII FY'11	300,000	(183,990)	40,000	263,066	39,076
R14971	KOR SEWER PMP UPG FY2011	400,000	8,700	240,000	230,137	(1,163)
R1PE01	TWN INFRA PROJ. EVAL FY11	19,000	(3,300)	10,000	13,300	-
	SUB TOTAL	10,000,000	(861,790)	5,202,000	6,311,946	248,156
STATE ECONOMIC STIMULUS PACKAGE 2012						
B20104	KOKS-NEKN RD PH II FY2012	500,000	-	325,000	118,049	(206,951)
B20105	AIM CONN. ROAD PHII 2012	150,000	-	50,000	55,646	5,646
B20202	RBT FISH FLTING CAGE 2012	60,000	-	6,000	-	(6,000)
B20203	AIRAI RD REHAB PH VI 2012	600,000	-	570,000	398,083	(171,917)
B20204	OMIKOLL WATER LINE 2012	50,000	-	10,000	502	(9,498)
B20205	NGRKIIL WTR DIST SYS 2012	300,000	-	170,000	161,932	(8,068)
B20305	ANGAUR BUCKHOE X2 FY2012	100,000	-	150,000	100,000	(50,000)
B20501	KAYANGEL SOLAR FY2012	100,000	-	30,000	56,160	26,160
B20601	NGERMID RD REHAB P11 2012	320,000	-	288,000	256,763	(31,237)
B20602	T-DOCK PHASE II 2012	320,000	-	320,000	263,439	(56,561)
B20603	IYEBUKEL ROAD REHAB 2012	400,000	-	220,000	176,791	(43,209)
B20604	NGERBECHED RD REHAB 2012	335,000	-	201,000	262,808	61,808
B20605	MALAKAL PRT RD REHAB 2012	120,000	-	60,000	83,835	23,835
B20606	YANOS MARKT ACCES RD 2012	55,000	-	40,000	31,542	(8,458)
B20607	DESEKEL RD. REHAB 2012	250,000	-	187,500	197,003	9,503
B20690	8 PPU/MALAKAL RD 2012	100,000	-	90,000	82,797	(7,203)
B20609	POST TO HEADSTART RD 2012	150,000	-	135,000	124,599	(10,401)
B20802	NGARAARD ROAD REHAB 2012	100,000	-	197,500	84,098	(113,402)
B20901	NGERCH WATER SYST 2012	350,000	-	200,000	198,999	(1,001)

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

OTHER COUNTRY GRANTS FUND

Schedule of Expenditures of Other Country Grants, Continued
Year Ended September 30, 2012

Cost Center	Grantor Account Title	Budget Authorizations	Receivable from Grantor (Deferred Revenue) at 10/1/11	Cash Receipts FY2012	Expenditures FY2012	Receivable from Grantor (Deferred Revenue) at 9/30/12
<u>STATE ECONOMIC STIMULUS PACKAGE 2012, CONTINUED</u>						
B21001	NGARDMAU ROAD P IV 2012	100,000	-	100,000	80,603	(19,397)
B21103	NGRML RD REHAB PH II 2012	400,000	-	300,000	333,754	33,754
B21401	NGIWAL ROAD REHAB 2012	100,000	-	100,000	81,948	(18,052)
B21502	PELELIU GRADERS X2 FY2012	100,000	-	50,000	100,000	50,000
E24871	PHS DORM PROJ. FY2012	700,000	-	210,000	205,686	(4,314)
R24821	PROJECT EVALUATOR FY2012	25,000	-	12,500	25,000	12,500
R24824	KOKSAI-NGCHSR RD PII FY12	3,500,000	-	2,000,000	2,112,953	112,953
R24830	ANIMAL PRODUCTION 2012	492,400	-	472,320	219,550	(252,770)
R24837	GROUPEL PROJECT FY2012	182,600	-	127,820	127,820	-
R24840	FISHING AGGR. DEVICE 2012	40,000	-	5,000	265	(4,735)
	SUB TOTAL	<u>10,000,000</u>	<u>-</u>	<u>6,627,640</u>	<u>5,940,625</u>	<u>(687,015)</u>
B24996	CERAMIC ARTS PROJ FY2012	86,805	-	86,805	86,805	-
J24826	KORDA UUEDEL BELAU	100,000	-	100,000	100,455	455
R24901	BUOY REHAB 2012	24,242	-	24,242	-	(24,242)
	SUB TOTAL	<u>211,047</u>	<u>-</u>	<u>211,047</u>	<u>187,260</u>	<u>(23,787)</u>
<u>ROC TAIWAN PROJECT CENTRAL ADMINISTRATIVE COST</u>						
R04999	ROC TWN ADMIN COST	668,957	(18,706)	291,012	178,519	(131,199)
R24999	AIRAI NGERIKIIL ROAD	-	-	-	51,930	51,930
	SUB TOTAL	<u>668,957</u>	<u>(18,706)</u>	<u>291,012</u>	<u>230,449</u>	<u>(79,269)</u>
	GRAND TOTAL	<u>\$ 116,988,180</u>	<u>\$ (1,269,838)</u>	<u>\$ 12,086,982</u>	<u>\$ 13,120,176</u>	<u>\$ (236,644)</u>

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REPUBLIC OF PALAU

OTHER GRANTS FUND

**Schedule of Expenditures of Other Grants
Year Ended September 30, 2012**

Grantor Account Title	Cost Center	Authorization	Receivable from Grantor (Deferred Revenue) at 10/01/11	Cash Receipts FY 2012	Expenditures FY 2012	Receivable from Grantor (Deferred Revenue) at 9/30/12
<u>UNFPA Grant</u>						
UNFPA FY 1996	H63920	57,889	1,058	-	-	1,058
GENDER FHSS FY'12 MOF	F2FHSS	13,435	-	13,435	-	(13,435)
GENDER FHSS FY'12	H2FHSS	31,565	-	31,565	26,177	(5,388)
RHCS FY'12	H2RHCS	102,889	-	15,000	10,895	(4,105)
Total UNFPA Grant		<u>205,778</u>	<u>1,058</u>	<u>60,000</u>	<u>37,072</u>	<u>(21,870)</u>
<u>UN Pop Education Program</u>						
UN Pop Education Program 1995	E53921	22,940	(1,188)	-	-	(1,188)
Population Education Grants 1996	E63921	27,295	(1,894)	-	-	(1,894)
Population Education Grants 1998	E83921	9,180	(7,239)	-	-	(7,239)
UNFPA - Census Relates 1996	S63921	16,000	(606)	-	-	(606)
Total UN Pop Education Program		<u>75,415</u>	<u>(10,927)</u>	<u>-</u>	<u>-</u>	<u>(10,927)</u>
<u>UNCCD Grant Committee</u>						
UNCCD 4th National Report	A03923	4,000	155	-	-	155
Solar Energy MGMT Demo	A83923	90,000	(5,000)	-	-	(5,000)
UNCCD Gran Committee	S03923	22,950	(4,851)	-	-	(4,851)
Total UNCCD Grant Committee		<u>116,950</u>	<u>(9,696)</u>	<u>-</u>	<u>-</u>	<u>(9,696)</u>
<u>UNESCO-PALAU PUBLIC LIBRARY</u>						
Unesco-Pal Public Library	E33924	15,000	(546)	-	-	(546)
<u>WHO APW HEALTH CAREER TRNG</u>						
WHO APW HLTH CAREER TRNG	H43927	32,250	(958)	-	-	(958)
WHO APW HLTH CAREER TRNG	H63927	15,200	(830)	-	-	(830)
WHO PHARMACY MIS	H0WHO1	6,790	189	-	554	743
WHO OTHERS	H0WHO2	10,000	(3,848)	15,050	-	(18,898)
PHARMACY TECH ONLINE TRNG	H0WHO3	14,929	3,325	8,929	5,776	172
CE RESIDENCY PROG FY10	H0WHO4	15,200	(8,000)	-	-	(8,000)
HRD PROGRAMS	H9WHO1	16,000	996	-	-	996
QA PROGRAMS	H9WHO2	9,000	125	-	-	125
BHCS STRATEGIC PLAN	H9WHO3	14,000	(342)	-	130	(212)
BPHS STRATEGIC PLAN	H9WHO4	24,000	(162)	-	(1,356)	(1,518)
TOBACCO	H9WHO5	3,000	-	-	-	-
WHO HEALTHY WORK PLACE	H9WHO6	27,000	(5)	-	-	(5)
WHO INJURY PREVENTION	H9WHO7	12,500	(1,320)	-	-	(1,320)
POLHN	H9WHO8	26,000	71	-	-	71
Gender Tobacco	H9WHO9	15,000	(1,700)	-	1,689	(11)
LF & NTD SUREVEY	H1WHO0	12,000	(12,000)	-	7,419	(4,581)
COLLEGE OF HEALTH	H1WHO1	40,200	(4,243)	34,600	26,818	(12,025)
STEPS TRAINING FY2011	H1WHO2	5,000	(2,500)	9,900	1,053	(11,347)
HLTH COMM TRAINING FY2011	H1WHO3	7,000	(3,816)	9,500	3,423	(9,893)
SCHL GARDENING PROG FY11	H1WHO4	20,000	(8,300)	19,900	-	(28,200)
WHO FELLOWSHIP PROG FY11	H1WHO5	45,000	(3,292)	9,800	36,196	23,104
MOH LIBRARY UPGRD POLN	H1WHO6	39,700	(1,899)	20,000	10,756	(11,143)
WHO TOBACCO	H1WHO7	34,400	4,454	29,400	20,619	(4,327)
CLIMATE CHANGE FY11	H1WHO8	5,000	(2,500)	-	1,050	(1,450)
PW NTAT'L STEPS SURVEY	H1WHO9	64,700	(23,500)	36,700	48,290	(11,910)
WHO IMMUNIZATION TRNG '12	H23927	15,300	-	15,300	-	(15,300)
MALE HEALTH WORKSHOP FY '12	H2WHO1	9,600	-	-	7,482	7,482
STAKEHOLDERS WHO TCTC FY '12	H2WHO2	9,900	-	-	8,910	8,910
WORLD DIABETES DAY FY '12	H2WHO3	9,500	-	-	6,443	6,443
2ND PNEC NCD PREVENTION & CONTROL	H2WHO4	9,900	-	-	8,201	8,201
ICS MEETING MOH F/UP FY '12	H2WHO5	9,800	-	-	6,954	6,954
NCP PREVENTION WORKSHOP MOE FY '12	H2WHO6	23,180	-	23,180	8,468	(14,712)
INT'L HEALTH LOGISTIC SUPP	H2WHO7	27,200	-	27,200	5,656	(21,544)
INT'L HEALTH STRATEGIC PLAN	H2WHO8	15,450	-	15,450	-	(15,450)
NCD WORKSHOP YOUTH CONF	H2WHO9	3,810	-	-	3,810	3,810
Total WHO APW Health Career Trng		<u>647,509</u>	<u>(70,055)</u>	<u>274,909</u>	<u>218,341</u>	<u>(126,623)</u>
<u>UNDP Public Sector Program</u>						
UNDP Public Sector Program	A73929	447,642	-	-	-	-
PAL Capacity Dev for NPP	F83929	45,000	25	-	-	25
UN DEVEL PROGRAMME (UNDP)	F53929	161,000	-	-	-	-
Total UNDP Public Sector Program		<u>653,642</u>	<u>25</u>	<u>-</u>	<u>-</u>	<u>25</u>

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REPUBLIC OF PALAU

OTHER GRANTS FUND

Schedule of Expenditures of Other Grants, Continued
Year Ended September 30, 2012

Grantor Account Title	Cost Center	Authorization	Receivable from Grantor (Deferred Revenue) at 10/01/11	Cash Receipts FY 2012	Expenditures FY 2012	Receivable from Grantor (Deferred Revenue) at 9/30/12
<u>Climate Change (UN) GET</u>						
National Biodiversity Plan	A23930	330,000	(11,870)	-	-	(11,870)
Climate Change Interim	A43930	15,000	(313)	-	-	(313)
2ND National Comm. UNFCCC	A63930	405,000	115,010	-	-	115,010
PAC ADAPT TO CLIMATE CHNG	A93930	741,000	75,024	107,969	115,040	82,095
PACC MOH - Implementing Partner	H13930	17,000	(17,000)	-	11,375	(5,625)
PACC BMR - Implementing Partner	M13930	11,000	(11,000)	-	6,292	(4,708)
PACC BOA - Implementing Partner	N13930	11,000	(11,000)	-	10,305	(695)
PACC Palaris - Implementing Partner	R13930	20,000	(20,000)	-	43,763	23,763
PACC EQPB PROJECT	R23930	5,472	-	-	5,472	5,472
Total Climate Change (UN) GET		1,555,472	118,851	107,969	192,247	203,129
<u>National Biosafety Framework</u>						
National Biosafety Framework	A23931	131,000	42,350	-	-	42,350
<u>GEF Operational Focal Point</u>						
GEF Operational Plan	A23932	33,000	2,070	-	-	2,070
<u>SPREP (International Water IWP)</u>						
Int'l Water of the Pac	A23933	97,875	(568)	-	-	(568)
Int'l Water of the Pacific FY04	F43933	310,900	3,700	-	-	3,700
Total SPREP (International Water IWP)		408,775	3,132	-	-	3,132
<u>UNDP (WSSD Grants)</u>						
UNDP (WSSD) Projects	A23934	5,965	(50)	-	-	(50)
CEDAW Translation	COUN01	4,000	-	-	-	-
Int'l Women's Day 2010	COUN02	2,000	-	-	-	-
17th Annual Women's Conference	COUN03	1,000	-	-	-	-
Total UNDP (WSSD Grants)		12,965	(50)	-	-	(50)
<u>SPREP</u>						
Ozone Depleting Substance	A33936	50,000	7,943	-	142	8,085
Ozone Depleting Substance	A73936	26,733	9,037	-	-	9,037
Ozone Depleting Substance	A03936	60,000	(30,315)	-	24,906	(5,409)
Ozone Depleting Substance	A13936	26,688	(18,843)	6,688	8,120	(17,411)
Total SPREP		163,421	(32,178)	6,688	33,168	(5,698)
<u>PADI Aware Foundation</u>						
Project Aware	A33937	1,500	21,284	-	-	21,284
<u>UN Pops Grants</u>						
U.N. Pops Grant	A33938	346,400	11,816	-	-	11,816
<u>UNDP (NCSA) Global Env. Mgmt.</u>						
UNDP (Global Env. Mgmt.)	A33939	25,000	24,838	-	-	24,838
<u>UNICEF</u>						
Justice Program	J33940	6,200	(345)	-	-	(345)
<u>PALAU NCSA</u>						
PALAU NCSA - TTP/03/G41	F43943	200,000	(29,792)	-	-	(29,792)
<u>Access to Benefit Sharing</u>						
Access to Benefit Sharing Program	F43945	31,343	(19)	-	-	(19)
<u>FOOD & AGRICULTURE</u>						
National Forest Policy	R53946	4,350	(833)	-	-	(833)
<u>REPORT ON BIODIVERSITY</u>						
NR4 GEF-CBD BTNA Phase II	A03947	15,000	13,091	-	9,727	22,818
3rd Report on Biodiversity	A63947	16,500	(199)	-	-	(199)
Total Report on Biodiversity		31,500	12,892	-	9,727	22,619
<u>8th OEK Orientation & WRKS</u>						
8th OEK Orientation & WRKS	K93948	22,000	(281)	-	-	(281)
Support to ROP Congress Projects	K13948	200,000	(173)	2,475	1,989	(659)
Total 8th OEK Orientation & WRKS		222,000	(454)	2,475	1,989	(940)

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REPUBLIC OF PALAU

OTHER GRANTS FUND

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Grantor Account Title	Cost Center	Authorization	Receivable from Grantor (Deferred Revenue) at 10/01/11	Cash Receipts FY 2012	Expenditures FY 2012	Receivable from Grantor (Deferred Revenue) at 9/30/12
<u>UNEP / FNR-RIO</u>						
FNR to Rio Convention	A03949	34,567	(8,225)	-	9,955	1,730
<u>SAICM - EQPB</u>						
QSP Trust Fund - SAICM	R93951	125,000	(47,980)	-	33,316	(14,664)
<u>PW Feasibility Study Energy</u>						
PW Feasibility Study	R83953	17,000	(378)	-	-	(378)
<u>2ND FRANCE-OCEANIA SUMMIT</u>						
2nd France-Oceania Summit	A63954	34,410	(1,307)	-	-	(1,307)
3RD FRANCE-OCEANIA SUMMI	P93954	22,904	-	-	-	-
HUMAN RIGHTS ACT FY '12	S23954	40,000	-	40,000	20,000	(20,000)
Total 2ND FRANCE-OCEANIA SUMMIT		97,314	(1,307)	40,000	20,000	(21,307)
<u>Watercourse Splash</u>						
Watercourse Splash	A23955	6,000	(104)	-	-	(104)
<u>Japan Grant (Horifuma Arima)</u>						
Japan Grant (Horifuma Arima)	A23956	70,809	5	-	-	5
Ngchesar Elementary School Renovation	E43956	54,895	(52)	-	-	(52)
Nippon Foundation Grant	R63956	25,493	(6,898)	-	-	(6,898)
Total Japan Grant (Horifuma Arima)		151,197	(6,945)	-	-	(6,945)
<u>SPREP Grants (Fruit Fly)</u>						
SPREP Grants (Fruit Fly)	R23957	4,495	(15)	-	-	(15)
<u>President (Korean Grant)</u>						
President (Korean Grant)	A23958	9,532	(509)	-	-	(509)
14th APPCED Conference	K03958	20,000	(69)	-	-	(69)
Palau Submarine Fiber Optic Cable Study	K13958	100,000	(24,961)	-	25,087	126
Total President (Korean Grant)		129,532	(25,539)	-	25,087	(452)
<u>Electronic Tech. Grants (Japan Grant)</u>						
Electronic Tech. Grants (Japan Grant)	A23959	500,000	(27,208)	-	-	(27,208)
<u>Canada Funds</u>						
Palau National Youth Policy	C43960	36,500	(1,088)	-	215	(873)
<u>Secretariat Pacific Comm</u>						
Secretariat Pacific Comm	R13961	6,000	2,837	-	-	2,837
<u>Vanuatu Grants</u>						
Vanuatu Grants (NEMO)	A13962	8,269	(863)	-	-	(863)
<u>SPF Org. Comm - China Grants</u>						
SPF Org. Comm - China Grants	A93963	231,000	(839)	-	-	(839)
<u>AUSAID Small Grants</u>						
SGS-Educational Video Equipments	H23964	23,750	-	23,750	-	(23,750)
<u>Info Dev. Planning (IBRD)</u>						
Info Dev. Implement (IBRD)	A93960	200,000	21,225	-	-	21,225
Info Dev. Planning (IBRD)	A93965	103,627	(21,380)	-	-	(21,380)
Total Info Dev. Planning (IBRD)		303,627	(155)	-	-	(155)
<u>Republic of China Grants</u>						
China Grants - Sport Comm	A83966	56,087	-	-	-	-
National Youth Policies Development	C43966	6,000	(2,296)	-	-	(2,296)
PM & SP Capacity Building	F63966	200,000	(134)	-	-	(134)
PM & SP Capacity Building	F73966	10,000	(10,000)	-	-	(10,000)
ROC-PAC Summit Security	J63966	30,000	(5,132)	-	-	(5,132)
Micronesia Chief Executive Summit	S13966	50,000	346	-	597	943
Total Republic of China Grants		352,087	(17,216)	-	597	(16,619)

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

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Schedule of Expenditures of Other Grants, Continued
Year Ended September 30, 2012

Grantor Account Title	Cost Center	Authorization	Receivable from Grantor (Deferred Revenue) at 10/01/11	Cash Receipts FY 2012	Expenditures FY 2012	Receivable from Grantor (Deferred Revenue) at 9/30/12
<u>Forum Secretariat Grants</u>						
Forum Sect. Drought Relief 1998	A83967	10,180	(2,156)	-	-	(2,156)
Forum Import Mang Wrkshp 2001	A13967	2,300	2,028	-	-	2,028
Chief Executive Summit	S13967	20,000	(126)	-	-	(126)
PIFS/SISDF-TNP Program fy2012	S2SIS1	3,451	-	3,451	3,451	-
Total Forum Secretariat Grants		35,931	(254)	3,451	3,451	(254)
<u>Computerization (State)</u>						
Computerization (State) 1998	S83968	10,000	(172)	-	-	(172)
<u>FFA - Grants (President's Office)</u>						
FAA - President's Office	A03969	19,941	(50)	-	-	(50)
FAA - President's Office	A13969	39,000	(70)	-	-	(70)
FAA - President's Office	A23969	61,195	(50)	-	-	(50)
FAA - President's Office	A33969	71,194	(1,474)	-	-	(1,474)
36TH PACIFIC ISLS FORUM	A53969	68,360	(47)	-	-	(47)
FAA - President's Office	A73969	86,100	(258)	-	-	(258)
FAA - President's Office	A83969	14,980	(14,980)	-	-	(14,980)
FAA - Conferences	A93969	4,975	(727)	-	-	(727)
PALM 2000 (Tokyo Japan)	S03969	16,656	(495)	-	-	(495)
TRAVEL - FOC/FORUM Meeting	P63969	65,000	(2,716)	-	-	(2,716)
Annual Meeting of IWC	P73969	18,600	(5,192)	-	-	(5,192)
Total FFA - Grants (President's Office)		466,001	(26,059)	-	-	(26,059)
<u>PMA Office Building/Infrastructure</u>						
PMA Office Building/Infrastructure 1995	A53970	39,994	(2,219)	-	-	(2,219)
PMA Observer & Monitoring 1996	A63970	66,790	(2,605)	-	-	(2,605)
SPREP (CBEMP) Palau EQPB 2000	R03970	8,895	(397)	-	-	(397)
Total PMA Office Building/Infrastructure		115,679	(5,221)	-	-	(5,221)
<u>Fisheries Forum Agency</u>						
FAA Recruit Qualiry Pers	A13971	30,000	(1,154)	-	-	(1,154)
TAIYO (TAOCH) CLEARING	B91401	25,000	25,000	-	-	25,000
Vessel Monitoring System	J13971	22,009	(131)	38,546	4,650	(34,027)
Marine Law Observer	J8FFA1	25,000	(2,765)	-	-	(2,765)
Palau PDF 15%	R03971	74,774	(45,717)	(22,009)	16,918	(6,790)
42nd PIF Leaders Meeting	R13971	63,842	(22,271)	-	19,172	(3,099)
Fisheries & Maritime Cons.	R23971	30,000	25	-	-	25
55th Tuna Conference	R43971	16,203	(190)	-	-	(190)
FFC59 MEETING IN MAJUORO	R53971	4,348	(27)	-	-	(27)
FFA-Palau PDF Fund- 15%	R83971	165,940	(71,282)	-	-	(71,282)
FFA Sonsorol Fishing Boat	S53971	114,975	(2,337)	-	-	(2,337)
Boundary Delimitation Pro	S73971	16,985	(362)	-	-	(362)
FFA (PDF Conference)	S83971	4,980	(1,159)	-	-	(1,159)
PI Forum Leaders Meeting	S8FFA1	100,000	(2,099)	-	-	(2,099)
Total Fisheries Forum Agency		694,056	(124,469)	16,537	40,740	(100,266)
<u>Foreign Grants State</u>						
Office Equip - Australia Grant	S50301	38,027	(1,639)	-	-	(1,639)
SPC Youth Skills Training	S53972	5,000	(2,706)	-	-	(2,706)
Total Foreign Grants State		43,027	(4,345)	-	-	(4,345)
<u>SPREP (Ngermeduu Conservation)</u>						
Marine Project / Area Project	B23972	13,252	(5,303)	-	-	(5,303)
Ngermeduu Conservation Area	R23972	27,500	(3,718)	-	-	(3,718)
Ngermeduu Conservation Area	R33972	30,000	(6,305)	-	-	(6,305)
FFA Ngarchelong Clam Project	S23972	20,000	25	-	-	25
Total SPREP (Ngermeduu Conservation)		90,752	(15,301)	-	-	(15,301)
<u>GIS/GPS Training (SPREP)</u>						
GIS/GPS Training	R23973	32,296	(12,641)	-	9,781	(2,860)
<u>Tax Equipment Furniture & Supplies</u>						
Tax Equipment Furniture & Supplies	A83973	25,000	(260)	-	-	(260)

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REPUBLIC OF PALAU

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Year Ended September 30, 2012

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<u>Palau Youth Empowerment Fund</u>						
Palau Youth Empowerment Fund 1998	C83974	53,551	(13,645)	-	872	(12,773)
PMA Port Samplers (SPC)	R63974	14,790	(392)	-	-	(392)
Total Palau Youth Empowerment Fund		<u>68,341</u>	<u>(14,037)</u>	<u>-</u>	<u>872</u>	<u>(13,165)</u>
<u>Australian Grants</u>						
Coral Reef Aware Program	A43975	2,000	(2,000)	-	-	(2,000)
Project 5/99	A93975	1,572	(19)	-	-	(19)
Equipment for Youth Program	C03975	1,984	(194)	-	-	(194)
MCCA-BPNA Palauan Language & CASP	C1ARC1	10,725	(14,250)	-	2,002	(12,248)
MCCA-BPNA Survey Analysis	C1ARC2	12,558	-	-	-	-
Pur Microfilm Read/Printer	C65001	8,600	(298)	-	-	(298)
Inventory Bar Code System	H43975	13,800	(4,143)	-	-	(4,143)
AUSAID	H73975	4,800	-	-	-	-
CAP BLDG HUMAN RIGHTS FY'12	P23975	20,000	-	20,000	-	(20,000)
Ramsar Wet'lds Cons Fund	S70201	6,796	(5,721)	-	-	(5,721)
Total Australian Grants		<u>82,835</u>	<u>(26,625)</u>	<u>20,000</u>	<u>2,002</u>	<u>(44,623)</u>
<u>Japan Rotary Club Donation</u>						
Japan Rotary Club Donation	R63976	24,725	(106)	-	-	(106)
Pal/Jpn Fisheries Conslt.	R13976	18,013	(1,208)	-	-	(1,208)
Total Rotary Club Donation		<u>42,738</u>	<u>(1,314)</u>	<u>-</u>	<u>-</u>	<u>(1,314)</u>
<u>FFA - Kayangel Fishing Project</u>						
FFA Grant Tatirou Group	S03977	50,000	(15)	-	-	(15)
FFA Sonsorol State Boat	S13977	100,000	(127)	-	-	(127)
Total Kayangel Fishing Project		<u>150,000</u>	<u>(142)</u>	<u>-</u>	<u>-</u>	<u>(142)</u>
<u>SPREP Grants</u>						
SPREP (Coral Reef Comm)1997	R73979	12,050	(287)	-	-	(287)
Pilot Project (Solid Waste)1999	R93979	39,998	(2)	-	-	(2)
CLEAN PACIFIC	R23979	2,000	-	2,000	25	(1,975)
Total SPREP Grants		<u>54,048</u>	<u>(289)</u>	<u>2,000</u>	<u>25</u>	<u>(2,264)</u>
<u>WildAid-Packard Foundation</u>						
WildAid-Packard Foundation	J33980	72,867	(3,254)	-	-	(3,254)
Packard EBM Project-EQPB	A63980	107,755	14,049	-	-	14,049
EQPB EBM Project Cycle II	A03980	85,012	(32,199)	-	38,947	6,748
Total WildAid-Packard Foundation		<u>265,634</u>	<u>(21,404)</u>	<u>-</u>	<u>38,947</u>	<u>17,543</u>
<u>Marine Res Conservation</u>						
Marine Res Conservation	R53980	38,900	(4,764)	-	-	(4,764)
<u>CDC & H V Hepatitis Survey</u>						
CDC & HIV Hepatitis Survey	H33981	5,472	(15)	-	-	(15)
<u>FHP Foundation Grant</u>						
FHP Foundation Grant	H63984	39,505	(2,840)	-	-	(2,840)
<u>RR & TC Pacific Basin Grant</u>						
RR & TC Pacific Basin Grant	H63985	54,000	9,900	-	-	9,900
RR & TC Pacific Basin Grant	H83985	22,000	(479)	-	-	(479)
SDSU Foundation	H93985	23,100	(178)	-	-	(178)
Total RR & TC Pacific Basin Grant		<u>99,100</u>	<u>9,243</u>	<u>-</u>	<u>-</u>	<u>9,243</u>
<u>Pacific Basin Development Council</u>						
Pacific Basin Development Council	A63986	4,800	(1,011)	-	-	(1,011)
<u>DNA Project (University of Utah)</u>						
Palau Youth Project 2007	H73987	22,000	(257)	-	-	(257)
Palau Youth Project	H83987	48,864	(74)	-	-	(74)
DNA Project (University of Utah)	H93987	16,700	(39)	-	-	(39)
Total DNA Project (University of Utah)		<u>87,564</u>	<u>(370)</u>	<u>-</u>	<u>-</u>	<u>(370)</u>

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<u>Christa M. Fellowship Program</u>						
Christa M. Fellowship Program 1997	E73990	20,558	(4,719)	-	-	(4,719)
Christa M. Fellowship Program 1998	E83990	10,279	(79)	-	-	(79)
Christa M. Fellowship Program 1999	E93990	10,279	(279)	-	-	(279)
Christa M. Fellowship Program 2000	E03990	10,279	(4,405)	-	-	(4,405)
Christa M. Fellowship Program 2002	E23990	10,003	(4,933)	-	-	(4,933)
Total Christa M. Fellowship Program		61,398	(14,415)	-	-	(14,415)
<u>MOH SMALL GRANTS - OTHERS</u>						
MOH SEOW FY2011	H13991	100,000	(44,689)	50,000	25,490	(69,199)
MOH SEOW FY2012	H23991	37,500	-	37,500	-	(37,500)
Total MOH SMALL GRANTS - OTHERS		137,500	(44,689)	87,500	25,490	(106,699)
<u>LSTA State Grants</u>						
LSTA State Grants	E13992	40,377	(801)	-	35,735	34,934
LSTA State Grants	E03992	63,473	-	63,473	63,473	-
LSTA State Grants FY07	E73992	54,349	41,115	-	-	41,115
LSTA State Grants	E93992	44,274	(1,035)	-	-	(1,035)
LSTA State Grant 2009	E93992	41,983	(40,011)	-	-	(40,011)
Total LSTA State Grants		244,456	(732)	63,473	99,208	35,003
<u>Genetic Study (MOH)</u>						
Genetic Study	H13993	405,000	(593)	-	-	(593)
<u>Palau Public Library Grants</u>						
Palau Public Library Grant	E23994	39,630	(13,433)	-	-	(13,433)
<u>Census (Rare Ctr Trop Con)</u>						
Census	A33995	25,000	(92)	-	-	(92)
<u>Protected Areas Network</u>						
TNC MOU Assist to PAN	A83997	6,000	(57)	-	-	(57)
Protected Areas Network	R43997	39,700	(535)	-	-	(535)
Total Protected Areas Network		45,700	(592)	-	-	(592)
<u>National Assessment Report-BPOA</u>						
National Assessment Report	R48920	5,000	(2,102)	-	-	(2,102)
<u>ROP DONATIONS/RELIEF FUND</u>						
DONATIONS / RELIEF FUNDS	S28921	1,500	-	1,500	1,834	334
<u>UNDP (SEDREA) ENERGY</u>						
UNDP (SEDREA) ENERGY	A58922	25,000	-	-	-	-
Renewable Energy (SEDREA)	P98922	51,870	1,472	21,974	20,020	(482)
Total UNDP (SEDREA) ENERGY		76,870	1,472	21,974	20,020	(482)
<u>UN CEDAW</u>						
CEDAW CONSULTATION	S18924	1,741	-	2,741	1,740	(1,001)
CEDAW LEGISLATIVE REVIEW	S28924	11,095	-	11,095	11,060	(35)
Total UN CEDAW		12,836	-	13,836	12,800	(1,036)
<u>EQPB OTHER GRANTS</u>						
EQPB other grants	R28925	2,000	-	2,000	2,000	-
<u>UNEP GRANTS</u>						
NBSAP/ 5TH CBD RPT	R28926	50,000	-	50,000	-	(50,000)
<u>UOG GRANTS</u>						
MECHESIL BELAU PROJECT 2012	C28950	20,000	-	20,000	19,733	(267)
SBDC-UOG SBJA Service Contract	P18950	16,000	-	2,000	11,600	9,600
SBDC- UOG PISBDCN 2012	P28950	30,000	-	5,199	13,484	8,285
Total UOG GRANTS		66,000	-	27,199	44,817	17,618
<u>UNDP/UNCCD/GEF</u>						
UNDP (SEDREA) Energy	A68923	12,000	(113)	-	-	(113)
<u>SPAIN GRANTS</u>						
Pacific Educatin Development Framework	E18960	42,980	43,031	41,355	-	1,676

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Year Ended September 30, 2012

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<u>10th International Coral Reef Sympo</u>						
International Coral Reef Sympo	F48961	1,400	1,400	-	-	1,400
<u>Giant Clam Farming Project</u>						
Giant Clam Farming Project	T88962	14,967	(1,636)	-	-	(1,636)
Giant Clam Farming Project	T48962	15,000	(589)	-	500	(89)
Total Giant Clam Farming Project		29,967	(2,225)	-	500	(1,725)
<u>TUNA DATA COORDINATOR</u>						
Tuna DATA Entry Technician	R88963	8,756	(12)	-	-	(12)
Tuan Data Coordinator	R68963	23,150	(7)	-	-	(7)
Total TUNA DATA COORDINATOR		31,906	(19)	-	-	(19)
<u>HOUSEHOLD INCOME/EXP SURVEY</u>						
Household Income/Expenditures Survey	F68964	26,684	(8)	-	-	(8)
<u>Fisheries Forum Association</u>						
Hosting Consultants Negotiations	S5FFA1	7,081	(4,088)	-	-	(4,088)
Foreign Dignitary Housing	S4FFA1	51,310	(2,645)	-	-	(2,645)
Total Fisheries Forum Association		58,391	(6,733)	-	-	(6,733)
<u>Korean Grants</u>						
Bur.of INT'L EXPO	S88967	7,085	18	-	-	18
<u>HOSPITAL EQUIP - INDIA GRT</u>						
HOSPITAL EQUIP - INDIA GRT	H58968	149,841	(90)	-	-	(90)
Ministry of State Equipments	S08968	100,000	(29,673)	-	25,037	(4,636)
Submarine Cable Feasability	S18968	100,000	(18,142)	-	15,137	(3,005)
Total HOSPITAL EQUIP - INDIA GRT		349,841	(47,905)	-	40,174	(7,731)
<u>PALAU DIGITAL ARCHIVING</u>						
DIGITAL ARCHIVING	S58969	240,000	(426)	-	-	(426)
<u>DRUG DETECTOR DOG UNIT</u>						
DRUG DETECTOR DOG UNIT	F58970	175,000	(71)	-	-	(71)
<u>INDEPENDENCE DAY (ROC)</u>						
12th Independence Day	P6ROC1	100,000	(1,940)	-	-	(1,940)
President's Expenses	P6ROC2	200,000	(1,735)	-	-	(1,735)
13th Independence Day	P7ROC1	50,000	(2,480)	-	-	(2,480)
Total Independence Day (ROC)		350,000	(6,155)	-	-	(6,155)
<u>CZECH REPUBLIC GRANT</u>						
Czech Dentist Dr. Palek	H78973	23,953	4,211	-	-	4,211
Dental Health Care - CZK	H98973	13,379	191	-	-	191
Total CZECH Republic Grant		37,332	4,402	-	-	4,402
<u>HUMANITARIAN ASSISTANCE TO PSB</u>						
Humanitarian Assistance to PSB	F18974	-	121,364	500,000	493,802	115,166
Humanitarian Assistance to PSB	F78974	3,355,000	(51,616)	-	-	(51,616)
Total Humanitarian Assistance to PSB		3,355,000	69,748	500,000	493,802	63,550
<u>IWRM Project (SOPAC)</u>						
IWRM Project (SOPAC)	A78975	31,300	2,139	-	6,473	8,612
SOPAC-Ngerikiil Watershed	A98975	408,385	(191,214)	-	129,250	(61,964)
IWRM BOA	M98975	10,000	(2,607)	38,000	1,893	(38,714)
Water Policy Activities	P18975	42,900	(22,817)	-	30,571	7,754
IWRM Palaris	R98975	30,000	(24,572)	-	15,370	(9,202)
IWRM EQPB LAB	R28975	-	-	23,500	-	(23,500)
Total IWRM Project (SOPAC)		522,585	(239,071)	61,500	183,557	(117,014)
<u>PROTECT MARINE BIODIVERSITY</u>						
Protect Marine Biodiversity	A78976	43,000	(3,156)	-	-	(3,156)

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<u>PRIDE GRANTS</u>						
Curriculum Frameworks	E7PR11	150,000	(1,053)	-	-	(1,053)
Palau Achievement Tests	E7PR12	150,000	2	-	-	2
Palauan Textbook	E7PR13	88,899	(3)	-	-	(3)
MOE School Handbook	E8PR11	43,000	(2)	-	-	(2)
Total PRIDE GRANTS		431,899	(1,056)	-	-	(1,056)
<u>MICRONESIAN CHALLENGE DONATION</u>						
Micronesia Challenge Donation TRKY	A78978	75,000	(5,087)	-	1,765	(3,322)
Micronesia Challenge Donation Guam	A8GUM1	7,500	7,500	-	-	7,500
Micronesia Challenge Donation PAN	A9TNC1	50,000	(22,033)	-	27,625	5,592
MCT/PAN SUPPORT FY '12	R2PAN1	4,500	-	5,000	4,432	(568)
Total Micronesia Challenge Donation		137,000	(19,620)	5,000	33,822	9,202
<u>ENERGY SECT IN 5 ACP ISLS</u>						
Energy Sect in 5 ACP Isls	F88979	287,650	2,794	-	300	3,094
PAL renewable energy NPE2	F8PE02	430,170	(65,387)	-	-	(65,387)
Tech. Coop. Facility	F0TFC1	147,000	26,867	-	-	26,867
TECH COOP FACILITY (2)	F2TCF2	-	-	-	4,857	4,857
Total Energy Sect in 5 ACP Isls		864,820	(35,726)	-	5,157	(30,569)
<u>NEMO PEACESAT ASSISTANCE</u>						
Nemo PEACESAT Assistance	J68980	1,938	(217)	-	-	(217)
<u>NATIONAL FISH & WILDLIFE FOUNDATION</u>						
Coral Reef Conservation	J68981	41,152	11,630	-	-	11,630
<u>Sustainable Land MGMT</u>						
Sustainable Land MGMT	A88983	475,000	12,297	57,389	56,039	10,947
<u>Taiwan (ROC) Grants</u>						
One Light Project	A18984	100,000	-	-	-	-
Energy Support ASST-OPER	A88984	1,669,000	(231,000)	-	-	(231,000)
UN 64TH GEN ASSEMBLY	A98984	50,000	-	-	-	-
Purchase X-Ray Machines	H08984	150,000	(37,183)	-	37,488	305
66th UN General Assembly	P18984	25,000	(2,815)	-	2,354	(461)
TAIWAN/PALAU UN TRAINING	S98984	30,000	820	-	-	820
Total Taiwan (ROC) Grants		2,024,000	(270,178)	-	39,842	(230,336)
<u>Turkey Grants</u>						
Continental Shelf - Ext	R98986	150,000	(17,981)	-	15,552	(2,429)
Peleliu Multipurpose Gymnasium	S98686	150,000	-	-	-	-
Total Turkey Grants		300,000	(17,981)	-	15,552	(2,429)
<u>STATISTICS</u>						
Socio Economic Assessment	H18987	35,000	27,775	-	6,104	33,879
<u>Continental Shelf 09-00180</u>						
Continental Shelf	R98988	154,765	(78,076)	-	-	(78,076)
<u>Palau Conservation Society Grants</u>						
Capacity Enhancement	R08989	3,250	(3,250)	-	-	(3,250)
Capacity Enhancement	R18989	20,000	(20,000)	-	-	(20,000)
Total Palau Conservation Society Grants		23,250	(23,250)	-	-	(23,250)
<u>PICRC Assistance</u>						
Database Design	R08990	10,000	(1,606)	-	-	(1,606)
<u>UN Grants</u>						
Biodiversity Cons Program	9935-PR0001	111,449	(655)	-	-	(655)
PALAU BSNR2 2011	A19935	15,000	-	-	5,000	5,000
Total UN Grants		126,449	(655)	-	5,000	4,345
Total Other Grants		\$ 20,446,571	\$ (963,016)	\$ 1,490,505	\$ 1,763,250	\$ (690,271)

See Accompanying Independent Auditors' Report.