

**REPUBLIC OF PALAU**

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

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**YEAR ENDED SEPTEMBER 30, 2013**

**REPUBLIC OF PALAU**

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

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**YEAR ENDED SEPTEMBER 30, 2013**

**REPUBLIC OF PALAU**  
**FINANCIAL STATEMENTS**  
**YEAR ENDED SEPTEMBER 30, 2013**

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**REPUBLIC OF PALAU**  
**FINANCIAL STATEMENTS**  
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## **INDEPENDENT AUDITORS' REPORT**

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

### **Report on the Financial Statements**

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, 2013, and the related notes to the financial statements, which collectively comprise the Republic's basic financial statements as set forth in Section III of the foregoing table of contents.

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

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

### ***Auditors' Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the National Development Bank of Palau, the Palau Community College, the Palau National Communications Corporation, and the Palau District Housing Authority, which represent 50%, 31%, and 40%, respectively, of the assets, net position and operating revenues of the Republic's discretely presented component units. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the National Development Bank of Palau, 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 from material misstatement.

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

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

## ***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, 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

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

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 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.

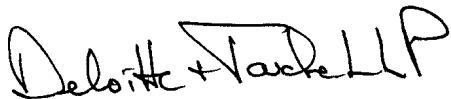
### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Republic's basic financial statements. The Other Supplementary Information, as set forth in Section V of the foregoing table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Other Supplementary Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated July 31, 2014, on our consideration of the Republic's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Republic's internal control over financial reporting and compliance.



July 31, 2014

## REPUBLIC OF PALAU

### Management's Discussion and Analysis Year Ended September 30, 2013

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, 2013. We encourage readers to consider the information presented here in conjunction with the Republic's basic financial statements, which follow this section. Fiscal year 2012 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 \$346.6 million (net position), decreased by \$12.0 million (or -3%) from net position of \$358.6 million in the prior year. Of this amount, \$170.3 million represents the Republic's investment in capital assets; \$189.8 million represents amounts restricted for various purposes, with the remaining deficiency of \$13.5 million to be funded from future governmental activities.
- During the current fiscal year, the Republic's expenses for governmental activities were \$115.4 million and were funded in part by \$41.1 million in program revenues and \$51.4 million in taxes and other general revenues. General revenues increased by \$3.1 million (or 6%) from \$48.3 million in the prior year to \$51.4 million, which was attributable primarily to the increase in tax and unrestricted grant revenues of \$1.0 and \$2.0 million, respectively. Expenses decreased marginally by \$2.2 million (or 1.8%) from \$117.6 million in the prior year to \$115.4 million, which was attributable primarily to the increase in general government expenses offset by the decrease in transportation and commerce expenses.
- The Compact Section 211(f) Trust Fund generated net revenues of \$22.8 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 \$189.6 million from \$171.8 million in the prior year (up 10.4%).
- For the current fiscal year, the General fund revenues (and other financing sources) of \$70.9 million fell below general fund expenditures (and other financing uses) of \$71.2 million. General fund revenues (and other financing sources) were down \$3.5 million (or 4.7%) from prior year primarily due to loan proceeds received in 2012 offset by an increase in general revenues in 2013. Concurrently, General Fund appropriations (and other financing uses) were up \$7.5 million (or 11.7%) from prior year primarily due to super typhoon Bopha expenditures.
- On July 1, 2013, the Division of Utilities (water and wastewater operation) of the Republic was transferred to the Palau Public Utilities Corporation. The Republic transferred related infrastructure assets of \$13 million to the corporation contributing to the overall decrease in the total net position.

#### 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 other supplemental information.

## REPUBLIC OF PALAU

### Management's Discussion and Analysis Year Ended September 30, 2013

#### **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 position presents information on all of the Republic's assets and liabilities, with the difference between the two reported as net position. 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 position and how such has changed. Net position, 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 position is 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.

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.



## **REPUBLIC OF PALAU**

### **Management's Discussion and Analysis Year Ended September 30, 2013**

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 position and a statement of change in fiduciary net position.

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.

#### **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.

### **A FINANCIAL ANALYSIS OF THE REPUBLIC AS A WHOLE**

#### **Net Position**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Republic, assets exceeded liabilities by \$346.6 million at the close of the most recent fiscal year. However, all net position is either restricted as to the purpose that such can be used for or is 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 position is 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 \$20.8 million while its current liabilities were \$25.7 million. Restricted net position represents resources that are subject to external constraints. The table below summarizes the Republic's net position at the close of the current year compared with prior year.

## REPUBLIC OF PALAU

### Management's Discussion and Analysis Year Ended September 30, 2013

#### Net Position As of September 30

	Governmental Activities <u>2013</u>	Governmental Activities <u>2012</u>	Total Percentage Change <u>2013-2012</u>
Current and other assets	\$ 214,841,162	\$ 201,641,918	6.5%
Capital assets	<u>183,591,953</u>	<u>214,928,104</u>	-14.6%
Total assets	<u>398,433,115</u>	<u>416,570,022</u>	-4.4%
Long-term debt outstanding	23,129,883	24,729,881	-6.5%
Other liabilities	<u>28,703,092</u>	<u>33,194,947</u>	-13.5%
Total liabilities	<u>51,832,975</u>	<u>57,924,828</u>	-10.5%
Net position:			
Net investment in capital assets	170,335,800	200,070,957	-14.9%
Restricted	189,833,897	172,093,832	10.3%
Unrestricted	<u>(13,569,557)</u>	<u>(13,519,595)</u>	0.4%
Total net position	\$ <u>346,600,140</u>	\$ <u>358,645,194</u>	-3.4%

At the end of the current fiscal year, the Republic's unrestricted net position deficiency was \$13.5 million, an increase on the prior year amount by \$0.05 million (or 0.4%). 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.

#### Changes in Net Position

As noted earlier, net position of the primary government decreased by \$12 million, representing a decrease of 3.4% from the prior year's amount of \$358.6 million. This result indicates that the Republic's financial condition, as a whole, did not improve from the prior year. The table below summarizes the Republic's change in net position for the current fiscal year as compared with prior year.

#### Changes in Net Position For the Years Ended September 30

	Governmental Activities <u>2013</u>	Governmental Activities <u>2012</u>	Total Percentage Change <u>2013-2012</u>
Revenues:			
Program revenues:			
Charges for services	\$ 13,662,034	\$ 11,717,802	16.6%
Other general revenues	23,780,100	32,043,549	-25.8%
Capital grants and contributions	<u>3,620,780</u>	<u>-</u>	100.00%
	<u>41,062,914</u>	<u>43,761,351</u>	-6.2%

## REPUBLIC OF PALAU

### Management's Discussion and Analysis Year Ended September 30, 2013

	Governmental Activities <u>2013</u>	Governmental Activities <u>2012</u>	Total Percentage Change <u>2013-2012</u>
General revenues:			
Taxes	36,783,530	35,797,619	2.8%
Other general revenues	<u>14,642,429</u>	<u>12,542,832</u>	16.7%
	<u>51,425,959</u>	<u>48,340,451</u>	6.4%
Total revenues	<u>92,488,873</u>	<u>92,101,802</u>	0.4%
Expenses:			
General government	28,205,671	21,535,629	31%
Education	14,556,632	15,933,447	-8.6%
Health and welfare	18,611,703	17,091,111	8.9%
Public safety	5,403,569	3,733,438	44.7%
Cultural affairs and recreation	3,065,046	6,054,443	-49.4%
Transportation and commerce	38,823,765	46,701,730	-16.9%
State government appropriations	5,362,553	4,735,883	13.2%
Depreciation – unallocated	865,241	1,185,241	-27.0%
Interest	<u>575,675</u>	<u>601,030</u>	-4.2%
Total expenses	<u>115,469,855</u>	<u>117,571,952</u>	-1.8%
Special item	(12,975,020)	-	100.0%
Contributions to permanent funds	<u>23,910,948</u>	<u>31,507,618</u>	-24.1%
Change in net position	(12,045,054)	6,037,468	-299.5%
Net position, beginning of year	<u>358,645,194</u>	<u>352,607,726</u>	1.7%
Net position, end of year	\$ <u>346,600,140</u>	\$ <u>358,645,194</u>	-3.4%

Key elements of the decrease in net position are as follows:

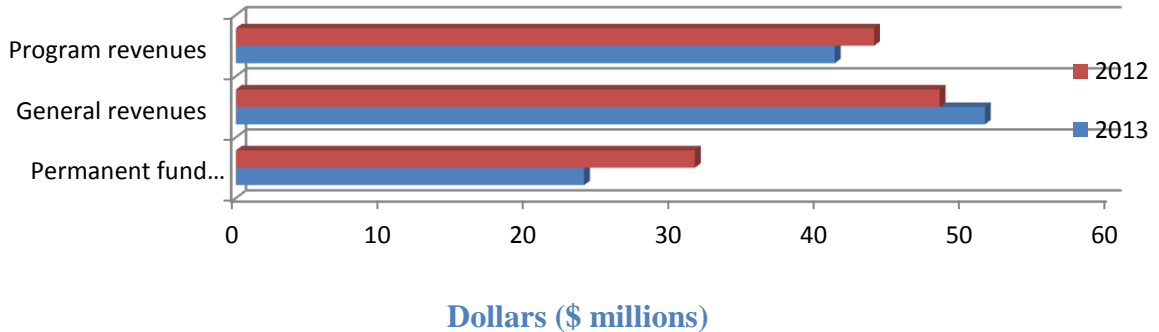
- The Compact Section 211(f) Trust Fund contributions of \$23.9 million decreased by \$7.6 million (or 24%) from prior fiscal year when the trust fund earnings contributed \$31.5 million. Overall revenues increased marginally in the current year by \$0.4 million (or 0.4%) with overall expenses decreasing in the current year by \$2.2 million (or 1.8%). In addition, the Republic recorded a special item of \$13 million relating to the transfer of infrastructure assets to the Palau Public Utilities Corporation.

# REPUBLIC OF PALAU

## Management's Discussion and Analysis Year Ended September 30, 2013

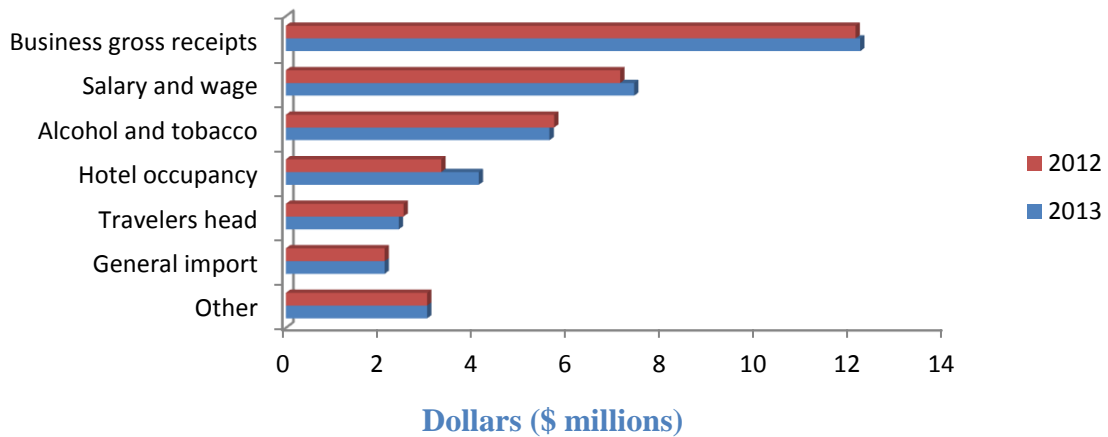
A graphic summary of program revenues, general revenues and permanent fund contributions received by the Republic for the current year compared with prior year follows:

Graph 1  
Revenues  
For the Years Ended September 30



A significant portion of the Republic's general revenues involves tax revenue collections. At \$36.8 million in the current year, tax revenues were slightly higher than the \$35.8 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

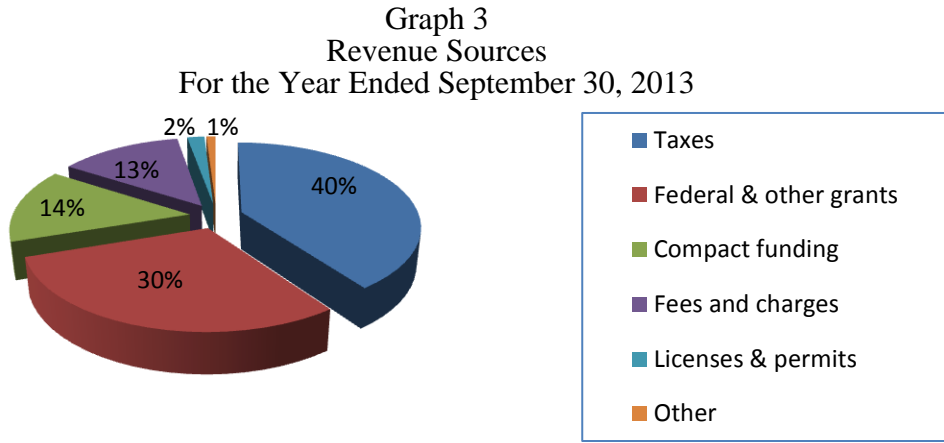


- Cost of governmental activities decreased in the current year by \$2.2 million (down 1.8%) compared with prior year. Education and health related expenses comprised of \$33.2 million (or 29%) of total expenses in the current year as compared with \$33 million (or 28%) in the prior year, which reflects the Republic's continued priorities in terms of annual appropriations.

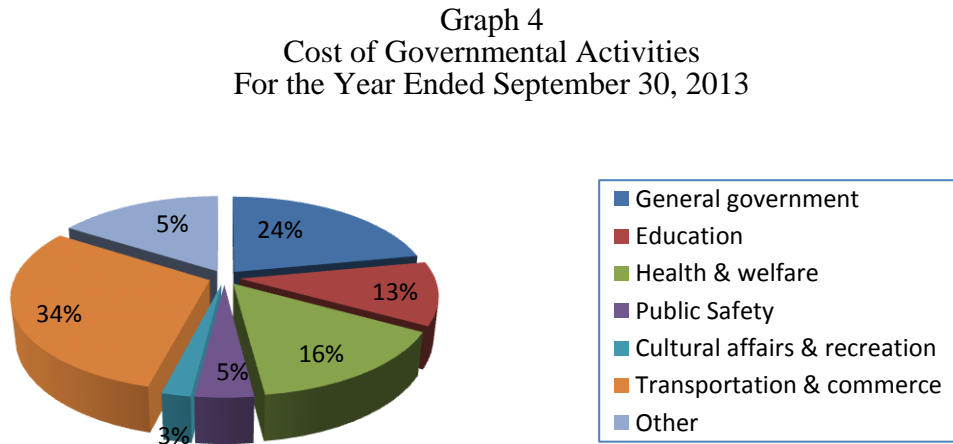
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Management's Discussion and Analysis  
Year Ended September 30, 2013

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



Compact funding, local taxes and federal and other grants are the major sources of revenue for the Republic, which comprise 87% of the total revenues for the current year. The remaining 13% is primarily comprised of various fees and service charges.



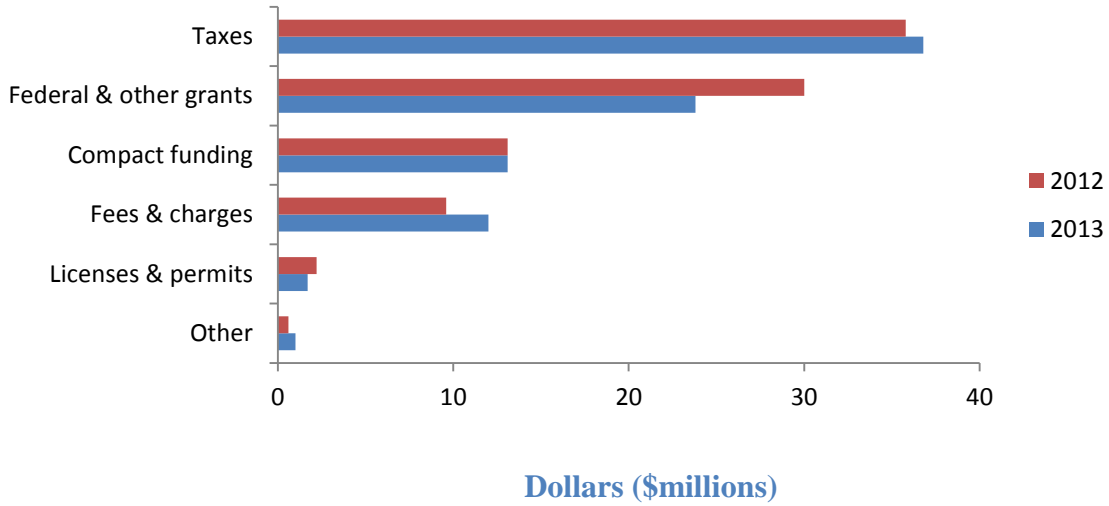
Other expenses that make up a portion of the costs of governmental activities include State government appropriations (\$5.4 million), unallocated depreciation expense (\$0.9 million), and interest expense (\$0.6 million).

Graphs 5 and 6 below show a comparison of the major components of revenues and cost of governmental activities for fiscal years 2013 and 2012.

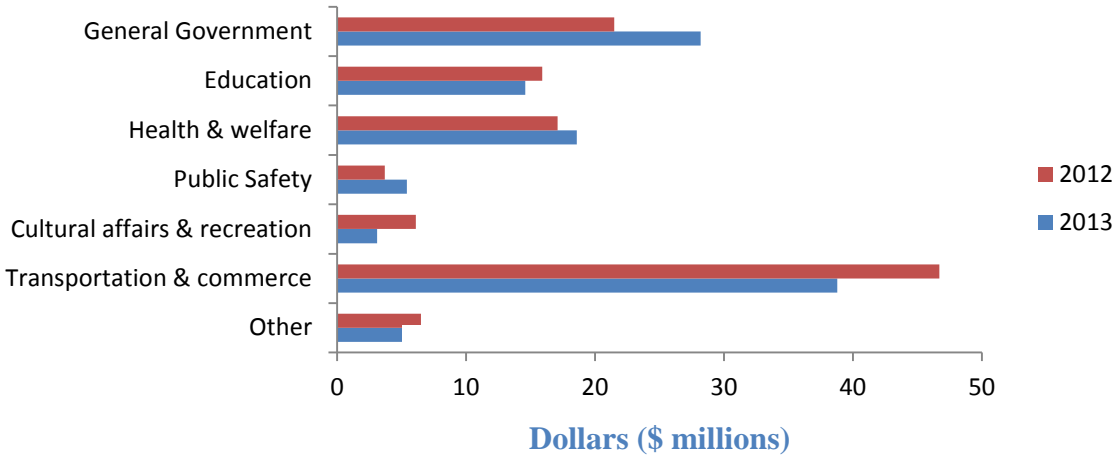
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Management's Discussion and Analysis  
Year Ended September 30, 2013

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 State government appropriations of \$5.4 million, increased by \$0.6 million from 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, 2013

#### Analysis of Changes in Net Position

During the current fiscal year, the Republic's total net position decreased by \$12 million compared with an increase in the prior fiscal year of \$6 million. The key element of this decrease is the special item associated with the transfer of infrastructure assets to the Palau Public Utilities Corporation of \$13 million, and of Compact Section 211(f) Trust Fund contributions of \$23.9 million in the current fiscal year, down by \$7.6 million in the prior fiscal year when the trust fund earnings contributed \$31.5 million. The elements of these changes are reflected below:

	Governmental Activities <u>2013</u>	Governmental Activities <u>2012</u>	Total Percentage Change <u>2013-2012</u>
General revenues:			
Taxes	\$ 36,783,530	\$ 35,797,619	2.8%
Other general revenues	<u>14,642,429</u>	<u>12,542,832</u>	16.7%
Total general revenues	<u>51,425,959</u>	<u>48,340,451</u>	6.4%
Expenses, net of program revenues:			
General government	19,618,616	12,844,527	52.7%
Education	10,751,844	9,630,614	11.6%
Health and welfare	10,331,194	9,251,456	11.7%
Public Safety	5,206,778	3,542,525	47.0%
Cultural affairs and recreation	(355,112)	3,901,356	-109.1%
Transportation and commerce	22,295,445	28,117,969	-20.7%
State government appropriations	5,117,260	4,735,883	8.1%
Depreciation – unallocated	865,241	1,185,241	-27.0%
Interest	<u>575,675</u>	<u>601,030</u>	-4.2%
Total expenses, net	<u>74,406,941</u>	<u>73,810,601</u>	18.4%
Special item	(12,975,020)	-	100.0%
Contributions to permanent fund	<u>23,910,948</u>	<u>31,507,618</u>	-24.1%
Change in net position	\$ <u>(12,045,054)</u>	\$ <u>6,037,468</u>	-299.5%

General revenues increased by \$3.1 million (or 6.4%) from the previous fiscal year. The increase was primarily due to increases in other general revenues of \$ 2.1 million (or 16.7%) compared with prior year, and tax revenues of \$ 1.0 million (or 2.8%) compared with prior year.

#### 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.

## REPUBLIC OF PALAU

### Management's Discussion and Analysis Year Ended September 30, 2013

#### **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 \$193.0 million, which represents an increase of \$17.5 million (or 10.0%) in comparison with the prior year. This increase is primarily attributable to Trust Fund earnings contribution. Of this total combined fund balance, \$193.1 million is designated as non spendable and cannot be spent either because it is not in a spendable form or because of legal or contractual constraints; \$4.6 million is designated as restricted and is constrained for specific purposes which are externally imposed; and \$0.2 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 \$4.9 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 \$3.8 million. Total fund balance was \$0.1 million compared with a total fund balance of \$0.4 million at the end of the prior fiscal year.

The Grants Fund has a total fund balance of \$0.01 million, which primarily represents other grants revenues received not yet expended at year end. The net decrease in fund balance during the current year in the Grants Fund was \$0.01 million (or 5.5%).

The Compact Section 211(f) Trust Fund has a total fund balance of \$189.6 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 \$17.9 million (or 10.4%), which reflects a transfer of \$5 million to the Republic's General Fund and a net increase in the value of trust fund investments of \$18.1 million.

#### **GENERAL FUND BUDGETARY HIGHLIGHTS**

During the course of the fiscal year, budget revisions of \$2.1 million were made by management and elected officials of the Republic to the General Fund budget. Revenues collected (including other financing sources) of \$66.3 million were lower than budgeted amounts of \$69.6 million due primarily to a decrease in local revenue collections, which fell short of budgeted amounts by \$3.6 million. In addition, charges to appropriations (including other financing uses) of \$67.8 million were lower than budgeted amounts of \$70.2 million due primarily to expenditures associated with the executive branch and debt service of \$57.3 million and \$2.2 million, respectively, which were lower than budgeted amounts of \$60 million and \$2.4 million, respectively.

#### **CAPITAL ASSET AND DEBT ADMINISTRATION**

##### **Capital Assets**

The Republic's investment in capital assets for its governmental activities as of September 30, 2013 amounted to \$407.4 million (including \$18.3 million of land and construction in progress), net of accumulated depreciation of \$223.8 million, leaving a net book value of \$183.6 million. This represents a decrease of \$31.3 million from the amount of \$214.9 million reported in the prior year. The Republic's capital assets include machinery and equipment, vehicles, infrastructure, roads, bridges, buildings, land and various projects under construction.



**REPUBLIC OF PALAU**

Management's Discussion and Analysis  
Year Ended September 30, 2013

Capital Assets  
September 30,  
(Net of depreciation)

	Governmental Activities <u>2013</u>	Governmental Activities <u>2012</u>	Total Percentage Change <u>2013-2012</u>
Buildings and other improvements	\$ 82,833,103	\$ 87,992,217	-5.9%
Machinery and equipment	1,763,018	5,073,435	-65.3%
Vehicles	1,311,306	1,394,710	-6.0%
Infrastructure	79,395,095	98,455,024	-19.4%
Land	3,899,403	3,850,294	1.3%
Construction in progress	<u>14,390,028</u>	<u>18,162,424</u>	-20.8%
Total	\$ <u>183,591,953</u>	\$ <u>214,928,104</u>	-14.6%

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>
One light project	\$ 0.20	\$ 0.2
PIA Master Plan	\$ 0.01	\$ 0.8
PHS Dorm Project	\$ 0.50	\$ 0.7
Various Road Rehabilitation Projects	\$ 2.80	\$ 12.3

- Acquisition of the following machinery and equipment:

<u>Machinery &amp; Equipment</u>	<u>Current Year Additions (\$ millions)</u>
BP 16CT	\$ 0.1

- Ongoing construction in progress of the following infrastructure projects:

<u>Infrastructure Project</u>	<u>Current Year Additions (\$ millions)</u>	<u>Completed Cost (\$ millions)</u>
PIA Secondary Apron Phase II, IA	\$ 2.6	\$ 9.8
Two 162-tons chillers	\$ 0.3	\$ 0.3
Feed Batch Equipment	\$ 0.3	\$ 0.3
Melekeok Sewer Pump Improvement	\$ 0.3	\$ 0.3

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

## REPUBLIC OF PALAU

### Management's Discussion and Analysis Year Ended September 30, 2013

#### 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 decreased by \$1.6 million (or 6.5%) in the current fiscal year.

#### Outstanding Long-term Debt September 30

	Governmental Activities <u>2013</u>	Governmental Activities <u>2012</u>	Total Percentage Change <u>2013-2012</u>
Republic of Palau Capitol Building	\$ 7,999,991	\$ 9,142,849	-12.5%
Palau International Airport Repaving	5,257,158	5,714,298	-8.0%
Water Sector Improvement (Loan #2691)	6,400,000	6,400,000	0.0%
Water Sector Improvement (Loan # 2692)	<u>3,472,734</u>	<u>3,472,734</u>	0.0%
Total	\$ <u>23,129,883</u>	\$ <u>24,729,881</u>	6.5%

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

#### ECONOMIC FACTORS AND NEXT YEAR'S BUDGET (FY2013)

In Fiscal Year 2013, actual tax revenues collected was \$36.8 million, an increase of 2.8% from the \$35.8 million collected in Fiscal Year 2012. The increase in collection of \$1 million was primarily due to increase in hotel occupancy tax. Collection from hotel occupancy tax was \$4.1 million, a 24% increase from the \$3.3 million collected in Fiscal Year 2012. Traveler's head tax collections saw a slight decrease from \$2.5 million in Fiscal Year 2012 to \$2.4 million or 6.4% decrease in Fiscal Year 2013. This was mainly due to the cessation of some flights from Asia, the recent increase in tourism-related fees, and the U.S. dollar appreciation. Compact Revenues has basically remained fairly constant while indirect cost recoveries fluctuates and depends on program size. Investment earnings continue to decline as a result of global financial and economic crisis in addition to the Compact's economic provision agreement which ended in 2009. The government continues to tap into the remaining balances of its investment principal value for budgetary support as it awaits the outcome of its new Compact Agreement.

Although revenue collection saw an increase in collections in Fiscal 2013 from 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 2013, new measures were introduced to support medium-term fiscal consolidation and reduce fiscal risks. These measures include eliminating import duty exemptions, moving to CIF valuation, replacing the gross revenue tax with a corporate income tax, and adopting a value-added tax (VAT).

## **REPUBLIC OF PALAU**

### **Management's Discussion and Analysis Year Ended September 30, 2013**

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 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 year end. This task is more challenging due to additional spending required to mitigate the impact of Typhoon Bopha that hit Palau in December. 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 2013, revenue collections will gradually improve going forward. This can be attributed to the improving global economies, the recent increase in the tobacco tax, the anticipated recovery of tourism, and the adoption of new IT system by the Bureau of Taxation and Customs. The government continues in its efforts to limit the growth of the wage bill, including by reducing redundancy in government services and promoting outsourcing, while ensuring adequate resources for essential government functions and services.

#### **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 Position  
September 30, 2013

	Primary Government	Component Units
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 5,933,084	\$ 13,726,570
Investments	3,406,565	-
Receivables, net of allowance for uncollectibles	8,521,389	11,751,278
Inventories	46,468	9,289,676
Due from primary government	-	3,169,562
Due from component units	1,000,000	-
Other current assets	1,547,174	791,107
Restricted assets:		
Cash and cash equivalents	304,154	-
Time certificates of deposit	-	452,959
Total current assets	20,758,834	39,181,152
Noncurrent assets:		
Investments	1,185,575	759,884
Receivables	-	20,648,018
Capital assets:		
Nondepreciable capital assets	18,289,431	2,166,962
Capital assets, net of accumulated depreciation	165,302,522	60,644,232
Foreclosed real estate	-	1,675,540
Other noncurrent assets	-	51,550
Restricted assets:		
Cash and cash equivalents	-	1,486,094
Investments	192,896,753	6,993,523
Total noncurrent assets	377,674,281	94,425,803
Total assets	\$ 398,433,115	\$ 133,606,955
<u>LIABILITIES</u>		
Current liabilities:		
Note payable	\$ 198,142	\$ -
Current portion of long-term obligations	1,743,812	2,654,103
Current portion of compensated absences payable	1,914,888	-
Accounts payable	8,194,605	8,353,543
Contracts payable	1,170,581	-
Due to State governments	2,981,242	-
Due to component units	2,608,635	-
Due to external parties	-	321,435
Accrued payroll and others	3,603,287	1,688,943
Unearned revenue	949,652	479,756
Other liabilities	1,524,888	1,637,870
Income tax refunds	817,561	-
Total current liabilities	25,707,293	15,135,650
Noncurrent liabilities:		
Noncurrent portion of long-term obligations	21,386,071	38,935,428
Compensated absences payable, net of current portion	1,739,611	-
Due to U.S. Government	3,000,000	-
Due to primary government	-	1,000,000
Due to external parties	-	4,934,491
Total noncurrent liabilities	26,125,682	44,869,919
Total liabilities	51,832,975	60,005,569
<u>NET POSITION</u>		
Net investment in capital assets	170,335,800	30,089,329
Restricted for:		
Future operations	189,648,021	-
Endowment	-	3,152,031
Debt service	-	16,379,578
Compact related	41,516	-
Other purposes	144,360	9,735,092
Unrestricted	(13,569,557)	14,245,356
Total net position	346,600,140	73,601,386
Total liabilities and net position	\$ 398,433,115	\$ 133,606,955

See accompanying notes to basic financial statements.

**REPUBLIC OF PALAU**

Statement of Activities  
Year Ended September 30, 2013

<u>Functions/Programs</u>	Program Revenues				Net (Expenses) Revenues Changes in Net Position	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	Component Units
Primary government:						
Governmental activities:						
General government	\$ 28,205,671	\$ 7,150,656	\$ 1,436,399	\$ -	\$ (19,618,616)	\$ -
Education	14,556,632	-	3,804,788	-	(10,751,844)	-
Health and welfare	18,611,703	3,034,245	5,246,264	-	(10,331,194)	-
Public safety	5,403,569	59,720	137,071	-	(5,206,778)	-
Cultural affairs and recreation	3,065,046	3,417,413	2,745	-	355,112	-
Transportation and commerce	38,823,765	-	12,907,540	3,620,780	(22,295,445)	-
State government appropriations	5,362,553	-	245,293	-	(5,117,260)	-
Depreciation - unallocated	865,241	-	-	-	(865,241)	-
Interest	575,675	-	-	-	(575,675)	-
Total primary government	<u>\$115,469,855</u>	<u>\$ 13,662,034</u>	<u>\$ 23,780,100</u>	<u>\$ 3,620,780</u>	<u>(74,406,941)</u>	<u>-</u>
Component units:						
National Development Bank of Palau	\$ 1,796,060	\$ 1,712,943	\$ 50,010	\$ -	-	(33,107)
Palau Community College	7,755,892	755,787	5,711,560	-	-	(1,288,545)
Palau National Communications Corporation	10,664,037	10,437,496	-	-	-	(226,541)
Palau International Coral Reef Center	1,072,702	325,992	622,200	-	-	(124,510)
Palau Visitors Authority	667,367	58,500	-	-	-	(608,867)
Public Utilities Corporation	28,901,738	26,553,759	345,258	3,432,642	-	1,429,921
Palau District Housing Authority	118,662	94,927	-	-	-	(23,735)
Protected Areas Network Fund	1,229,511	-	-	-	-	(1,229,511)
Total component units	<u>\$ 52,205,969</u>	<u>\$ 39,939,404</u>	<u>\$ 6,729,028</u>	<u>\$ 3,432,642</u>	<u>-</u>	<u>(2,104,895)</u>
General revenues:						
Taxes:						
Business gross receipts					12,195,793	-
Salary and wage					7,356,812	-
Alcohol and tobacco					5,561,299	-
Hotel occupancy					4,121,823	-
Travelers head					2,384,399	-
General import					2,175,399	-
Fuel export					745,847	-
Fish export					431,582	-
Other					1,810,576	-
Grants and contributions not restricted for specific programs					13,147,000	-
Unrestricted investment earnings					522,467	482,737
Contributions from primary government					-	8,486,074
Other					972,962	-
Total general revenues					<u>51,425,959</u>	<u>8,968,811</u>
Special item - transfer of water and wastewater infrastructure assets					(12,975,020)	12,975,020
Contributions to permanent funds					23,910,948	-
Total general revenues, special item and contributions					<u>62,361,887</u>	<u>21,943,831</u>
Change in net position					(12,045,054)	19,838,936
Net position at beginning of year					<u>358,645,194</u>	<u>53,762,450</u>
Net position at end of year					<u>\$346,600,140</u>	<u>\$ 73,601,386</u>

See accompanying notes to basic financial statements.

**REPUBLIC OF PALAU**

Balance Sheet  
Governmental Funds  
September 30, 2013

	General	Special Revenue Grants	Permanent Compact Section 211(f)	Other Governmental Funds	Total
<b>ASSETS</b>					
Cash and cash equivalents	\$ 5,933,084	\$ -	\$ -	\$ -	\$ 5,933,084
Investments	4,592,111	-	-	29	4,592,140
Receivables, net:					
Taxes	4,226,030	-	-	-	4,226,030
General	240,492	1,277	-	1,226	242,995
Federal agencies	-	4,049,430	-	-	4,049,430
Accrued interest	2,934	-	-	-	2,934
Due from component units	1,000,000	-	-	-	1,000,000
Due from other funds	2,427,618	712,453	-	463,024	3,603,095
Advances	175,821	107,670	-	-	283,491
Inventory	46,468	-	-	-	46,468
Prepaid items	112,904	1,130,366	-	20,413	1,263,683
Restricted assets:					
Cash and cash equivalents	304,154	-	-	-	304,154
Investments	-	-	189,896,865	2,999,888	192,896,753
	<u>\$ 19,061,616</u>	<u>\$ 6,001,196</u>	<u>\$ 189,896,865</u>	<u>\$ 3,484,580</u>	<u>\$ 218,444,257</u>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities:</b>					
Note payable	\$ 198,142	\$ -	\$ -	\$ -	\$ 198,142
Accounts payable	6,141,017	1,783,716	-	269,872	8,194,605
Contracts payable	-	1,170,581	-	-	1,170,581
Due to State governments	2,981,242	-	-	-	2,981,242
Due to component units	2,608,635	-	-	-	2,608,635
Due to other funds	1,175,477	2,159,884	248,844	18,890	3,603,095
Accrued payroll and others	3,421,227	-	-	-	3,421,227
Other liabilities	1,421,925	102,963	-	-	1,524,888
Unearned revenues	180,454	769,198	-	-	949,652
Income tax refunds	817,561	-	-	-	817,561
Total liabilities	<u>18,945,680</u>	<u>5,986,342</u>	<u>248,844</u>	<u>288,762</u>	<u>25,469,628</u>
<b>Fund balances:</b>					
Nonspendable	2,344,947	1,130,366	189,648,021	20,413	193,143,747
Restricted	1,587,795	8,484	-	3,041,516	4,637,795
Committed	-	-	-	173,192	173,192
Unassigned:					
General fund	(3,816,806)	-	-	-	(3,816,806)
Special revenue funds	-	(1,123,996)	-	(39,303)	(1,163,299)
Total fund balances	<u>115,936</u>	<u>14,854</u>	<u>189,648,021</u>	<u>3,195,818</u>	<u>192,974,629</u>
	<u>\$ 19,061,616</u>	<u>\$ 6,001,196</u>	<u>\$ 189,896,865</u>	<u>\$ 3,484,580</u>	
Amounts reported for governmental activities in the statement of net position are different because:					
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds					183,591,953
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	(23,129,883)
				Compensated absences	(3,654,499)
				Accrued interest payable	(182,060)
				Due to U.S. Government	(3,000,000)
					(29,966,442)
				Net position of governmental activities	<u>\$ 346,600,140</u>

See accompanying notes to basic financial statements.

# REPUBLIC OF PALAU

## Statement of Revenues, Expenditures, and Changes in Fund Balances Governmental Funds Year Ended September 30, 2013

	Special Revenue		Permanent		Other Governmental Funds	Total
	General	Grants	Compact Section 211(f)			
<b>Revenues:</b>						
Taxes	\$ 36,706,205	\$ -	\$ -	\$ -	\$ 77,325	\$ 36,783,530
Federal and other grants	-	23,780,100	-	-	-	23,780,100
Compact funding	13,147,000	-	-	-	-	13,147,000
Net change in the fair value of investments	516,385	-	23,910,948	-	6,082	24,433,415
Fees and charges	8,801,277	-	-	-	3,210,287	12,011,564
Licenses and permits	1,642,494	-	-	-	7,976	1,650,470
Other	972,962	-	-	-	-	972,962
<b>Total revenues</b>	<b>61,786,323</b>	<b>23,780,100</b>	<b>23,910,948</b>	<b>3,301,670</b>	<b>112,779,041</b>	
<b>Expenditures:</b>						
<b>Current:</b>						
Judicial Branch	2,214,375	-	-	-	-	2,214,375
Legislative Branch	4,265,474	35,251	-	-	-	4,300,725
Office of the President	1,177,489	409,618	-	-	-	1,587,107
Office of the Vice-President	341,447	-	-	-	-	341,447
Ministry of Finance	3,005,625	272,970	-	-	-	3,278,595
Ministry of State	2,257,244	67,708	-	-	7,699	2,332,651
Ministry of Community and Cultural Affairs	951,369	2,745	-	-	-	954,114
Ministry of Education	6,739,446	3,804,788	-	-	-	10,544,234
Ministry of Public Infrastructure, Industry and Commerce	8,215,998	626,668	-	-	-	8,842,666
Ministry of Justice	3,988,144	137,071	-	-	49,565	4,174,780
Ministry of Health	8,612,541	5,246,264	-	-	2,375,409	16,234,214
Ministry of Natural Resources, Environment and Tourism	1,231,456	138,201	-	-	-	1,369,657
Boards, Commissions, and Authorities	2,524,286	-	-	-	-	2,524,286
State Block Grants	5,362,553	-	-	-	-	5,362,553
Independent Agencies	2,968,811	165,848	-	-	14,584	3,149,243
Other Agencies and Activities	3,179,534	-	-	-	-	3,179,534
Education assistance	4,381,599	-	-	-	-	4,381,599
Typhoon emergency assistance	2,810,573	-	-	-	-	2,810,573
Financial and Compliance Audit	195,000	245,293	-	-	-	440,293
Compact Review Office	166,393	-	-	-	-	166,393
Investment management fees	-	-	1,059,468	-	6,019	1,065,487
Claims and judgments	120,151	-	-	-	-	120,151
Other	464,665	325,352	-	-	-	790,017
Bad debt	441,000	-	-	-	-	441,000
Capital projects	2,927,163	9,572,989	-	-	-	12,500,152
<b>Debt service:</b>						
Principal retirement	1,599,998	-	-	-	-	1,599,998
Interest	588,696	-	-	-	-	588,696
<b>Total expenditures</b>	<b>70,731,030</b>	<b>21,050,766</b>	<b>1,059,468</b>	<b>2,453,276</b>	<b>95,294,540</b>	
Excess (deficiency) of revenues over (under) expenditures	(8,944,707)	2,729,334	22,851,480	848,394	17,484,501	
<b>Other financing sources (uses):</b>						
Operating transfers in	9,152,081	490,671	-	-	-	9,642,752
Operating transfers out	(490,671)	(3,237,823)	(5,000,000)	(914,258)	-	(9,642,752)
<b>Total other financing sources (uses), net</b>	<b>8,661,410</b>	<b>(2,747,152)</b>	<b>(5,000,000)</b>	<b>(914,258)</b>	<b>-</b>	
<b>Net change in fund balances</b>	<b>(283,297)</b>	<b>(17,818)</b>	<b>17,851,480</b>	<b>(65,864)</b>	<b>17,484,501</b>	
Fund balances at beginning of year	399,233	32,672	171,796,541	3,261,682	175,490,128	
Fund balances at end of year	\$ 115,936	\$ 14,854	\$ 189,648,021	\$ 3,195,818	\$ 192,974,629	

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, 2013

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 \$ 17,484,501

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 depreciation exceeds capital outlays in the current period. For the current year, these activities consist of:

Capital outlays, net of disposals	\$ 10,845,475	
Depreciation expense, net	<u>(28,278,402)</u>	(17,432,927)

Impairment loss recognized for the current year (928,204)

The Republic transferred water and wastewater infrastructure assets to Public Utilities Corporation effective July 1, 2013. In the statement of activities, the transfer is reported as a special item. (12,975,020)

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 position. For the current year, these amounts consist of:

Repayment of MICB loans	1,599,998
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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 compensated absences payable	193,577
Change in accrued interest payable	<u>(13,021)</u>

Change in net position of governmental activities. \$ (12,054,054)

See accompanying notes to basic financial statements.



**REPUBLIC OF PALAU**

Statement of Fiduciary Net Position  
Fiduciary Funds  
September 30, 2013

	<u>Private Purpose Trust</u>	<u>Pension (and Other Employee Benefit) Trust</u>	<u>Total</u>
<b><u>ASSETS</u></b>			
Cash and cash equivalents	\$ 7,897,122	\$ 248,520	\$ 8,145,642
Receivables, net:			
Contributions	3,489,638	436,828	3,926,466
Accrued interest and dividends	391,347	-	391,347
Other	2,923	208	3,131
Investments	84,105,755	33,597,662	117,703,417
Due from component units	5,255,926	-	5,255,926
Prepaid items	23,954	-	23,954
Capital assets, net	<u>306,136</u>	<u>16,829</u>	<u>322,965</u>
Total assets	<u>101,472,801</u>	<u>34,300,047</u>	<u>135,772,848</u>
<b><u>LIABILITIES</u></b>			
Benefits payable	1,353,974	-	1,353,974
Other liabilities and accruals	<u>91,304</u>	<u>38,841</u>	<u>130,145</u>
Total liabilities	<u>1,445,278</u>	<u>38,841</u>	<u>1,484,119</u>
<b><u>NET POSITION</u></b>			
Held in trust for:			
Social security benefits	100,027,523	-	100,027,523
Pension benefits	<u>-</u>	<u>34,261,206</u>	<u>34,261,206</u>
Total net position	<u>\$ 100,027,523</u>	<u>\$ 34,261,206</u>	<u>\$ 134,288,729</u>

See accompanying notes to basic financial statements.

**REPUBLIC OF PALAU**

Statement of Changes in Fiduciary Net Position  
Fiduciary Funds  
Year Ended September 30, 2013

	<u>Private Purpose Trust</u>	<u>Pension (and Other Employee Benefit) Trust</u>	<u>Total</u>
Additions:			
Contributions:			
Government employees	\$ 7,763,520	\$ -	\$ 7,763,520
Private employees	7,505,542	-	7,505,542
Employer contributions	-	2,506,605	2,506,605
Plan member contributions	-	2,515,177	2,515,177
Penalties and interest	326,813	-	326,813
Other	81,742	-	81,742
	<u>15,677,617</u>	<u>5,021,782</u>	<u>20,699,399</u>
Allowance for doubtful accounts	(61,572)	-	(61,572)
Total contributions	<u>15,616,045</u>	<u>5,021,782</u>	<u>20,637,827</u>
Investment earnings:			
Net change in the fair value of investments	5,389,867	22,277	5,412,144
Interest and dividends	2,402,205	2,788,958	5,191,163
Total investment earnings	<u>7,792,072</u>	<u>2,811,235</u>	<u>10,603,307</u>
Less investment expense	449,705	189,732	639,437
Net investment earnings	<u>7,342,367</u>	<u>2,621,503</u>	<u>9,963,870</u>
Other	232,505	6,524	239,029
Total additions	<u>23,190,917</u>	<u>7,649,809</u>	<u>30,840,726</u>
Deductions:			
Benefits	14,259,121	8,930,543	23,189,664
General and administrative	1,199,374	1,905,747	3,105,121
Total deductions	<u>15,458,495</u>	<u>10,836,290</u>	<u>26,294,785</u>
Change in net position held in trust for:			
Social security benefits	7,732,422	-	7,732,422
Pension benefits	-	(3,186,481)	(3,186,481)
Net position at beginning of year	<u>92,295,101</u>	<u>37,447,687</u>	<u>129,742,788</u>
Net position at end of year	<u>\$ 100,027,523</u>	<u>\$ 34,261,206</u>	<u>\$ 134,288,729</u>

See accompanying notes to basic financial statements.

**REPUBLIC OF PALAU**

**Combining Statement of Net Position  
Component Units  
September 30, 2013**

<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
<b>Current assets:</b>									
Cash and cash equivalents	\$ 4,895,375	\$ 944,333	\$ 449,356	\$ 384,346	\$ 108,751	\$ 3,902,739	\$ 917,836	\$ 2,123,834	\$ 13,726,570
Restricted time certificates of deposit	452,959	-	-	-	-	-	-	-	452,959
Receivables, net	3,372,813	2,832,585	992,373	221,917	68,337	4,086,602	175,151	1,500	11,751,278
Inventories	282,621	279,654	164,472	53,662	-	8,509,267	-	-	9,289,676
Due from primary government	-	536,180	-	29,784	53,929	2,082,973	-	466,696	3,169,562
Prepaid expenses	25,876	-	55,457	6,994	8,742	691,016	-	3,022	791,107
<b>Total current assets</b>	<u>9,029,644</u>	<u>4,592,752</u>	<u>1,661,658</u>	<u>696,703</u>	<u>239,759</u>	<u>19,272,597</u>	<u>1,092,987</u>	<u>2,595,052</u>	<u>39,181,152</u>
<b>Noncurrent assets:</b>									
Investments	-	-	592,534	167,350	-	-	-	-	759,884
Receivables	18,617,524	-	-	-	-	271,092	1,759,402	-	20,648,018
<b>Capital assets:</b>									
Nondepreciable capital assets	-	-	-	-	-	2,166,962	-	-	2,166,962
Capital assets, net of accumulated depreciation	701,963	1,355,880	17,591,664	1,902,446	67,936	38,982,276	23,383	18,684	60,644,232
Foreclosed real estate	1,675,540	-	-	-	-	-	-	-	1,675,540
Other noncurrent assets	-	-	51,550	-	-	-	-	-	51,550
<b>Restricted assets:</b>									
Cash and cash equivalents	679,108	806,986	-	-	-	-	-	-	1,486,094
Investments	-	3,139,341	3,854,182	-	-	-	-	-	6,993,523
<b>Total noncurrent assets</b>	<u>21,674,135</u>	<u>5,302,207</u>	<u>22,089,930</u>	<u>2,069,796</u>	<u>67,936</u>	<u>41,420,330</u>	<u>1,782,785</u>	<u>18,684</u>	<u>94,425,803</u>
<b>Total assets</b>	<u>\$ 30,703,779</u>	<u>\$ 9,894,959</u>	<u>\$ 23,751,588</u>	<u>\$ 2,766,499</u>	<u>\$ 307,695</u>	<u>\$ 60,692,927</u>	<u>\$ 2,875,772</u>	<u>\$ 2,613,736</u>	<u>\$ 133,606,955</u>
<b>Current liabilities:</b>									
Current portion of long-term debt	\$ 463,519	\$ -	\$ 1,653,076	\$ -	\$ -	\$ 537,508	\$ -	\$ -	\$ 2,654,103
Accounts payable	71,912	1,726,775	265,911	49,906	39,011	6,115,432	-	84,596	8,353,543
Due to fiduciary funds	321,435	-	-	-	-	-	-	-	321,435
Accrued payroll and others	194,070	483,935	520,828	71,056	30,548	376,396	6,751	5,359	1,688,943
Unearned revenue	-	372,136	107,620	-	-	-	-	-	479,756
Other liabilities	427,889	-	707,676	51,776	-	450,529	-	-	1,637,870
<b>Total current liabilities</b>	<u>1,478,825</u>	<u>2,582,846</u>	<u>3,255,111</u>	<u>172,738</u>	<u>69,559</u>	<u>7,479,865</u>	<u>6,751</u>	<u>89,955</u>	<u>15,135,650</u>
<b>Noncurrent liabilities:</b>									
Long-term debt, net of current portion	5,704,146	-	25,690,244	-	-	7,541,038	-	-	38,935,428
Due to primary government	1,000,000	-	-	-	-	-	-	-	1,000,000
Due to fiduciary funds	4,934,491	-	-	-	-	-	-	-	4,934,491
<b>Total noncurrent liabilities</b>	<u>11,638,637</u>	<u>-</u>	<u>25,690,244</u>	<u>-</u>	<u>-</u>	<u>7,541,038</u>	<u>-</u>	<u>-</u>	<u>44,869,919</u>
<b>Total liabilities</b>	<u>13,117,462</u>	<u>2,582,846</u>	<u>28,945,355</u>	<u>172,738</u>	<u>69,559</u>	<u>15,020,903</u>	<u>6,751</u>	<u>89,955</u>	<u>60,005,569</u>
<b>Net position:</b>									
Net investment in capital assets	701,963	1,355,880	(9,751,656)	1,902,446	67,936	35,770,693	23,383	18,684	30,089,329
<b>Restricted:</b>									
Endowment	-	3,152,031	-	-	-	-	-	-	3,152,031
Debt service	12,525,396	-	3,854,182	-	-	-	-	-	16,379,578
Other purposes	4,358,958	726,455	-	220,943	-	-	1,923,639	2,505,097	9,735,092
Unrestricted	-	2,077,747	703,707	470,372	170,200	9,901,331	921,999	-	14,245,356
<b>Total net position</b>	<u>17,586,317</u>	<u>7,312,113</u>	<u>(5,193,767)</u>	<u>2,593,761</u>	<u>238,136</u>	<u>45,672,024</u>	<u>2,869,021</u>	<u>2,523,781</u>	<u>73,601,386</u>
	<u>\$ 30,703,779</u>	<u>\$ 9,894,959</u>	<u>\$ 23,751,588</u>	<u>\$ 2,766,499</u>	<u>\$ 307,695</u>	<u>\$ 60,692,927</u>	<u>\$ 2,875,772</u>	<u>\$ 2,613,736</u>	<u>\$ 133,606,955</u>

See accompanying notes to basic financial statements.

# REPUBLIC OF PALAU

## Combining Statement of Revenues, Expenses, and Changes in Net Position Component Units Year Ended September 30, 2013

	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	\$ 2,054,115	\$ 438,794	\$ 10,374,182	\$ 305,408	\$ -	\$ 25,910,845	\$ 76,509	\$ -	\$ 39,159,853
Grants and contributions	-	5,711,560	-	622,200	-	-	-	-	6,333,760
Other	(341,172)	316,993	63,314	20,584	58,500	642,914	18,418	-	779,551
Total operating revenues	1,712,943	6,467,347	10,437,496	948,192	58,500	26,553,759	94,927	-	46,273,164
Operating expenses:									
Cost of services	-	5,715,475	5,459,598	-	-	24,025,662	-	1,027,410	36,228,145
Depreciation	51,812	302,181	2,371,825	164,956	13,743	2,244,591	8,290	2,436	5,159,834
Administration costs	665,482	1,738,236	1,250,275	907,209	653,624	1,158,990	113,372	202,996	6,690,184
Total operating expenses	717,294	7,755,892	9,081,698	1,072,165	667,367	27,429,243	121,662	1,232,842	48,078,163
Operating income (loss)	995,649	(1,288,545)	1,355,798	(123,973)	(608,867)	(875,484)	(26,735)	(1,232,842)	(1,804,999)
Nonoperating revenues (expenses):									
Contributions from primary government	-	2,411,000	-	357,000	635,000	3,317,151	59,000	1,706,923	8,486,074
Net change in the fair value of investments	-	360,029	92,534	6,874	-	-	-	-	459,437
Interest income	11,891	-	8,732	938	-	538	1,201	-	23,300
Grant revenues	50,010	-	-	-	-	345,258	-	-	395,268
Interest expense	(490,601)	-	(1,420,094)	(537)	-	(404,185)	-	-	(2,315,417)
Other, net	(588,165)	-	(162,245)	-	-	(1,068,310)	3,000	3,331	(1,812,389)
Total nonoperating revenues (expenses), net	(1,016,865)	2,771,029	(1,481,073)	364,275	635,000	2,190,452	63,201	1,710,254	5,236,273
Capital contributions	-	-	-	-	-	3,432,642	-	-	3,432,642
Special item - transfer of capital assets from primary government	-	-	-	-	-	12,975,020	-	-	12,975,020
Change in net position	(21,216)	1,482,484	(125,275)	240,302	26,133	17,722,630	36,466	477,412	19,838,936
Net position at beginning 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
Net position at end of year	\$ 17,586,317	\$ 7,312,113	\$ (5,193,767)	\$ 2,593,761	\$ 238,136	\$ 45,672,024	\$ 2,869,021	\$ 2,523,781	\$ 73,601,386

See accompanying notes to basic financial statements.

# REPUBLIC OF PALAU

Notes to Financial Statements  
September 30, 2013

## (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, 2013

### (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, 2013

### (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, 2013

## (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](http://www.palauopa.org)

### B. Government-Wide Financial Statements

The Statement of Net Position 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, 2013

### (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 Position presents the reporting entity's non-fiduciary assets and liabilities, with the difference reported as net position. Net position is reported in three categories:

- *Net investment in capital assets* 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 position* 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 position* consists of net position, which does not meet the definition of the two preceding categories. Unrestricted net position often is designated, (for example, internally restricted) to indicate that management does not consider such to be available for general operations. Unrestricted net position often has restrictions that are imposed by management, but can be removed or modified.

The government-wide Statement of Net Position reports \$189,833,897 of restricted net position, of which \$144,360 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, 2013

## (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, 2013

### (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.

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 fiduciary funds:

- 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.
- 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.

# REPUBLIC OF PALAU

Notes to Financial Statements  
September 30, 2013

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

### 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.

### 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 position. Interfund receivables and payables have been eliminated from the statement of net position.

# REPUBLIC OF PALAU

Notes to Financial Statements  
September 30, 2013

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

### 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, 2013.

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

### M. Deferred Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (deduction of net position) until then. The Republic has no items that qualify for reporting in this category.

# REPUBLIC OF PALAU

Notes to Financial Statements  
September 30, 2013

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

### N. 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.

### O. Unearned Revenue

In the government-wide financial statements, unearned revenue is recognized when cash, receivables or other assets are recorded prior to being earned. In the governmental fund financial statements, unearned 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 unearned revenue in the governmental fund types has primarily resulted as federal funds are received in advance of eligible expenditures.

### P. 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.

### Q. Deferred Inflows of Resources

In addition to liabilities, the statements of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (additions to net position) until then. The Republic has no items that qualify for reporting in this category.

### R. 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.

# REPUBLIC OF PALAU

Notes to Financial Statements  
September 30, 2013

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

### R. Fund Equity, Continued

- 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.
- 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.

### S. 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.

### T. New Accounting Standards

During fiscal year 2013, the Republic implemented the following pronouncements:

- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which addressed 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.

**REPUBLIC OF PALAU**

Notes to Financial Statements  
September 30, 2013

(1) Summary of Significant Accounting Policies, Continued

T. New Accounting Standards, Continued

- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, which improved 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.
  
- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which enhanced the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements issued on or before November 30, 1989, which does not conflict or contradict GASB pronouncements. GASB Statement No. 62 superseded GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*.
  
- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which established guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position, and GASB 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. These Statements amend the net asset reporting requirements in Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. With the implementation of GASB Statement No. 63 and Statement No. 65, the Statement of Net Assets was renamed the Statement of Net Position.

The implementation of these pronouncements did not have a material effect on the accompanying financial statements.

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.



**REPUBLIC OF PALAU**

Notes to Financial Statements  
September 30, 2013

(1) Summary of Significant Accounting Policies, Continued

T. New Accounting Standards, Continued

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*, which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The provisions in Statement 69 are effective for fiscal years beginning after December 15, 2013. Management has not yet determined the effect of implementation of these statements on the financial statements of the Republic.

In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. The provisions in Statement 70 are effective for fiscal years beginning after June 15, 2013. Management has not yet determined the effect of implementation of these statements on the financial statements of the Republic.

U. Encumbrances

The Republic utilizes encumbrance accounting to identify fund obligations. Encumbrances represent commitments related to unperformed contracts for goods. At September 30, 2013, 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>
<u>\$ 2,070,583</u>	<u>\$ 6,468,836</u>	<u>\$ -</u>	<u>\$ 539,338</u>	<u>\$ 9,078,757</u>

V. 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.

W. 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, 2012 from which summarized information was derived.

**REPUBLIC OF PALAU**

Notes to Financial Statements  
September 30, 2013

(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.

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:

Asset class	<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.

**REPUBLIC OF PALAU**

Notes to Financial Statements  
September 30, 2013

(2) Deposits and Investments, Continued

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.

As of September 30, 2013, the carrying amount of the primary government's total cash and cash equivalents was \$6,237,238 and the corresponding bank balances were \$8,133,106. Of the bank balances, \$8,093,903 is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2013, bank deposits in the amount of \$500,000 were FDIC insured. The remaining bank deposits of \$39,203 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, 2013, the carrying amount of the fiduciary fund's total cash and cash equivalents was \$8,145,642 and the corresponding bank balances were \$8,007,794, which are maintained in financial institutions subject to FDIC insurance. As of September 30, 2013, bank deposits in the amount of \$500,000 were FDIC insured. 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, 2013, the carrying amount in the aggregate of the discretely presented component units' total cash and cash equivalents and time certificates of deposit was \$15,665,623 and the corresponding bank balances were \$15,950,146. Of the bank balances, \$15,949,414 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, 2013, bank deposits in the amount of \$4,078,237 were FDIC or SIPC insured. The remaining bank deposits of \$732 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.

B. Investments

As of September 30, 2013, investments of the primary government recorded at fair value are as follows:

General Fund:

Equities	\$ 2,902,640
Money market funds	<u>503,925</u>
	<u>3,406,565</u>

**REPUBLIC OF PALAU**

Notes to Financial Statements  
September 30, 2013

(2) Deposits and Investments, Continued

B. Investments, Continued

Compact Section 211(f) Trust Fund:	
Fixed income	58,774,989
Equities	123,486,874
Money market funds	<u>7,635,002</u>
	<u>189,896,865</u>
Nonmajor Governmental Funds:	
Money market funds	<u>2,999,888</u>
	<u>\$ 196,303,318</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, 2013.

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, 2013, there were no investments in any one issuer that exceeded 5% of total investments.

**REPUBLIC OF PALAU**

Notes to Financial Statements  
September 30, 2013

(2) Deposits and Investments, Continued

**B. Investments, Continued**

As of September 30, 2013, 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	\$ 2,920,933	\$ 790,562	\$ 1,175,345	\$ 955,026	\$ -	AA+
US treasury obligations	3,456,534	594,932	1,413,770	810,221	637,611	Not rated
US municipal obligations	1,082,650	-	-	814,092	268,558	AAA
US municipal obligations	222,079	-	-	-	222,079	AA+
US municipal obligations	473,501	-	-	-	473,501	AA
US municipal obligations	305,692	-	-	-	305,692	AA-
US municipal obligations	304,738	-	105,216	-	199,522	A+
US municipal obligations	551,021	-	-	551,021	-	A
US municipal obligations	117,511	-	-	-	117,511	A-
US municipal obligations	139,384	-	139,384	-	-	BBB+
US municipal obligations	154,813	-	-	-	154,813	BBB
US municipal obligations	207,113	-	-	207,113	-	Not rated
US government agencies	11,908,187	-	995,180	832,866	10,080,141	AA+
US government agencies	67,469	-	-	-	67,469	A
US government agencies	4,233,321	310,152	966,897	136,976	2,819,296	Not rated
Corporate bonds	3,612,710	-	753,963	518,364	2,340,383	AAA
Corporate bonds	2,381,334	-	1,242,702	157,102	981,530	AA+
Corporate bonds	2,771,017	263,775	1,433,871	701,914	371,457	AA
Corporate bonds	2,140,940	-	1,129,295	366,946	644,699	AA-
Corporate bonds	2,953,388	45,909	1,912,972	909,580	84,927	A+
Corporate bonds	4,241,649	227,203	2,134,347	1,135,262	744,837	A
Corporate bonds	4,696,282	276,229	2,201,339	1,859,008	359,706	A-
Corporate bonds	3,189,765	514,708	622,031	965,615	1,087,411	BBB+
Corporate bonds	2,753,197	-	895,353	1,382,251	475,593	BBB
Corporate bonds	2,518,657	-	979,310	507,554	1,031,793	BBB-
Corporate bonds	54,911	-	-	-	54,911	BB+
Corporate bonds	36,699	-	-	-	36,699	BB
Corporate bonds	66,924	-	-	-	66,924	BB-
Corporate bonds	353,797	-	-	-	353,797	B
Corporate bonds	31,853	-	-	-	31,853	B-
Corporate bonds	154,362	-	-	-	154,362	CCC
Corporate bonds	19,340	-	-	-	19,340	CC
Corporate bonds	653,218	-	-	-	653,218	D
	<u>\$ 58,774,989</u>	<u>\$ 3,023,470</u>	<u>\$ 18,100,975</u>	<u>\$ 12,810,911</u>	<u>\$ 24,839,633</u>	

**REPUBLIC OF PALAU**

Notes to Financial Statements  
September 30, 2013

(2) Deposits and Investments, Continued

B. Investments, Continued

As of September 30, 2013, investments of the Republic of Palau Social Security Retirement Fund recorded at fair value are as follows:

Equities	\$ 49,294,618
Fixed income	32,311,894
Money market funds	<u>2,499,243</u>
	\$ <u>84,105,755</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;
- (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;

## REPUBLIC OF PALAU

Notes to Financial Statements  
September 30, 2013

### (2) Deposits and Investments, Continued

#### B. Investments, Continued

U.S. Fixed Income, Continued:

- (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;
- (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

**REPUBLIC OF PALAU**

Notes to Financial Statements  
September 30, 2013

(2) Deposits and Investments, Continued

B. Investments, Continued

International Equities, Continued:

- (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, 2013, 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	\$ 3,864,945	\$ 977,493	\$1,630,159	\$ 742,299	\$ 514,994	Aaa
U.S. government obligations	4,604,632	-	2,634,617	986,458	983,557	Aaa
Mortgage-passed through	3,986,448	3,523	27,613	28,265	3,927,047	Aaa
State and local government	532,514	-	-	-	532,514	Aaa
State and local government	1,562,932	-	227,409	821,562	513,961	Aa
State and local government	1,075,802	-	459,162	365,873	250,767	A
Corporate bonds	2,812,399	227,203	867,634	1,216,847	500,715	Aaa
Corporate bonds	4,468,669	10,017	2,797,229	1,351,110	310,313	Aa
Corporate bonds	6,069,651	561,371	3,154,322	1,357,745	996,213	A
Corporate bonds	3,114,902	320,318	1,859,866	816,117	118,601	Baa
Corporate bonds	219,000	-	-	-	219,000	Unrated
	<u>\$ 32,311,894</u>	<u>\$ 2,099,925</u>	<u>\$ 13,658,011</u>	<u>\$ 7,686,276</u>	<u>\$ 8,867,682</u>	

As of September 30, 2013, investments of the Republic of Palau Civil Service Pension Trust Fund recorded at fair value are as follows:

Equities	\$ 17,632,728
Fixed income	11,530,907
Mutual Funds	3,425,201
Money market funds	<u>1,008,826</u>
	<u>\$ 33,597,662</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.



**REPUBLIC OF PALAU**

Notes to Financial Statements  
September 30, 2013

(2) Deposits and Investments, Continued

B. Investments, Continued

4. Holdings of any issuer shall constitute no more than 5% of the outstanding securities of such issuer.
5. Investments in a registered mutual fund managed by the investment manager are subject to the prior approval of the Board of 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.
- (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.

## REPUBLIC OF PALAU

Notes to Financial Statements  
September 30, 2013

### (2) Deposits and Investments, Continued

#### B. Investments, Continued

Fixed Income, Continued:

- 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.

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.

## REPUBLIC OF PALAU

### Notes to Financial Statements September 30, 2013

#### (2) Deposits and Investments, Continued

##### B. Investments, Continued

As of September 30, 2013, 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	\$ 2,989,764	\$ -	\$ -	\$ 1,030,827	\$ 1,958,937	AAA
Mortgage-backed securities	1,183,574	-	1,183,574	-	-	AA+
Mortgage-backed securities	571,219	-	571,219	-	-	AA-
Government bonds	1,115,345	-	-	-	1,115,345	AAA
Corporate bonds	548,821	-	-	548,821	-	A+
Corporate bonds	1,659,683	-	-	1,659,683	-	A
Corporate bonds	2,712,708	-	-	2,712,708	-	A-
Corporate bonds	<u>749,793</u>	<u>-</u>	<u>-</u>	<u>749,793</u>	<u>-</u>	BBB+
	<u>\$ 11,530,907</u>	<u>\$ -</u>	<u>\$ 1,754,793</u>	<u>\$ 6,701,832</u>	<u>\$ 3,074,282</u>	

As of September 30, 2013, investments of the discretely presented component units are as follows:

##### Palau Community College (PCC):

	<u>Fair Value</u>
Fixed income	\$ 847,759
Domestic equities	1,419,271
Cash and cash equivalents	125,582
Non-U.S. equities	<u>746,729</u>
	<u>\$ 3,139,341</u>

Maturities of investments in fixed income securities for PCC are 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 - 3</u>	<u>3 - 5</u>	<u>5 - 7</u>	<u>7 - 9</u>	<u>9 or more</u>	<u>Moody</u>	<u>Standard &amp; Poor's</u>
Government securities	\$ 36,087	\$ 36,087	\$ -	\$ -	\$ -	\$ -	\$ -	AAA	No rating
Corporate bonds	8,328	-	8,328	-	-	-	-	AA2	AA
Corporate bonds	7,764	-	7,764	-	-	-	-	BA2	BBB
Corporate bonds	8,183	-	8,183	-	-	-	-	BAA2	A
Government securities	174,266	-	174,266	-	-	-	-	AAA	No rating
Government securities	76,928	-	76,928	-	-	-	-	AAA	No rating
Corporate bonds	7,989	-	-	7,989	-	-	-	A3	A
Corporate bonds	8,889	-	-	8,889	-	-	-	A1	A+
Corporate bonds	9,142	-	-	9,142	-	-	-	A-3	A
Government securities	79,364	-	-	79,364	-	-	-	AAA	No rating
Government securities	59,101	-	-	59,101	-	-	-	AAA	No rating
Government securities	40,231	-	-	40,231	-	-	-	AAA	No rating
Corporate bonds	9,108	-	-	-	9,108	-	-	BAA2	BBB
Corporate bonds	8,936	-	-	-	8,936	-	-	AA3	AA
Corporate bonds	7,596	-	-	-	-	7,596	-	BAA2	BBB
Corporate bonds	9,770	-	-	-	-	9,770	-	BAA1	BBB+
Corporate bonds	6,958	-	-	-	-	6,958	-	A2	A
Corporate bonds	7,612	-	-	-	-	7,612	-	A2	A

**REPUBLIC OF PALAU**

Notes to Financial Statements  
September 30, 2013

(2) Deposits and Investments, Continued

B. Investments, Continued

Palau Community College (PCC), Continued:

Investment Type	Fair Value	Investment Maturities (In Years)						Ratings	
		Less Than 1	1 - 3	3 - 5	5 - 7	7 - 9	9 or more	Moody	Standard & Poor's
Corporate bonds	8,827	-	-	-	-	8,827	-	A3	A
Corporate bonds	9,320	-	-	-	-	-	9,320	BAA2	BBB
Corporate bonds	8,125	-	-	-	-	-	8,125	BAA3	BBB
Corporate bonds	8,401	-	-	-	-	-	8,401	BAA1	BBB+
Corporate bonds	6,693	-	-	-	-	-	6,693	BAA1	BBB+
Corporate bonds	7,884	-	-	-	-	-	7,884	A1	A+
Corporate bonds	6,417	-	-	-	-	-	6,417	A2	A
Corporate bonds	9,213	-	-	-	-	-	9,213	BAA3	BBB
Corporate bonds	7,856	-	-	-	-	-	7,856	A1	A+
Corporate bonds	7,322	-	-	-	-	-	7,322	BAA2	BBB
Corporate bonds	7,898	-	-	-	-	-	7,898	AA1	AA
Federal Agencies	40,656	-	-	-	-	-	40,656	No rating	No rating
Government securities	64,465	-	-	-	-	-	64,465	AAA	No rating
Government securities	35,803	-	-	-	-	-	35,803	AAA	No rating
Government securities	<u>52,627</u>	-	-	-	-	-	<u>52,627</u>	AAA	No rating
	<u>\$ 847,759</u>	<u>\$ 36,087</u>	<u>\$ 275,469</u>	<u>\$ 204,716</u>	<u>\$ 18,044</u>	<u>\$ 40,763</u>	<u>\$ 272,680</u>		

Palau National Communications Corporation (PNCC):

	Actual Allocation	Allocation Per Policy	Fair Value
Cash deposits	11%	10%	\$ 63,181
Fixed income	23%	30%	138,961
Domestic equities	55%	50%	324,791
Non-U.S. equities	11%	10%	<u>65,601</u>
			<u>\$ 592,534</u>

As of December 31, 2013, maturities of investments in fixed income securities for PNCC were as follows:

Investment Type	Fair Value	Investment Maturities (In Years)				Ratings	
		Less Than 1	1 - 5	6 - 10	More Than 10	Moody	Standard & Poor's
Corporate bonds	\$ 3,996	-	3,996	-	-	A3	A
Corporate bonds	4,005	-	4,005	-	-	BAA1	BBB+
Corporate bonds	4,673	-	4,673	-	-	A3	A
Corporate bonds	4,815	-	4,815	-	-	A1	AA
Corporate bonds	4,765	-	4,765	-	-	BAA1	BBB+
Corporate bonds	4,482	-	-	4,482	-	BAA1	A
Corporate bonds	3,849	-	-	3,849	-	BAA3	BBB
Corporate bonds	4,045	-	-	4,045	-	A2	A+
Corporate bonds	4,063	-	-	4,063	-	BAA2	BBB-
Corporate bonds	4,081	-	-	4,081	-	BAA3	BBB
Corporate bonds	4,733	-	-	4,733	-	BAA1	BBB
Corporate bonds	3,756	-	-	3,756	-	A3	A-
Corporate bonds	3,786	-	-	3,786	-	A2	A
Corporate bonds	3,706	-	-	3,706	-	A2	A

**REPUBLIC OF PALAU**

Notes to Financial Statements  
September 30, 2013

(2) Deposits and Investments, Continued

B. Investments, Continued

Palau National Communications Corporation (PNCC), Continued

Corporate bonds	3,840	-	-	-	3,840	A1	A
Corporate bonds	4,665	-	-	-	4,665	A1	AA+
Federal agencies	11,459	-	11,459	-	-	AAA	AA+
Federal agencies	13,373	-	13,373	-	-	AAA	AA+
Government securities	6,170	-	6,170	-	-	AAA	No rating
Government securities	9,393	-	9,393	-	-	AAA	No rating
Government securities	5,410	-	5,410	-	-	AAA	No rating
Government securities	9,750	-	-	9,750	-	AAA	No rating
Government securities	3,708	-	-	3,708	-	AAA	No rating
Government securities	3,879	-	-	3,879	-	AAA	No rating
Government securities	6,266	-	-	-	6,266	AAA	No rating
Government securities	<u>2,293</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,293</u>	AAA	No rating
	<u>\$ 138,961</u>	<u>\$ -</u>	<u>\$ 68,059</u>	<u>\$ 53,838</u>	<u>\$ 17,064</u>		

As of September 30, 2013, PNCC maintained investments in short-term money market mutual funds of \$3,854,182 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.

Palau International Coral Reef Center:

	<u>Fair Value</u>
Cash and cash equivalents	\$ 5,401
Common stocks	100,611
Mutual funds	30,009
Fixed income	<u>31,329</u>
	<u>\$ 167,350</u>

All fixed income securities represent investments, U.S. government securities with a credit rating of AAA based on Moody's credit quality rating and mature within one to five years.

(3) Receivables

Primary Government

Receivables as of September 30, 2013, 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:

# REPUBLIC OF PALAU

## Notes to Financial Statements September 30, 2013

### (3) Receivables, Continued

#### Primary Government, Continued

	<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	\$ 4,226,030	\$ -	\$ -	\$ -	\$ -	\$ 4,226,030
General	1,548,492	1,277	-	3,722,429	6,568,850	11,841,048
Federal agencies	-	4,049,430	-	-	-	4,049,430
Accrued interest	2,934	-	-	-	391,347	394,281
Other	-	-	-	-	3,131	3,131
	<u>5,777,456</u>	<u>4,050,707</u>	<u>-</u>	<u>3,722,429</u>	<u>6,963,328</u>	<u>20,513,920</u>
Less: allowance for uncollectibles	<u>(1,308,000)</u>	<u>-</u>	<u>-</u>	<u>(3,721,203)</u>	<u>(2,642,384)</u>	<u>(7,671,587)</u>
Net receivables	<u>\$ 4,469,456</u>	<u>\$ 4,050,707</u>	<u>\$ -</u>	<u>\$ 1,226</u>	<u>\$ 4,320,944</u>	<u>\$ 12,842,333</u>

#### Discretely Presented Component Units

Receivables as of September 30, 2013, 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	\$ -	\$ 1,603,988	\$ 5,102,252	\$ -	\$ -	\$ 4,676,329	\$ 15,324	\$ -	\$11,397,893
Federal agencies	-	2,282,911	-	182,265	-	83,071	-	-	2,548,247
Loans	24,100,897	-	-	-	-	-	1,997,633	-	26,098,530
Accrued interest	185,218	-	-	-	-	-	9,590	-	194,808
Other	<u>560,578</u>	<u>235,863</u>	<u>104,386</u>	<u>91,630</u>	<u>68,471</u>	<u>69,294</u>	<u>-</u>	<u>1,500</u>	<u>1,131,722</u>
	24,846,693	4,122,762	5,206,638	273,895	68,471	4,828,694	2,022,547	1,500	41,371,200
Less allowance for uncollectible	<u>(2,856,356)</u>	<u>(1,290,177)</u>	<u>(4,214,265)</u>	<u>(51,978)</u>	<u>(134)</u>	<u>(471,000)</u>	<u>(87,994)</u>	<u>-</u>	<u>(8,971,904)</u>
	<u>\$ 21,990,337</u>	<u>\$ 2,832,585</u>	<u>\$ 992,373</u>	<u>\$ 221,917</u>	<u>\$ 68,337</u>	<u>\$ 4,357,694</u>	<u>\$ 1,934,553</u>	<u>\$ 1,500</u>	<u>\$ 32,399,296</u>

#### 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.

#### Palau District Housing Authority (PDHA):

PDHA's loan portfolio is comprised of home rehabilitation loans and other low-cost housing loans. All loans are at fixed rates with interest rates of 3% to 4.5% per annum over terms ranging from five to thirty years.

**REPUBLIC OF PALAU**

Notes to Financial Statements  
September 30, 2013

(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, 2013, are summarized as follows:

Receivable Fund	Payable Fund	Amount
General	Grants	\$ 2,159,884
General	Nonmajor governmental funds	18,890
General	Compact Section 211(f)	248,844
Grants	General	712,453
Nonmajor governmental funds	General	463,024
		<u>\$ 3,603,095</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, 2013, are summarized as follows:

	Due From	Due To
<b>General Fund:</b>		
Palau Visitors Authority	\$ -	\$ 53,929
Palau International Coral Reef Center	-	29,784
National Development Bank of Palau	1,000,000	-
Palau Community College	-	431,608
Protected Areas Network	-	466,696
Public Utilities Corporation	-	1,626,618
	<u>1,000,000</u>	<u>2,608,635</u>
<b>Republic of Palau Social Security Retirement Fund:</b>		
National Development Bank of Palau	5,255,926	-
	<u>\$ 6,255,926</u>	<u>\$ 2,608,635</u>

The amount recorded as due from component units 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.

**REPUBLIC OF PALAU**

Notes to Financial Statements  
September 30, 2013

(4) Interfund Receivables and Payables, Continued

Primary Government, Continued

The amount recorded as due from component units by the Republic of Palau Social Security Retirement Fund (the Fund) due from NDBP of \$5,255,926 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>
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		383,993		170,399		554,392
2019 - 2023		2,198,126		573,835		2,771,961
2024 - 2025		<u>1,298,330</u>		<u>87,650</u>		<u>1,385,980</u>
	\$	<u>5,255,926</u>	\$	<u>1,673,975</u>	\$	<u>6,929,901</u>

The amount recorded as due to component units of the primary government of \$2,608,635 does not equal the corresponding due from primary government of the discretely presented component units of \$3,169,562 due to the recording of due from primary government by the Public Utilities Corporation (PUC) of \$456,355 for utility services of the water and wastewater operation of the Republic prior to its transfer to PUC.

On June 6, 2013, RPPL 9-4 was signed into law for the purpose of merging the Palau Water & Sewer Corporation and PUC operations as Palau Public Utilities Corporation (PPUC). On July 16, 2013, a memorandum of understanding was agreed by PPUC and the Republic to delineate certain arrangements and conditions under which the Republic shall provide accounting processing services while it is being established as a business segment of PPUC accounting systems. On February 24, 2014, PPUC and the Republic formalized the transfer of all assets and liabilities and established the effective date of transfer to be July 1, 2013. While the law effected a merger date of June 6, 2013, PPUC and the Republic agreed that intervening transactions in between that date to July 1, 2013 were not material to the financial statements. As a result, this transaction has been presented as a special item wherein the transfer of water and wastewater infrastructure assets in the amount of \$12,975,020 during the year ended September 30, 2013.



**REPUBLIC OF PALAU**

Notes to Financial Statements  
September 30, 2013

(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, 2013, are summarized as follows:

	Due From	Due To
National Development Bank of Palau:		
General Fund	\$ -	\$ 1,000,000
Republic of Palau Social Security Retirement Fund	-	5,255,926
Public Utilities Corporation:		
General Fund	2,082,973	-
Palau Community College:		
General Fund	536,180	-
Palau Visitors Authority:		
General Fund	53,929	-
Palau International Coral Reef Center:		
General Fund	29,784	-
Protected Areas Network Fund:		
General Fund	<u>466,696</u>	<u>-</u>
	<u>\$ 3,169,562</u>	<u>\$ 6,255,926</u>

(5) Capital Assets

Capital asset activities for the year ended September 30, 2013, are as follows:

Primary Government

	Balance at October 1, 2012	Additions	Deletions and Transfers	Balance at September 30, 2013
Depreciable capital assets:				
Buildings and other improvements	\$ 143,024,922	\$ 200,000	\$ 1,481,908	\$ 144,706,830
Machinery and equipment	24,482,337	108,810	(1,984,576)	22,606,571
Vehicles	6,516,753	582,173	(512,180)	6,586,746
Infrastructure	<u>243,627,194</u>	<u>1,218,494</u>	<u>(29,676,973)</u>	<u>215,168,715</u>
Total capital assets being depreciated	<u>417,651,206</u>	<u>2,109,477</u>	<u>(30,691,821)</u>	<u>389,068,862</u>
Accumulated depreciation:				
Buildings and other improvements	(55,032,705)	(6,841,022)	-	(61,873,727)
Machinery and equipment	(19,408,902)	(3,419,227)	1,984,576	(20,843,553)
Vehicles	(5,122,043)	(631,260)	477,863	(5,275,440)
Infrastructure	<u>(145,172,170)</u>	<u>(19,269,205)</u>	<u>28,667,755</u>	<u>(135,773,620)</u>
Total accumulated depreciation	<u>(224,735,820)</u>	<u>(30,160,714)</u>	<u>31,130,194</u>	<u>(223,766,340)</u>
Total depreciable capital assets, net	<u>192,915,386</u>	<u>(28,051,237)</u>	<u>438,373</u>	<u>165,302,522</u>
Non-depreciable capital assets:				
Land	3,850,294	49,109	-	3,899,403
Construction in progress	<u>18,162,424</u>	<u>9,675,314</u>	<u>(13,447,710)</u>	<u>14,390,028</u>
Total non-depreciable capital assets	<u>22,012,718</u>	<u>9,724,423</u>	<u>(13,447,710)</u>	<u>18,289,431</u>
Capital assets, net	<u>\$ 214,928,104</u>	<u>\$ (18,326,814)</u>	<u>\$ (13,009,337)</u>	<u>\$ 183,591,953</u>

**REPUBLIC OF PALAU**

Notes to Financial Statements  
September 30, 2013

(5) Capital Assets, Continued

Primary Government, Continued

During the year ended September 30, 2013, the Republic recognized an impairment of \$928,204 associated with certain machinery and equipment of the Palau hospital that is currently sitting idle.

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

General government	\$ 446,700
Education	368,668
Health and welfare	1,583,885
Public safety	1,253,174
Cultural affairs and recreation	217,394
Transportation and commerce	24,497,448
Unallocated	<u>865,241</u>
Total depreciation expense	<u>\$ 29,232,510</u>

Fiduciary Funds

	Estimated Useful Lives	Balance at October 1, 2012	Additions	Deletions	Balance at September 30, 2013
Depreciable capital assets:					
Office equipment and furniture	4 - 13 yrs	\$ 489,302	\$ 26,651	\$ -	\$ 515,953
Building and improvements	30 yrs	132,315	-	-	132,315
Vehicles	5 yrs	<u>110,344</u>	<u>-</u>	<u>-</u>	<u>110,344</u>
		731,961	26,651	-	758,612
Less accumulated depreciation		<u>(565,595)</u>	<u>(77,070)</u>	<u>-</u>	<u>(642,665)</u>
Total depreciable capital assets, net		166,366	(50,419)	-	115,947
Non-depreciable capital assets:					
Land		<u>207,018</u>	<u>-</u>	<u>-</u>	<u>207,018</u>
		<u>\$ 373,384</u>	<u>\$ (50,419)</u>	<u>\$ -</u>	<u>\$ 322,965</u>

Discretely Presented Component Units

	Estimated Useful Lives	Balance October 1, 2012	Additions	Retirements	Balance September 30, 2013
Depreciable capital assets:					
Buildings	3 - 30 yrs	\$ 20,954,254	\$ 34,887	\$ (22,463)	\$ 20,966,678
Utility plant	2 - 30 yrs	106,060,510	46,512,253	(5,515,298)	147,057,465
Machinery and equipment	2 - 20 yrs	3,213,415	434,596	(272,675)	3,375,336
Infrastructure	2 - 15 yrs	<u>3,194,135</u>	<u>8,194</u>	<u>(146,054)</u>	<u>3,056,275</u>
		133,422,314	46,989,930	(5,956,490)	174,455,754
Less accumulated depreciation		<u>(86,165,942)</u>	<u>(33,368,620)</u>	<u>5,723,040</u>	<u>(113,811,522)</u>
Total depreciable capital assets, net		47,256,372	13,621,310	(233,450)	60,644,232
Nondepreciable capital assets:					
Construction in progress		<u>2,751,523</u>	<u>5,087,040</u>	<u>(5,671,601)</u>	<u>2,166,962</u>
		<u>\$ 50,007,895</u>	<u>\$ 18,708,350</u>	<u>\$ (5,905,051)</u>	<u>\$ 62,811,194</u>

**REPUBLIC OF PALAU**

Notes to Financial Statements  
September 30, 2013

(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, 2013. 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 \$452,959 in TCDs.

Changes in short-term note payable of NDBP for the year ended September 30, 2013, is as follows:

Balance at October 1, 2012	<u>Additions</u>	<u>Reductions</u>	Balance at September 30, 2013
\$ <u>300,000</u>	\$ <u>30,000</u>	\$ <u>(30,000)</u>	\$ <u>      -</u>

(7) Long-Term Obligations

Primary Government

As of September 30, 2013, 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. \$ 7,999,991

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. 5,257,158

**REPUBLIC OF PALAU**

Notes to Financial Statements  
September 30, 2013

(7) Long-Term Obligations, Continued

Primary Government, Continued

Asian Development Bank (ADB):

Loan Number 2691 PAL - 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, 2013), 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

\$ 23,129,883

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>
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	2,014,837	536,704	2,551,541
2019 - 2023	8,354,265	1,559,379	9,913,644
2024 - 2028	3,779,058	372,664	4,151,722
2029 - 2033	1,085,230	73,253	1,158,483
2034 - 2035	<u>325,566</u>	<u>6,511</u>	<u>332,077</u>
	<u>\$ 23,129,883</u>	<u>\$ 5,392,773</u>	<u>\$ 28,522,656</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, 2013 and therefore has restricted assets of \$2,999,888 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, 2013

(7) Long-Term Obligations, Continued

Changes in long-term liabilities of the primary government for the year ended September 30, 2013, are as follows:

	Balance October <u>1, 2012</u>	<u>Additions</u>	<u>Reductions</u>	Balance September <u>30, 2013</u>	Due Within <u>One Year</u>
Loans payable:					
MICB loans	\$ 14,857,147	\$ -	\$ (1,599,998)	\$ 13,257,149	\$ 1,599,998
ADB loans	<u>9,872,734</u>	-	-	<u>9,872,734</u>	<u>143,814</u>
	24,729,881	-	(1,599,998)	23,129,883	1,743,812
Other:					
Compensated absences	3,848,076	4,036,271	(4,229,848)	3,654,499	1,914,888
Due to U.S. Government	<u>3,000,000</u>	-	-	<u>3,000,000</u>	-
	<u>\$ 31,577,957</u>	<u>\$ 4,036,271</u>	<u>\$ (5,829,846)</u>	<u>\$ 29,784,382</u>	<u>\$ 3,658,700</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.

\$ 3,142,405

Loan payable to the European Investment Bank (EIB) up to the amount of 5,000,000 Euro, due September 10, 2021 with interest at 3.379% - 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.

3,025,260

\$ 6,167,665

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>
2014	\$ 463,519	\$ 160,182	\$ 623,701
2015	500,624	212,787	713,411
2016	539,285	193,835	733,120
2017	579,571	173,259	752,830
2018	621,550	150,990	772,540
2019 - 2023	2,865,341	360,657	3,225,998
2024	<u>597,775</u>	<u>47,606</u>	<u>645,381</u>
	<u>\$ 6,167,665</u>	<u>\$ 1,299,316</u>	<u>\$ 7,466,981</u>

**REPUBLIC OF PALAU**

Notes to Financial Statements  
September 30, 2013

(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.

\$ 25,438,349

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.

1,341,769

Loan payable to National Information Solutions Cooperative (NISC), non-interest bearing, payable in monthly installments 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.

563,202

\$ 27,343,320

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>
2014	\$ 1,653,076	\$1,515,221	\$ 3,168,297
2015	1,729,458	1,474,030	3,203,488
2016	1,811,726	1,428,718	3,240,444
2017	1,699,378	1,209,563	2,908,941
2018	1,396,675	909,501	2,306,176
2019 - 2023	8,029,058	3,501,820	11,530,878
2024 - 2028	10,095,900	1,434,978	11,530,878
2029	<u>928,049</u>	<u>10,507</u>	<u>938,556</u>
	\$ <u>27,343,320</u>	\$ <u>11,484,338</u>	\$ <u>38,827,658</u>

**REPUBLIC OF PALAU**

Notes to Financial Statements  
September 30, 2013

(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. \$ 5,400,000

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. 2,678,546

\$ 8,078,546

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>
2014	\$ 537,508	\$ 379,987	\$ 917,495
2015	548,182	355,118	903,300
2016	559,183	330,350	889,533
2017	572,043	302,867	874,910
2018	585,399	275,317	860,716
2019 - 2023	3,166,150	924,786	4,090,936
2024 - 2026	<u>2,110,081</u>	<u>150,481</u>	<u>2,260,562</u>
	<u>\$ 8,078,546</u>	<u>\$ 2,718,906</u>	<u>\$ 10,797,452</u>

Changes in long-term liabilities of the discretely presented component units for the year ended September 30, 2013, are as follows:

	<u>Balance October 1, 2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance September 30, 2013</u>	<u>Due Within One Year</u>
Loans payable:					
NDBP	\$ 6,767,698	\$ -	\$ (600,033)	\$ 6,167,665	\$ 463,519
PNCC	28,703,631	-	(1,360,311)	27,343,320	1,653,076
PUC	8,606,048	-	(527,502)	8,078,546	537,508
Other liabilities:					
Due to primary government	4,000,000	-	(3,000,000)	1,000,000	-
Due to fiduciary funds	<u>5,563,337</u>	<u>-</u>	<u>(307,411)</u>	<u>5,255,926</u>	<u>321,401</u>
	<u>\$ 53,640,714</u>	<u>\$ -</u>	<u>\$ (5,795,257)</u>	<u>\$ 47,845,457</u>	<u>\$ 2,975,504</u>

**REPUBLIC OF PALAU**

Notes to Financial Statements  
September 30, 2013

(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. \$ 304,154

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. \$ 189,896,865

Investments held in a trust fund for the purpose of funding a liability to the United States government. 2,999,888

\$ 192,896,753

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. \$ 452,959

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. 50,169

Deposit account collateralizing loans funded by Rural Housing Service. 525,148

Deposit account established for cash received from grantor agencies. 103,791

Palau Community College:

Deposit accounts established for library fund and endowment fund. 806,986

\$ 1,939,053



**REPUBLIC OF PALAU**

Notes to Financial Statements  
September 30, 2013

(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. \$ 3,139,341

Palau National Communications Corporation:

Investment account established in accordance with Rural Utilities Service loan agreement for the purposes of a reserve account. 3,854,182

\$ 6,993,523

(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, 2013, 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, 2013, are as follows:

	<u>Transfer Out</u>	<u>Transfer In</u>
General Fund:		
Grants Fund	\$ 490,671	\$ 3,237,823
Compact Section 211(f) Fund	-	5,000,000
Other Governmental Funds	<u>-</u>	<u>914,258</u>
	<u>490,671</u>	<u>9,152,081</u>
Grants Fund:		
General Fund	<u>3,237,823</u>	<u>490,671</u>
Compact Section 211(f) Fund:		
General Fund	<u>5,000,000</u>	<u>-</u>

**REPUBLIC OF PALAU**

Notes to Financial Statements  
September 30, 2013

(10) Transfers In/Out, Continued

Operating Fund Transfers, Continued

Other Governmental Funds:

General Fund	<u>914,258</u>	<u>-</u>
	<u>\$ 9,652,752</u>	<u>\$ 9,652,752</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, 2013, the Republic made a one-time transfer of \$914,258 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	112,904	1,130,366	-	20,413	1,263,683
Permanent fund principal	<u>-</u>	<u>-</u>	<u>189,648,021</u>	<u>-</u>	<u>189,648,021</u>
	<u>2,344,947</u>	<u>1,130,366</u>	<u>189,648,021</u>	<u>20,413</u>	<u>193,143,747</u>
Restricted:					
Super Typhoon Bopha	1,587,795	-	-	-	1,587,795
Capital projects	-	8,484	-	-	8,484
Compact Section 211(b) Energy	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,041,516</u>	<u>3,041,516</u>
	<u>1,587,795</u>	<u>8,484</u>	<u>-</u>	<u>3,041,516</u>	<u>4,637,795</u>
Committed:					
Environment protection	-	-	-	79,695	79,695
Road maintenance	-	-	-	77,325	77,325
Public law access	-	-	-	15,176	15,176
Other	<u>-</u>	<u>-</u>	<u>-</u>	<u>996</u>	<u>996</u>
	<u>-</u>	<u>-</u>	<u>-</u>	<u>173,192</u>	<u>173,192</u>
Unassigned	<u>(3,816,806)</u>	<u>(1,123,996)</u>	<u>-</u>	<u>(39,303)</u>	<u>(4,980,105)</u>
	<u>\$ 115,936</u>	<u>\$ 14,854</u>	<u>\$ 189,648,021</u>	<u>\$ 3,195,818</u>	<u>\$ 192,974,629</u>

## REPUBLIC OF PALAU

Notes to Financial Statements  
September 30, 2013

### (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, 2013, amounted to \$7,389,534.

#### 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, 2013, 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 \$2,690,163 have been set forth in the Republic's Single Audit Report for the year ended September 30, 2013. 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, 2013 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, 2013

### (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, 2013, are as follows:

- a) Guaranteed bank debt of the National Development Bank of Palau (NDBP) with letters of guarantee. At September 30, 2013, NDBP had guaranteed debt totaling \$6,167,665.
- 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, 2013, NDBP had guaranteed debt associated with this loan totaling \$5,255,926.
- 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, 2013, PNCC had guaranteed debt totaling \$25,438,349.
- d) Guaranteed bank debt of the Public Utilities Corporation (PUC) with a letter of guarantee. At September 30, 2013, PUC had guaranteed debt totaling \$5,400,000.
- e) Guaranteed a debt of PUC in respect of a loan from NDBP with a letter of guarantee. At September 30, 2013, PUC had guaranteed debt associated with this loan totaling \$2,678,546.

#### H. Civil Service Pension Trust Fund

As of September 30, 2013, interest associated with delinquent payment of contributions to the Republic of Palau Civil Service Pension Trust Fund (the Pension Fund) has been accrued 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, 2013, 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. Budgetary Compliance

For the year ended September 30, 2013, significant over-expenditures exceeding appropriations within the General Fund were as follows:

Ministry of Finance - bank fees	\$277,065
Other Agencies and Activities - bad debts	\$441,000
Other Country Grants Fund	\$340,772
Other Grants Fund	\$180,992

These over-expenditures of the General Fund have not been funded by Legislative authorization.

## REPUBLIC OF PALAU

Notes to Financial Statements  
September 30, 2013

### (12) Commitments and Contingencies, Continued

#### J. 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, 2013, will not have a material impact on the accompanying financial statements.

### (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 \$1,666,717, \$1,554,455 and \$1,765,740 to the Pension Fund during the years ended September 30, 2013, 2012 and 2011, 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 2013 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.

**REPUBLIC OF PALAU**

Notes to Financial Statements  
September 30, 2013

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

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, 2013.

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 \$14,250 from PCC employees during the year ended September 30, 2013.

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

**REPUBLIC OF PALAU**

Notes to Financial Statements  
September 30, 2013

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

Actuarial Assumptions:

Investment rate of return:	7.5% per year
Projected salary increases:	3% per annum
COLAS:	0%

(14) Subsequent Event

On October 1, 2013, RPPL 9-11 and RPPL 9-12 were enacted which amend Title 41 of the Palau National Code as follows:

- a. Allows eligible individuals born before January 4, 1954 to receive the full amount of the surviving spouse's insurance benefits along with other benefits;
- b. Increases minimum monthly benefits to \$148;
- c. Revises the basic benefit formula. Benefit payments paid monthly are computed upon an annual basis of 27% of the first \$11,000 of the cumulative covered earnings, plus 2.9% of the next \$33,000, plus 1.5% of the next \$44,000, plus 0.75% of the cumulative covered earnings in excess of \$500,000;
- d. Revises old age retirement insurance. A person who attains the age of sixty and retires prior to attaining the age at which that person becomes entitled to a monthly old age insurance benefit shall receive a monthly insurance benefit that is reduced by six percent for each year remaining before the person attains the age of entitlement. This provision shall apply to a person who is fully insured and has attained the age of sixty years by September 30, 2015, sixty-two years as of October 1, 2015, or sixty-three years as of October 1, 2020 and retired;
- e. Increases the maximum amount of remuneration received during a quarter from one employer by any one employee upon which contributions must be deducted and contributed to the retirement fund to \$3,000. The amount shall be increased to \$6,000 on October 1, 2015, \$8,000 on October 1, 2017 and on October 1, 2020, there will be no maximum amount of remuneration; and
- f. Increases the maximum amount of remuneration that a person may earn and still remain entitled to a full benefit to \$3,000.

**REPUBLIC OF PALAU**

**REQUIRED SUPPLEMENTARY INFORMATION  
- BUDGETARY REPORTING**

**YEAR ENDED SEPTEMBER 30, 2013**



**REPUBLIC OF PALAU**

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual  
General Fund (Fund 100100)  
Year Ended September 30, 2013

	Original Budget	Final Budget	Actual - Budgetary Basis (see note 1)	Variance
<b>Revenues:</b>				
Local revenue	\$ 44,866,100	\$ 46,813,234	\$ 43,182,039	\$ (3,631,195)
Compact funding - Section 211(a)	6,000,000	6,000,000	6,000,000	-
Compact funding - Section 215 inflation adjustment	5,147,000	5,147,000	5,147,000	-
Net change in the fair value of investments	-	-	68,771	68,771
Other	-	122,344	555,308	432,964
<b>Total revenues</b>	<u>56,013,100</u>	<u>58,082,578</u>	<u>54,953,118</u>	<u>(3,129,460)</u>
<b>Expenditures - budgetary basis:</b>				
Office of the President	1,086,732	1,209,076	1,205,143	3,933
Office of the Vice-President	373,769	373,769	343,648	30,121
Ministry of Finance	2,701,508	2,736,508	3,004,130	(267,622)
Ministry of State	2,334,841	2,349,841	2,269,120	80,721
Ministry of Community and Cultural Affairs	982,776	982,776	955,028	27,748
Ministry of Education	7,059,700	7,059,700	6,761,564	298,136
Ministry of Public Infrastructure, Industry and Commerce	9,545,558	10,605,558	9,961,263	644,295
Ministry of Justice	3,925,581	3,925,581	3,794,200	131,381
Ministry of Health	8,531,424	9,380,424	9,245,364	135,060
Ministry of Natural Resources, Environment and Tourism	1,233,593	1,244,593	1,231,703	12,890
Boards, Commissions and Authorities	616,045	656,076	602,816	53,260
Judicial Branch	2,200,000	2,200,000	2,199,656	344
Legislative Branch	4,190,326	4,322,826	4,310,691	12,135
State Block Grants	5,163,600	5,374,303	5,362,553	11,750
Independent Agencies	1,878,031	1,891,931	1,812,388	79,543
Other Agencies and Activities	2,810,986	2,810,986	3,217,174	(406,188)
Education Assistance	3,171,000	3,171,000	3,171,000	-
Other Appropriations	5,636,171	6,216,171	4,374,538	1,841,633
<b>Total expenditures</b>	<u>63,441,641</u>	<u>66,511,119</u>	<u>63,821,979</u>	<u>2,689,140</u>
<b>Deficiency of revenues under expenditures</b>	<u>(7,428,541)</u>	<u>(8,428,541)</u>	<u>(8,868,861)</u>	<u>(440,320)</u>
<b>Other financing sources (uses):</b>				
Loan proceeds	2,237,000	3,237,000	-	(3,237,000)
Operating transfers in	8,300,000	8,300,000	11,332,534	3,032,534
Operating transfers out	(3,668,000)	(3,668,000)	(4,020,956)	(352,956)
<b>Total other financing sources (uses), net</b>	<u>6,869,000</u>	<u>7,869,000</u>	<u>7,311,578</u>	<u>(557,422)</u>
	(559,541)	(559,541)	(1,557,283)	(997,742)
<b>Other changes:</b>				
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	559,541	559,541	2,008,471	1,448,930
<b>Net change in fund balance</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 451,188</u>	<u>\$ 451,188</u>

See Accompanying Notes to Required Supplementary Information - Budgetary Reporting.

**REPUBLIC OF PALAU**

Notes to Required Supplementary Information - Budgetary Reporting  
September 30, 2013

(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>451,188</u>	\$ <u>2,008,471</u>
GASB 54 Funds included within the General Fund:		
Financial Institutions Commission Fund (Fund 100116)	(2,043)	1,311
Scholarship Fund (Fund 100150)	47,724	107
Non-Lapsing Fund (Fund 100200)	1,779,350	37,243
Receivable Fund (Fund 100900)	4,754	3,199
Compact Section 211(e) Fund (Fund 311500)	16	-
Compact Section 213 Fund (Fund 313000)	432,626	-
Local CIP Fund (Fund 410100)	(33,781)	20,252
DOI CIP Fund (Fund 430100)	(180,453)	-
Debt Service Fund (Fund 600000)	(2,767,959)	-
Judiciary Fund	<u>(14,719)</u>	<u>-</u>
	<u>(734,485)</u>	<u>62,112</u>
	\$ <u>(283,297)</u>	\$ <u>2,070,583</u>

See Accompanying Independent Auditors' Report.

**REPUBLIC OF PALAU**

**OTHER SUPPLEMENTARY INFORMATION**

**YEAR ENDED SEPTEMBER 30, 2013**

**REPUBLIC OF PALAU**

**GENERAL FUND**

September 30, 2013

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, 2013**

	<b>100150</b>	<b>311300</b>	<b>311400</b>	<b>311500</b>	<b>313000</b>	<b>321000</b>	
	General	Scholarship	Compact Section 211 (c)	Compact Section 211 (d)	Compact Section 211 (e)	Compact Section 213	Compact Section 221 (b)
<b>ASSETS</b>							
Cash and cash equivalents	\$ 5,933,084	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Investments	1,193,148	-	-	-	448,213	2,896,230	-
Receivables, net:							
Taxes	4,226,030	-	-	-	-	-	-
General	240,492	-	-	-	-	-	-
Accrued interest	-	-	-	-	-	2,934	-
Due from component units	-	-	-	-	-	-	-
Due from other funds	137,731,895	-	102,889	48,136	-	-	-
Advances	173,859	(584)	-	-	-	-	-
Inventory	46,468	-	-	-	-	-	-
Prepaid items	112,904	-	-	-	-	-	-
Restricted assets:							
Cash and cash equivalents	304,154	-	-	-	-	-	-
Total assets	<u>\$ 149,962,034</u>	<u>\$ (584)</u>	<u>\$ 102,889</u>	<u>\$ 48,136</u>	<u>\$ 448,213</u>	<u>\$ 2,899,164</u>	<u>\$ -</u>
<b>LIABILITIES AND FUND BALANCES (DEFICIT)</b>							
<b>Liabilities:</b>							
Note payable	\$ 198,142	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Accounts payable	6,058,252	5,219	-	-	-	-	-
Due to State governments	2,981,242	-	-	-	-	-	-
Due to component units	1,617,010	-	-	-	-	-	-
Due to other funds	139,955,627	731,201	-	-	-	-	-
Accrued payroll and others	3,402,905	1,351	-	-	-	-	-
Other liabilities and accruals	1,421,925	-	-	-	-	-	-
Unearned revenue	-	-	-	-	-	-	-
Income tax refunds	817,561	-	-	-	-	-	-
Total liabilities	<u>156,452,664</u>	<u>737,771</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Fund balances (deficit):</b>							
Nonspendable	1,344,947	-	-	-	-	-	-
Restricted	1,587,795	-	-	-	-	-	-
Unassigned	(9,423,372)	(738,355)	102,889	48,136	448,213	2,899,164	-
Total fund balances (deficit)	<u>(6,490,630)</u>	<u>(738,355)</u>	<u>102,889</u>	<u>48,136</u>	<u>448,213</u>	<u>2,899,164</u>	<u>-</u>
Total liabilities and fund balances (deficit)	<u>\$ 149,962,034</u>	<u>\$ (584)</u>	<u>\$ 102,889</u>	<u>\$ 48,136</u>	<u>\$ 448,213</u>	<u>\$ 2,899,164</u>	<u>\$ -</u>

See Accompanying Independent Auditors' Report.

**REPUBLIC OF PALAU**

**GENERAL FUND**

**Combining Schedule of Balance Sheet Accounts, Continued  
September 30, 2013**

	<b>410100</b>	<b>430100</b>	<b>500100</b>	<b>600000</b>	<b>700100</b>		
	Local CIP	DOI CIP	Compact Section 212 (b)	Debt Service	ADB Loan Proceeds	Elimination	Total
<b>ASSETS</b>							
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,933,084
Investments	10,200	-	44,320	-	-	-	4,592,111
Receivables, net:							
Taxes	-	-	-	-	-	-	4,226,030
General	-	-	-	-	-	-	240,492
Accrued interest	-	-	-	-	-	-	2,934
Due from component units	-	-	-	-	1,000,000	-	1,000,000
Due from other funds	246,141	82,945	72,303	-	5,340,813	(141,197,504)	2,427,618
Advances	2,351	195	-	-	-	-	175,821
Inventory	-	-	-	-	-	-	46,468
Prepaid items	-	-	-	-	-	-	112,904
Restricted assets:							
Cash and cash equivalents	-	-	-	-	-	-	304,154
Total assets	<u>\$ 258,692</u>	<u>\$ 83,140</u>	<u>\$ 116,623</u>	<u>\$ -</u>	<u>\$ 6,340,813</u>	<u>\$ (141,197,504)</u>	<u>\$ 19,061,616</u>
<b>LIABILITIES AND FUND BALANCES (DEFICIT)</b>							
<b>Liabilities:</b>							
Note payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 198,142
Accounts payable	4,336	-	-	73,210	-	-	6,141,017
Due to State governments	-	-	-	-	-	-	2,981,242
Due to component units	-	-	-	991,625	-	-	2,608,635
Due to other funds	-	-	-	1,686,153	-	(141,197,504)	1,175,477
Accrued payroll and others	-	-	-	16,971	-	-	3,421,227
Other liabilities and accruals	-	-	-	-	-	-	1,421,925
Unearned revenue	-	180,454	-	-	-	-	180,454
Income tax refunds	-	-	-	-	-	-	817,561
Total liabilities	<u>4,336</u>	<u>180,454</u>	<u>-</u>	<u>2,767,959</u>	<u>-</u>	<u>(141,197,504)</u>	<u>18,945,680</u>
<b>Fund balances (deficit):</b>							
Nonspendable	-	-	-	-	1,000,000	-	2,344,947
Restricted	-	-	-	-	-	-	1,587,795
Unassigned	254,356	(97,314)	116,623	(2,767,959)	5,340,813	-	(3,816,806)
Total fund balances (deficit)	<u>254,356</u>	<u>(97,314)</u>	<u>116,623</u>	<u>(2,767,959)</u>	<u>6,340,813</u>	<u>-</u>	<u>115,936</u>
Total liabilities and fund balances (deficit)	<u>\$ 258,692</u>	<u>\$ 83,140</u>	<u>\$ 116,623</u>	<u>\$ -</u>	<u>\$ 6,340,813</u>	<u>\$ (141,197,504)</u>	<u>\$ 19,061,616</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, 2013**

	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)
<b>Revenues:</b>							
Taxes	\$ 36,706,205	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Compact funding	11,147,000	-	-	-	-	-	2,000,000
Net change in the fair value of investments	68,771	-	-	-	232	447,361	-
Fees and charges	8,801,277	-	-	-	-	-	-
Licenses and permits	1,642,494	-	-	-	-	-	-
Other	930,807	47,724	-	-	-	-	-
<b>Total revenues</b>	<b>59,296,554</b>	<b>47,724</b>	<b>-</b>	<b>-</b>	<b>232</b>	<b>447,361</b>	<b>2,000,000</b>
<b>Expenditures:</b>							
<b>Current:</b>							
Judicial Branch	2,214,375	-	-	-	-	-	-
Legislative Branch	4,265,474	-	-	-	-	-	-
Office of the President	1,177,489	-	-	-	-	-	-
Office of the Vice-President	341,447	-	-	-	-	-	-
Ministry of Finance	3,005,625	-	-	-	-	-	-
Ministry of State	2,257,244	-	-	-	-	-	-
Ministry of Community and Cultural Affairs	951,369	-	-	-	-	-	-
Ministry of Education	6,739,446	-	-	-	-	-	-
Ministry of Public Infrastructure, Industry and Commerce	8,215,998	-	-	-	-	-	-
Ministry of Justice	3,988,144	-	-	-	-	-	-
Ministry of Health	8,612,541	-	-	-	-	-	-
Ministry of Natural Resources, Environment and Tourism	1,231,456	-	-	-	-	-	-
Boards, Commissions, and Authorities	2,524,286	-	-	-	-	-	-
State Block Grants	5,362,553	-	-	-	-	-	-
Independent Agencies	2,968,811	-	-	-	-	-	-
Other Agencies and Activities	3,164,562	-	-	-	216	14,735	-
Education assistance	3,171,000	1,210,599	-	-	-	-	-
Typhoon emergency assistance	2,810,573	-	-	-	-	-	-
Financial and Compliance Audit	195,000	-	-	-	-	-	-
Compact Review Office	166,393	-	-	-	-	-	-
Health care fund contributions	320,000	-	-	-	-	-	-
Low-income assistance	26,700	-	-	-	-	-	-
Uighur Detainees Settlement Assistance	29,465	-	-	-	-	-	-
Pacific Mini Games	85,000	-	-	-	-	-	-
Festival of Arts	3,500	-	-	-	-	-	-
Claims and judgments	120,151	-	-	-	-	-	-
Bad debt	441,000	-	-	-	-	-	-
Capital projects	-	-	-	-	-	-	-
Debt service:							
Principal retirement	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-
<b>Total expenditures</b>	<b>64,389,602</b>	<b>1,210,599</b>	<b>-</b>	<b>-</b>	<b>216</b>	<b>14,735</b>	<b>-</b>
Excess (deficiency) of revenues over (under) expenditures	(5,093,048)	(1,162,875)	-	-	16	432,626	2,000,000
<b>Other financing sources (uses):</b>							
Operating transfers in	11,332,534	1,210,599	-	-	-	-	-
Operating transfers out	(4,020,956)	-	-	-	-	-	(2,000,000)
<b>Total other financing sources (uses), net</b>	<b>7,311,578</b>	<b>1,210,599</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(2,000,000)</b>
<b>Net change in fund balances (deficit)</b>	<b>2,218,530</b>	<b>47,724</b>	<b>-</b>	<b>-</b>	<b>16</b>	<b>432,626</b>	<b>-</b>
<b>Fund balances (deficit) at beginning of year</b>	<b>(8,709,160)</b>	<b>(786,079)</b>	<b>102,889</b>	<b>48,136</b>	<b>448,197</b>	<b>2,466,538</b>	<b>-</b>
<b>Fund balances (deficit) at end of year</b>	<b>\$ (6,490,630)</b>	<b>\$ (738,355)</b>	<b>\$ 102,889</b>	<b>\$ 48,136</b>	<b>\$ 448,213</b>	<b>\$ 2,899,164</b>	<b>\$ -</b>

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, 2013**

	410100	430100	500100	600000	700100		
	Local CIP	DOI CIP	Compact Section 212 (b)	Debt Service	ADB Loan Proceeds	Elimination	Total
<b>Revenues:</b>							
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 36,706,205
Compact funding	-	-	-	-	-	-	13,147,000
Net change in the fair value of investments	-	-	21	-	-	-	516,385
Fees and charges	-	-	-	-	-	-	8,801,277
Licenses and permits	-	-	-	-	-	-	1,642,494
Other	(908)	-	-	(4,661)	-	-	972,962
<b>Total revenues</b>	<b>(908)</b>	<b>-</b>	<b>21</b>	<b>(4,661)</b>	<b>-</b>	<b>-</b>	<b>61,786,323</b>
<b>Expenditures:</b>							
<b>Current:</b>							
Judicial Branch	-	-	-	-	-	-	2,214,375
Legislative Branch	-	-	-	-	-	-	4,265,474
Office of the President	-	-	-	-	-	-	1,177,489
Office of the Vice-President	-	-	-	-	-	-	341,447
Ministry of Finance	-	-	-	-	-	-	3,005,625
Ministry of State	-	-	-	-	-	-	2,257,244
Ministry of Community and Cultural Affairs	-	-	-	-	-	-	951,369
Ministry of Education	-	-	-	-	-	-	6,739,446
Ministry of Public Infrastructure, Industry and Commerce	-	-	-	-	-	-	8,215,998
Ministry of Justice	-	-	-	-	-	-	3,988,144
Ministry of Health	-	-	-	-	-	-	8,612,541
Ministry of Natural Resources, Environment and Tourism	-	-	-	-	-	-	1,231,456
Boards, Commissions, and Authorities	-	-	-	-	-	-	2,524,286
State Block Grants	-	-	-	-	-	-	5,362,553
Independent Agencies	-	-	-	-	-	-	2,968,811
Other Agencies and Activities	-	-	21	-	-	-	3,179,534
Education assistance	-	-	-	-	-	-	4,381,599
Pension plan interest	-	-	-	-	-	-	2,810,573
Financial and Compliance Audit	-	-	-	-	-	-	195,000
Compact Review Office	-	-	-	-	-	-	166,393
Health care fund contributions	-	-	-	-	-	-	320,000
Low-income assistance	-	-	-	-	-	-	26,700
Uighur Detainees Settlement Assistance	-	-	-	-	-	-	29,465
Pacific Mini Games	-	-	-	-	-	-	85,000
Festival of Arts	-	-	-	-	-	-	3,500
Claims and judgments	-	-	-	-	-	-	120,151
Bad debt	-	-	-	-	-	-	441,000
Capital projects	163,865	-	-	2,763,298	-	-	2,927,163
Debt service:							
Principal retirement	-	-	-	1,599,998	-	-	1,599,998
Interest	-	-	-	588,696	-	-	588,696
<b>Total expenditures</b>	<b>163,865</b>	<b>-</b>	<b>21</b>	<b>4,951,992</b>	<b>-</b>	<b>-</b>	<b>70,731,030</b>
Excess (deficiency) of revenues over (under) expenditures	(164,773)	-	-	(4,956,653)	-	-	(8,944,707)
<b>Other financing sources (uses):</b>							
Operating transfers in	130,992	-	-	2,188,694	-	(5,710,738)	9,152,081
Operating transfers out	-	(180,453)	-	-	-	5,710,738	(490,671)
<b>Total other financing sources (uses), net</b>	<b>130,992</b>	<b>(180,453)</b>	<b>-</b>	<b>2,188,694</b>	<b>-</b>	<b>-</b>	<b>8,661,410</b>
<b>Net change in fund balances (deficit)</b>	<b>(33,781)</b>	<b>(180,453)</b>	<b>-</b>	<b>(2,767,959)</b>	<b>-</b>	<b>-</b>	<b>(283,297)</b>
<b>Fund balances (deficit) at beginning of year</b>	<b>288,137</b>	<b>83,139</b>	<b>116,623</b>	<b>-</b>	<b>6,340,813</b>	<b>-</b>	<b>399,233</b>
<b>Fund balances (deficit) at end of year</b>	<b>\$ 254,356</b>	<b>\$ (97,314)</b>	<b>\$ 116,623</b>	<b>\$ (2,767,959)</b>	<b>\$ 6,340,813</b>	<b>\$ -</b>	<b>\$ 115,936</b>

See Accompanying Independent Auditors' Report.



**REPUBLIC OF PALAU**

**GENERAL FUND**

**Combining Schedule of Expenditures By Object  
Year Ended September 30, 2013**

	<b>100150</b>	<b>311300</b>	<b>311400</b>	<b>311500</b>	<b>313000</b>	<b>321000</b>	
	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	\$ 31,142,351	\$ 56,993	\$ -	\$ -	\$ -	\$ -	\$ -
Freight	21,352	-	-	-	-	-	-
Rentals	638,513	20	-	-	-	-	-
Communications and postage	865,909	837	-	-	-	-	-
Advertising	39,075	2,430	-	-	-	-	-
Medical referrals	341,526	-	-	-	-	-	-
Professional and contractual services	441,479	-	-	-	-	-	-
Supplies and materials	1,564,073	3,787	-	-	-	-	-
Petroleum products	873,803	493	-	-	-	-	-
Food stuffs	763,006	-	-	-	-	-	-
Books and library materials	136,452	-	-	-	-	-	-
Medical supplies	1,182,981	-	-	-	-	-	-
Travel	731,355	18,542	-	-	-	-	-
Equipment	316,902	-	-	-	-	-	-
Land	49,109	-	-	-	-	-	-
Insurance	64,187	-	-	-	-	-	-
Training	400	400	-	-	-	-	-
Donations	2,160,567	-	-	-	-	-	-
Payments of allotments/benefits	8,364,127	-	-	-	-	-	-
Representation and entertainment	17,194	-	-	-	-	-	-
Investment management fees	-	-	-	-	216	14,735	-
Dues, fees and registration	268,016	-	-	-	-	-	-
Board compensation	94,695	424,849	-	-	-	-	-
Employee incentive awards	700	-	-	-	-	-	-
Allowances	236,750	-	-	-	-	-	-
Repairs and maintenance	557,487	495	-	-	-	-	-
Construction	479,213	-	-	-	-	-	-
Vehicles	268,828	-	-	-	-	-	-
Furniture and fixtures	11,230	-	-	-	-	-	-
Computer software	26,248	-	-	-	-	-	-
Improvements	-	-	-	-	-	-	-
Utilities	5,231,625	-	-	-	-	-	-
Principal retirement	-	-	-	-	-	-	-
Interest charges	-	-	-	-	-	-	-
Bad debts	441,000	-	-	-	-	-	-
Student loans	-	309,673	-	-	-	-	-
Scholarships	-	392,080	-	-	-	-	-
Bank service fee	246,351	-	-	-	-	-	-
Grants and contributions	6,764,472	-	-	-	-	-	-
Miscellaneous	48,626	-	-	-	-	-	-
<b>Total expenditures</b>	<b>\$ 64,389,602</b>	<b>\$ 1,210,599</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 216</b>	<b>\$ 14,735</b>	<b>\$ -</b>

See Accompanying Independent Auditors' Report.

**REPUBLIC OF PALAU**

**GENERAL FUND**

Combining Schedule of Expenditures By Object, Continued  
Year Ended September 30, 2013

	410100	430100	500100	600000	700100		
	Local CIP	DOI CIP	Compact Section 212 (b)	Debt Service	ADB Loan Proceeds	Elimination	Total
Expenditures:							
Salaries and wages	\$ (34)	\$ -	\$ -	\$ 344,420	\$ -	\$ -	\$ 31,543,730
Freight	-	-	-	49	-	-	21,401
Rentals	396	-	-	29,854	-	-	668,783
Communications and postage	-	-	-	12,127	-	-	878,873
Advertising	-	-	-	10,271	-	-	51,776
Medical referrals	-	-	-	-	-	-	341,526
Professional and contractual services	6,900	-	-	130,213	-	-	578,592
Supplies and materials	1,723	-	-	132,395	-	-	1,701,978
Petroleum products	857	-	-	11,551	-	-	886,704
Food stuffs	1,760	-	-	837	-	-	765,603
Books and library materials	-	-	-	-	-	-	136,452
Medical supplies	-	-	-	-	-	-	1,182,981
Travel	5,067	-	-	19,322	-	-	774,286
Equipment	-	-	-	2,849	-	-	319,751
Land	-	-	-	-	-	-	49,109
Insurance	-	-	-	-	-	-	64,187
Training	-	-	-	16,600	-	-	17,400
Donations	-	-	-	-	-	-	2,160,567
Payments of allotments/benefits	-	-	-	-	-	-	8,364,127
Representation and entertainment	-	-	-	-	-	-	17,194
Investment management fees	-	-	21	-	-	-	14,972
Dues, fees and registration	-	-	-	1,053	-	-	269,069
Board compensation	-	-	-	4,025	-	-	523,569
Employee incentive awards	-	-	-	-	-	-	700
Allowances	-	-	-	-	-	-	236,750
Repairs and maintenance	9,000	-	-	9,256	-	-	576,238
Construction	14,104	-	-	32,498	-	-	525,815
Vehicles	-	-	-	-	-	-	268,828
Furniture and fixtures	-	-	-	-	-	-	11,230
Computer software	-	-	-	-	-	-	26,248
Improvements	124,092	-	-	-	-	-	124,092
Utilities	-	-	-	176,600	-	-	5,408,225
Principal retirement	-	-	-	1,599,998	-	-	1,599,998
Interest charges	-	-	-	588,696	-	-	588,696
Bad debts	-	-	-	-	-	-	441,000
Student loans	-	-	-	-	-	-	309,673
Scholarships	-	-	-	-	-	-	392,080
Bank service fee	-	-	-	-	-	-	246,351
Grants and contributions	-	-	-	1,819,716	-	-	8,584,188
Miscellaneous	-	-	-	9,662	-	-	58,288
<b>Total expenditures</b>	<b>\$ 163,865</b>	<b>\$ -</b>	<b>\$ 21</b>	<b>\$ 4,951,992</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 70,731,030</b>

See Accompanying Independent Auditors' Report.

**REPUBLIC OF PALAU**

**GENERAL FUND**

Schedule of Revenues  
Year Ended September 30, 2013  
(With comparative totals for the year ended September 30, 2012)

	2013	2012
Compact funding:		
Section 211(a)	\$ 6,000,000	\$ 6,000,000
Section 221(b)	2,000,000	-
Section 215 inflation adjustment	5,147,000	5,128,231
Total compact funding	13,147,000	11,128,231
Taxes:		
Gross receipts	12,196,018	12,066,499
Salary and wage	7,356,812	7,143,717
Alcohol and tobacco	5,561,299	5,663,182
Hotel occupancy	4,121,823	3,307,835
Travelers head	2,384,399	2,546,128
General import	2,175,399	2,107,327
Fish export	745,847	623,525
Fuel excise	744,847	697,133
Road use	431,582	456,659
Penalties, interest and delinquencies	430,832	688,992
Beverage container tax	414,199	363,030
Vessel cabin and foreign water vessel	143,373	133,592
Other	(225)	-
Total taxes	36,706,205	35,797,619
Licenses and permits:		
Foreign labor permits	966,974	1,003,150
Fishing rights fees	895,859	361,143
Business licenses	223,799	225,982
Foreign investment permits and fees	223,700	208,427
Court fines and fees	121,979	162,182
Corporate filing fees	36,832	27,872
Other licenses and permits	191,189	204,788
Total licenses and fees	2,660,332	2,193,544
Fees and charges:		
Green fees	3,398,389	1,847,920
Airport fees and rentals	2,255,438	1,924,676
Water utility charges	816,706	1,189,721
Sewer utility charges	389,959	511,046
Postal service	352,279	392,330
Banking fees	132,250	122,651
Palau passport fees	78,160	82,370
Seaport fees	34,600	31,250
Belau Mariculture Demonstration Center sales	3,106	3,271
Other	322,552	493,448
Total fees and charges	7,783,439	6,598,683
Net change in the fair value of investments	516,385	849,188
Other:		
Indirect cost recoveries	122,344	107,227
Other	850,618	454,853
Total other	972,962	562,080
Total revenues	\$ 61,786,323	\$ 57,129,345

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, 2013

	Budgeted Amounts		Actual	Variance
	Original	Final		
Revenues:				
Local revenue	\$ 44,866,100	\$ 46,813,234	\$ 43,182,039	(3,631,195)
Compact funding - Section 211(a)	6,000,000	6,000,000	6,000,000	-
Compact funding - Section 215 inflation adjustment	5,147,000	5,147,000	5,147,000	-
Net change in the fair value of investments	-	-	68,771	68,771
Other	-	122,344	555,308	432,964
<b>Total revenues</b>	<b>56,013,100</b>	<b>58,082,578</b>	<b>54,953,118</b>	<b>(3,129,460)</b>
Expenditures - budgetary basis:				
Office of the President:				
President's Office	847,584	847,584	846,381	1,203
Official Expenses	30,148	30,148	28,460	1,688
Indirect Cost Recoveries	-	122,344	122,344	-
Grants Coordinator Office	73,000	73,000	72,572	428
Council of Chiefs	103,000	103,000	102,578	422
Presidential Stipend	33,000	33,000	32,808	192
<b>Total Office of the President</b>	<b>1,086,732</b>	<b>1,209,076</b>	<b>1,205,143</b>	<b>3,933</b>
Office of the Vice-President:				
Vice-President's Office	252,724	252,724	231,716	21,008
National Emergency Management Office	121,045	121,045	111,932	9,113
<b>Total Office of the Vice-President</b>	<b>373,769</b>	<b>373,769</b>	<b>343,648</b>	<b>30,121</b>
Ministry of Finance:				
Office of the Minister	30,000	30,000	29,302	698
Indirect Costs	927	927	927	-
Administrative Overhead	516	516	516	-
Workmen's Compensation	37,000	37,000	35,545	1,455
Information System Support Service	187,050	187,050	185,632	1,418
Bureau of National Treasury	743,353	743,353	743,017	336
Bureau of Budget and Planning	235,242	260,242	258,022	2,220
Bureau of Public Service System	130,470	130,470	128,531	1,939
Bureau of Revenue, Customs and Taxation	1,336,950	1,346,950	1,345,573	1,377
Bank fees	-	-	277,065	(277,065)
<b>Total Ministry of Finance</b>	<b>2,701,508</b>	<b>2,736,508</b>	<b>3,004,130</b>	<b>(267,622)</b>
Ministry of State:				
Office of the Minister	15,000	15,000	14,929	71
Consulate Office in Guam	87,000	87,000	84,751	2,249
Consulate Office in Saipan	15,000	15,000	14,832	168
Embassy in Washington D.C.	270,686	243,686	238,778	4,908
Embassy in Japan	350,000	315,000	294,773	20,227
Embassy in Taiwan	79,000	79,000	77,509	1,491
Embassy in Manila, Philippines	100,000	105,000	98,789	6,211
United Nations Representative Office	197,000	249,000	246,041	2,959
Office of the Public Defender	190,000	190,000	182,520	7,480
Bureau of Trade and Foreign Affairs	388,000	443,000	442,445	555
Bureau of Domestic Affairs	268,155	258,155	256,324	1,831
Office of the Administration, Passport and Protocol	50,000	50,000	49,079	921
International Organizations Obligations	250,000	225,000	216,450	8,550
Southwest Islands Field Trips	75,000	75,000	51,900	23,100
<b>Total Ministry of State</b>	<b>2,334,841</b>	<b>2,349,841</b>	<b>2,269,120</b>	<b>80,721</b>
Ministry of Community and Cultural Affairs:				
Office of the Minister	55,500	61,500	61,018	482
Bureau of National Archives	75,040	75,040	73,883	1,157
Bureau of Youth, Sports and Recreation	166,000	179,000	178,213	787
Bureau of Aging and Gender	215,373	194,373	185,205	9,168
Sports Facilities Maintenance and Utilities	85,000	96,000	93,977	2,023
Bureau of Arts and Culture	140,863	131,863	127,305	4,558
Olehotel Belau Fair	20,000	20,000	20,000	-
Palau Severely Disabled Assistance Fund	225,000	225,000	215,427	9,573
<b>Total Ministry of Community and Cultural Affairs</b>	<b>982,776</b>	<b>982,776</b>	<b>955,028</b>	<b>27,748</b>

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, 2013

	Budgeted Amounts		Actual	Variance
	Original	Final		
<b>Ministry of Education:</b>				
Office of the Minister	45,000	45,000	16,750	28,250
School Books, Supplies and Instructional Equipment	311,426	311,426	284,627	26,799
Bureau of Curriculum and Instruction	383,213	373,213	307,856	65,357
Bureau of School Administration	5,620,061	5,620,061	5,461,685	158,376
Food Services Program	700,000	710,000	690,646	19,354
<b>Total Ministry of Education</b>	<b>7,059,700</b>	<b>7,059,700</b>	<b>6,761,564</b>	<b>298,136</b>
<b>Ministry of Public Infrastructure, Industry and Commerce:</b>				
Office of the Minister	45,000	45,000	41,470	3,530
OMIP, UNDP and Other Match	415,000	374,000	140	373,860
PALARIS	127,039	127,039	117,658	9,381
Bureau of Commercial Development	208,000	208,000	206,343	1,657
Palau Small Business Development Center (UOG)	39,000	39,000	39,000	-
Pacific Business Center Program (UH)	9,000	9,000	-	9,000
Bureau of Aviation	1,505,135	1,543,135	1,514,894	28,241
Bureau of Lands and Survey	800,043	800,043	784,826	15,217
Bureau of Public Works	1,203,707	1,363,707	1,304,778	58,929
Water and Sewer Operations	3,529,142	4,432,142	3,298,097	1,134,045
Melekeok/Capitol Sewer System	222,000	200,000	38,545	161,455
Landfill Operations	40,100	40,100	38,057	2,043
National Capitol Electricity/Maintenance	1,266,000	1,281,000	1,271,909	9,091
Capital Improvement Office	36,249	36,249	33,570	2,679
Contribution to Public Utilities Corporation	-	-	1,166,067	(1,166,067)
Rural Sanitation Project	100,143	107,143	105,909	1,234
<b>Total Ministry of Public Infrastructure, Industry and Commerce</b>	<b>9,545,558</b>	<b>10,605,558</b>	<b>9,961,263</b>	<b>644,295</b>
<b>Ministry of Justice:</b>				
Office of the Minister	20,000	20,000	19,324	676
Office of the Attorney General	400,000	410,000	395,744	14,256
Bureau of Immigration	330,540	330,540	304,280	26,260
Bureau of Public Safety	2,544,656	2,534,656	2,483,600	51,056
Bureau of Marine Law Enforcement	630,385	630,385	591,252	39,133
<b>Total Ministry of Justice</b>	<b>3,925,581</b>	<b>3,925,581</b>	<b>3,794,200</b>	<b>131,381</b>
<b>Ministry of Health:</b>				
Office of the Minister	55,500	55,500	54,667	833
National Cancer Control Prevention Administrative Cost	-	-	-	-
Bureau of Public Health	1,046,000	1,046,000	994,615	51,385
Health Administration	2,595,000	2,795,000	2,792,355	2,645
Manila Medical Referral Office	97,000	97,000	83,089	13,911
Hawaii Medical Referral Office	105,000	205,000	199,384	5,616
Medical Supplies and Drugs	687,647	1,187,647	1,174,785	12,862
Hemodialysis	516,430	516,430	516,355	75
Hyperbaric Chamber	72,000	72,000	71,328	672
Medical Referrals	300,847	300,847	300,821	26
Bureau of Clinical Service	3,056,000	2,856,000	2,823,135	32,865
Hospital Oxygen and A/C System Improvements	-	100,000	100,000	-
Hospital CT Scan Repairs	-	119,000	105,000	14,000
Taiwan Medical Referral	-	30,000	29,830	170
<b>Total Ministry of Health</b>	<b>8,531,424</b>	<b>9,380,424</b>	<b>9,245,364</b>	<b>135,060</b>
<b>Ministry of Natural Resources, Environment and Tourism:</b>				
Office of the Minister	55,500	55,500	55,268	232
Bureau of Marine Resources	527,142	509,142	502,845	6,297
Bureau of Agriculture	400,000	435,000	435,000	-
Bureau of Labor and Human Resources	250,951	244,951	238,590	6,361
<b>Total Ministry of Natural Resources, Environment and Tourism</b>	<b>1,233,593</b>	<b>1,244,593</b>	<b>1,231,703</b>	<b>12,890</b>
<b>Total Executive Branch</b>	<b>37,775,482</b>	<b>39,867,826</b>	<b>38,771,163</b>	<b>1,096,663</b>

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, 2013

	Budgeted Amounts		Actual	Variance
	Original	Final		
<b>Boards, Commissions and Authorities:</b>				
Foreign Investment Board	63,568	61,468	47,770	13,698
Palau Election Commission	180,434	188,834	185,408	3,426
Palau National Code Commission	34,000	30,900	21,337	9,563
Palau Public Lands Authority	100,774	118,774	117,300	1,474
Parole Board	25,500	26,400	20,671	5,729
Palau Housing Authority	59,000	59,000	59,000	-
Ethics Commission	33,000	30,400	18,413	11,987
Financial Intelligence Unit	50,110	50,110	49,236	874
Financial Institutions Commission	26,000	26,000	25,862	138
Ngardmau Free Trade Zone Authority	18,000	18,000	18,000	-
PSB Investigation	364	9,295	3,183	6,112
Language Commission	25,295	36,895	36,636	259
Total Boards, Commissions and Authorities	<u>616,045</u>	<u>656,076</u>	<u>602,816</u>	<u>53,260</u>
<b>Judicial Branch:</b>				
Judiciary	2,200,000	2,200,000	2,199,656	344
Total Judicial Branch	<u>2,200,000</u>	<u>2,200,000</u>	<u>2,199,656</u>	<u>344</u>
<b>Olbiil Era Kelulau:</b>				
Senate	1,560,860	1,620,860	1,617,786	3,074
Senate Legal Counsel Office	172,000	189,500	189,179	321
House of Delegates	1,972,812	2,016,812	2,015,894	918
Delegates Legal Counsel Office	209,654	200,654	194,603	6,051
Joint Staff	230,000	250,000	248,496	1,504
Association of Pacific Island Legislatures	10,000	10,000	10,000	-
Asian-Pacific Parliamentarians' Union	35,000	35,000	34,733	267
Total Legislative Branch	<u>4,190,326</u>	<u>4,322,826</u>	<u>4,310,691</u>	<u>12,135</u>
State Block Grants	5,163,600	5,374,303	5,362,553	11,750
<b>Independent Agencies:</b>				
Office of the Public Auditor	361,245	361,245	342,246	18,999
Office of the Special Prosecutor	80,896	80,896	53,498	27,398
Palau Environmental Quality Protection Board	335,234	329,134	301,330	27,804
National Postal Service	324,960	334,960	334,630	330
Palau Visitors Authority	635,000	635,000	635,000	-
National Aviation Administration	140,696	150,696	145,684	5,012
Total Independent Agencies	<u>1,878,031</u>	<u>1,891,931</u>	<u>1,812,388</u>	<u>79,543</u>
<b>Other Agencies and Activities:</b>				
Casino Gaming	528	528	-	528
Palau National Museum	163,000	163,000	162,952	48
Micronesia Legal Services	125,000	125,000	125,000	-
Palau Community Action Agency	196,000	196,000	196,000	-
Head Start Program Grant Match Funds	93,000	93,000	93,000	-
Palau Red Cross	9,000	9,000	9,000	-
WIA Grant Contribution	89,000	89,000	84,908	4,092
Civic Action Team Share	250,000	250,000	250,000	-
Peace Corps Contribution	28,458	28,458	18,952	9,506
PNOC and Sports Organizations	170,000	170,000	168,634	1,366
Palau International Coral Reef Center	357,000	357,000	357,000	-
Youth Congress	5,000	5,000	5,000	-
Palau Little League/T Ball	5,000	5,000	5,000	-
Cost of Living Allowance	1,300,000	1,300,000	1,280,728	19,272
Bad debt	-	-	441,000	(441,000)
Ngarachamayong Cultural Center	20,000	20,000	20,000	-
Total Other Agencies and Activities	<u>2,810,986</u>	<u>2,810,986</u>	<u>3,217,174</u>	<u>(406,188)</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, 2013

	Budgeted Amounts		Actual	Variance
	Original	Final		
<b>Education Assistance:</b>				
Palau Community College Operations	2,338,000	2,338,000	2,338,000	-
PCC Board of Trustees	38,000	38,000	38,000	-
PCC CRE Program	35,000	35,000	35,000	-
COM Board of Regents	25,000	25,000	25,000	-
Aid to Non-Public Schools	735,000	735,000	735,000	-
Total Education Assistance	<u>3,171,000</u>	<u>3,171,000</u>	<u>3,171,000</u>	<u>-</u>
<b>Other Appropriations:</b>				
Financial and Compliance Audit	227,500	227,500	227,500	-
Compact Review Office	305,161	305,161	171,058	134,103
Health Care Fund Contributions	100,000	320,000	320,000	-
Low-Income Assistance	-	75,000	26,700	48,300
Police Officers	-	120,000	50,000	70,000
Typhoon Emergency	5,000,000	5,000,000	3,412,206	1,587,794
Claims on Civil Action 03-384	-	50,000	49,109	891
Uighur Detainees Settlement Assistance	-	30,000	29,465	535
9th Pacific Mini Games	-	85,000	85,000	-
11th Festival of Pacific Arts	3,510	3,510	3,500	10
Total Other Appropriations	<u>5,636,171</u>	<u>6,216,171</u>	<u>4,374,538</u>	<u>1,841,633</u>
Total expenditures	<u>63,441,641</u>	<u>66,511,119</u>	<u>63,821,979</u>	<u>2,689,140</u>
Deficiency of revenues under expenditures	<u>(7,428,541)</u>	<u>(8,428,541)</u>	<u>(8,868,861)</u>	<u>(440,320)</u>
<b>Other financing sources (uses):</b>				
Loan proceeds	2,237,000	3,237,000	-	(3,237,000)
<b>Operating transfers in:</b>				
Non-Lapsing Fund	1,300,000	1,300,000	-	(1,300,000)
U.S. Federal Grants Fund	-	-	27,017	27,017
OTIA Direct Grants Fund	-	-	53,156	53,156
Other Non U.S. Federal Grants Fund	-	-	124,647	124,647
Non-DOI Capital Projects Fund	-	-	33,003	33,003
DOI CIP Fund	-	-	180,453	180,453
Hospital Trust Fund	-	-	914,258	914,258
Other Country Grants Fund	-	-	3,000,000	3,000,000
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>10,537,000</u>	<u>11,537,000</u>	<u>11,332,534</u>	<u>(204,466)</u>
<b>Operating transfers out:</b>				
Debt Service Fund	(2,398,000)	(2,398,000)	(2,188,694)	209,306
Other Country Grants	-	-	(340,772)	(340,772)
Other Grants	-	-	(180,992)	(180,992)
Other Non U.S. Federal Grants	-	-	(55,882)	(55,882)
Non-DOI Capital Projects	-	-	(44,017)	(44,017)
National Scholarship Fund	(1,270,000)	(1,270,000)	(1,210,599)	59,401
Total other financing uses	<u>(3,668,000)</u>	<u>(3,668,000)</u>	<u>(4,020,956)</u>	<u>(352,956)</u>
Total other financing sources (uses), net	<u>6,869,000</u>	<u>7,869,000</u>	<u>7,311,578</u>	<u>(557,422)</u>
	(559,541)	(559,541)	(1,557,283)	(997,742)
<b>Other changes:</b>				
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	559,541	559,541	2,008,471	1,448,930
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 451,188</u>	<u>\$ 451,188</u>

See Accompanying Independent Auditors' Report.

**REPUBLIC OF PALAU**

**GRANTS FUND**

September 30, 2013

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, 2013

	<b>341000</b>	<b>350100</b>	<b>350200</b>	<b>360100</b>	<b>420100</b>	<b>440100</b>	
	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	-	2,368,081	450,479	-	1,230,870	-	4,049,430
Due from other funds	-	-	-	712,453	-	-	712,453
Advances	-	77,842	26	17,004	-	12,798	107,670
Prepaid items	-	201,095	30	62,472	-	866,769	1,130,366
Total assets	<u>\$ -</u>	<u>\$ 2,648,295</u>	<u>\$ 450,535</u>	<u>\$ 791,929</u>	<u>\$ 1,230,870</u>	<u>\$ 879,567</u>	<u>\$ 6,001,196</u>
<u>LIABILITIES AND FUND BALANCES</u>							
Liabilities:							
Accounts payable	\$ -	\$ 810,660	\$ 112,188	\$ 177,468	\$ -	\$ 683,400	\$ 1,783,716
Contracts payable	-	-	-	-	1,170,581	-	1,170,581
Unearned revenues	-	-	-	607,806	-	161,392	769,198
Other liabilities and accruals	-	86,901	-	6,655	893	8,514	102,963
Due to other funds	-	1,744,394	329,833	-	59,396	26,261	2,159,884
Total liabilities	<u>-</u>	<u>2,641,955</u>	<u>442,021</u>	<u>791,929</u>	<u>1,230,870</u>	<u>879,567</u>	<u>5,986,342</u>
Fund balances:							
Nonspendable	-	201,095	30	62,472	-	866,769	1,130,366
Restricted	-	-	8,484	-	-	-	8,484
Unassigned	-	(194,755)	-	(62,472)	-	(866,769)	(1,123,996)
Total fund balances	<u>-</u>	<u>6,340</u>	<u>8,514</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>14,854</u>
Total liabilities and fund balances	<u>\$ -</u>	<u>\$ 2,648,295</u>	<u>\$ 450,535</u>	<u>\$ 791,929</u>	<u>\$ 1,230,870</u>	<u>\$ 879,567</u>	<u>\$ 6,001,196</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, 2013**

	<b>341000</b>	<b>350100</b>	<b>350200</b>	<b>360100</b>	<b>420100</b>	<b>440100</b>	
	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
<b>Revenues:</b>							
Federal contributions	\$ -	\$ 9,425,005	\$ 291,729	\$ -	\$ 3,516,887	\$ -	\$ 13,233,621
Other grants	-	-	52,680	1,828,469	-	8,665,330	10,546,479
Total revenues	-	9,425,005	344,409	1,828,469	3,516,887	8,665,330	23,780,100
<b>Expenditures:</b>							
<b>Current:</b>							
Legislative Branch	-	-	-	35,251	-	-	35,251
Office of the President	-	294,304	11,250	104,064	-	-	409,618
Ministry of Finance	-	-	-	272,970	-	-	272,970
Ministry of State	-	-	-	67,708	-	-	67,708
Ministry of Community and Cultural Affairs	-	-	-	2,745	-	-	2,745
Ministry of Education	-	3,751,403	-	53,385	-	-	3,804,788
Ministry of Public Infrastructure, Industry and Commerce	-	-	-	626,668	-	-	626,668
Ministry of Justice	-	84,964	25,947	26,160	-	-	137,071
Ministry of Health	-	4,919,695	-	326,569	-	-	5,246,264
Ministry of Natural Resources, Environment and Tourism	-	89,416	-	48,785	-	-	138,201
Independent Agencies	-	-	9,239	156,609	-	-	165,848
Financial and Compliance Audit	-	-	245,293	-	-	-	245,293
Other	-	286,562	-	38,790	-	-	325,352
Capital projects	-	-	-	-	3,516,887	6,056,102	9,572,989
Total expenditures	-	9,426,344	291,729	1,759,704	3,516,887	6,056,102	21,050,766
Excess (deficiency) of revenues over (under) expenditures	-	(1,339)	52,680	68,765	-	2,609,228	2,729,334
<b>Other financing uses:</b>							
Operating transfers in	-	-	-	55,882	44,017	390,772	490,671
Operating transfers out	-	(27,017)	(53,156)	(124,647)	(33,003)	(3,000,000)	(3,237,823)
Net change in fund balances (deficit)	-	(28,356)	(476)	-	11,014	-	(17,818)
Fund balances (deficit) at beginning of year	-	34,696	8,990	-	(11,014)	-	32,672
Fund balances at end of year	\$ -	\$ 6,340	\$ 8,514	\$ -	\$ -	\$ -	\$ 14,854

See Accompanying Independent Auditors' Report.

**REPUBLIC OF PALAU**

**GRANTS FUND**

**Combining Schedule of Expenditures By Object  
Year Ended September 30, 2013**

	<b>341000</b>	<b>350100</b>	<b>350200</b>	<b>360100</b>	<b>420100</b>	<b>440100</b>	
	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	\$ -	\$ 3,753,345	\$ 20,835	\$ 405,820	\$ 24,005	\$ 447,847	\$ 4,651,852
Freight	-	10,187	-	-	-	-	10,187
Rentals	-	169,198	-	90,288	-	16,155	275,641
Communications and postage	-	131,079	3,337	15,324	-	15,842	165,582
Advertising	-	60,432	1,293	17,543	-	2,383	81,651
Professional and contractual services	-	1,281,585	264,489	490,833	-	701,521	2,738,428
Supplies and materials	-	569,181	-	101,410	-	111,087	781,678
Petroleum products	-	136,687	-	41,903	-	49,425	228,015
Food stuffs	-	20,738	-	52,301	-	15,863	88,902
Books and library materials	-	137,811	-	-	-	-	137,811
Medical supplies	-	296,887	-	-	-	-	296,887
Travel	-	990,339	1,775	112,831	190	65,723	1,170,858
Equipment	-	357,317	-	48,156	-	321,369	726,842
Insurance	-	644	-	644	-	-	1,288
Training	-	26,157	-	26,100	-	-	52,257
Donations	-	2,789	-	3,035	-	26,730	32,554
Payments of allotments/benefits	-	294,304	-	(1,713)	-	292,300	584,891
Representation and entertainment	-	-	-	1,000	-	150	1,150
Dues, fees and registration	-	35,622	-	255	-	1,550	37,427
Board compensation	-	158,180	-	115,517	-	-	273,697
Employee incentive awards	-	9,250	-	-	-	-	9,250
Allowances	-	70	-	-	-	-	70
Repairs and maintenance	-	123,058	-	7,479	-	85,491	216,028
Construction	-	8,434	-	202,456	3,492,692	3,613,568	7,317,150
Machinery	-	-	-	-	-	227,168	227,168
Vehicles	-	61,185	-	16,890	-	35,075	113,150
Computer software	-	12,935	-	-	-	-	12,935
Utilities	-	57,371	-	2,389	-	26,855	86,615
Scholarships	-	599,166	-	3,200	-	-	602,366
Bank service fee	-	-	-	84	-	-	84
Miscellaneous	-	128,352	-	-	-	-	128,352
<b>Total expenditures</b>	<b>\$ -</b>	<b>\$ 9,432,303</b>	<b>\$ 291,729</b>	<b>\$ 1,753,745</b>	<b>\$ 3,516,887</b>	<b>\$ 6,056,102</b>	<b>\$ 21,050,766</b>

See Accompanying Independent Auditors' Report.

## REPUBLIC OF PALAU

### NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS

September 30, 2013

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, 2013

	<b>100115</b>	<b>100130</b>	<b>100140</b>	<b>100145</b>	<b>100147</b>	<b>100148</b>	<b>100160</b>	<b>100165</b>	<b>300100</b>	<b>311120</b>	
	Drug Fine Collection	Hospital Trust	Palauan Ed Textbook Development and Sales	Public and Law Access Unit	Sports Facilities Trust	Operator License	EQP Trust	Road Maintenance	Agrifund	Compact Section 211(b) Energy	Total
<b>ASSETS</b>											
Investments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 29	\$ 29
Receivables, net:											
General	-	-	-	-	-	-	-	-	-	1,226	1,226
Due from other funds	-	229,434	50	16,383	416	8,306	90,737	77,325	-	40,373	463,024
Prepaid items	-	20,413	-	-	-	-	-	-	-	-	20,413
Restricted assets:											
Investments	-	-	-	-	-	-	-	-	-	2,999,888	2,999,888
Total assets	<u>\$ -</u>	<u>\$ 249,847</u>	<u>\$ 50</u>	<u>\$ 16,383</u>	<u>\$ 416</u>	<u>\$ 8,306</u>	<u>\$ 90,737</u>	<u>\$ 77,325</u>	<u>\$ -</u>	<u>\$ 3,041,516</u>	<u>\$ 3,484,580</u>
<b>LIABILITIES AND FUND BALANCES</b>											
<b>(DEFICIT)</b>											
Liabilities:											
Accounts payable	\$ -	\$ 249,847	\$ -	\$ 1,207	\$ -	\$ 7,776	\$ 11,042	\$ -	\$ -	\$ -	\$ 269,872
Due to other funds	16,391	-	-	-	-	-	-	-	2,499	-	18,890
Total liabilities	<u>16,391</u>	<u>249,847</u>	<u>-</u>	<u>1,207</u>	<u>-</u>	<u>7,776</u>	<u>11,042</u>	<u>-</u>	<u>2,499</u>	<u>-</u>	<u>288,762</u>
Fund balances (deficit):											
Nonspendable	-	20,413	-	-	-	-	-	-	-	-	20,413
Restricted	-	-	-	-	-	-	-	-	-	3,041,516	3,041,516
Committed	-	-	50	15,176	416	530	79,695	77,325	-	-	173,192
Unassigned	(16,391)	(20,413)	-	-	-	-	-	-	(2,499)	-	(39,303)
Total fund balances (deficit)	<u>(16,391)</u>	<u>-</u>	<u>50</u>	<u>15,176</u>	<u>416</u>	<u>530</u>	<u>79,695</u>	<u>77,325</u>	<u>(2,499)</u>	<u>3,041,516</u>	<u>3,195,818</u>
Total liabilities and fund balances	<u>\$ -</u>	<u>\$ 249,847</u>	<u>\$ 50</u>	<u>\$ 16,383</u>	<u>\$ 416</u>	<u>\$ 8,306</u>	<u>\$ 90,737</u>	<u>\$ 77,325</u>	<u>\$ -</u>	<u>\$ 3,041,516</u>	<u>\$ 3,484,580</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, 2013

	<b>100115</b>	<b>100130</b>	<b>100140</b>	<b>100145</b>	<b>100147</b>	<b>100148</b>	<b>100160</b>	<b>100165</b>	<b>300100</b>	<b>311120</b>	
	Drug Fine Collection	Hospital Trust	Palauan Ed Textbook Development and Sales	Public and Law Access Unit	Sports Facilities Trust	Operator License Fund	EQPB Trust	Road Maintenance	Agrifund	Compact Section 211(b) Energy	Total
<b>Revenues:</b>											
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 77,325	\$ -	\$ -	\$ 77,325
Fees and charges	6,220	3,026,269	50	23,032	-	53,500	101,216	-	-	-	3,210,287
Licenses and permits	-	7,976	-	-	-	-	-	-	-	-	7,976
Net change in the fair value of investments	-	-	-	-	-	-	-	-	-	6,082	6,082
<b>Total revenues</b>	<b>6,220</b>	<b>3,034,245</b>	<b>50</b>	<b>23,032</b>	<b>-</b>	<b>53,500</b>	<b>101,216</b>	<b>77,325</b>	<b>-</b>	<b>6,082</b>	<b>3,301,670</b>
<b>Expenditures:</b>											
<b>Current:</b>											
Ministry of State	-	-	-	7,699	-	-	-	-	-	-	7,699
Ministry of Justice	5,000	-	-	-	-	44,565	-	-	-	-	49,565
Ministry of Health	-	2,375,409	-	-	-	-	-	-	-	-	2,375,409
Independent Agencies	-	-	-	-	-	-	14,584	-	-	-	14,584
Investment management fees	-	-	-	-	-	-	-	-	-	6,019	6,019
<b>Total expenditures</b>	<b>5,000</b>	<b>2,375,409</b>	<b>-</b>	<b>7,699</b>	<b>-</b>	<b>44,565</b>	<b>14,584</b>	<b>-</b>	<b>-</b>	<b>6,019</b>	<b>2,453,276</b>
Excess of revenues over expenditures	1,220	658,836	50	15,333	-	8,935	86,632	77,325	-	63	848,394
<b>Other financing uses:</b>											
Operating transfers out	-	(914,258)	-	-	-	-	-	-	-	-	(914,258)
Net change in fund balances (deficit)	1,220	(255,422)	50	15,333	-	8,935	86,632	77,325	-	63	(65,864)
Fund balances (deficit) at beginning of year	(17,611)	255,422	-	(157)	416	(8,405)	(6,937)	-	(2,499)	3,041,453	3,261,682
Fund balances (deficit) at end of year	\$ (16,391)	\$ -	\$ 50	\$ 15,176	\$ 416	\$ 530	\$ 79,695	\$ 77,325	\$ (2,499)	\$ 3,041,516	\$ 3,195,818

See Accompanying Independent Auditors' Report.

**REPUBLIC OF PALAU**

**NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS**

Combining Schedule of Expenditures by Object  
Year Ended September 30, 2013

	<b>100115</b>	<b>100130</b>	<b>100140</b>	<b>100145</b>	<b>100147</b>	<b>100148</b>	<b>100160</b>	<b>100165</b>	<b>300100</b>	<b>311120</b>	
	Drug Fine Collection	Hospital Trust	Palauan Ed Textbook Development and Sales	Public and Law Access Unit	Sports Facilities Trust	Operator License Fund	EQPB Trust	Road Maintenance	Agrifund	Compact Section 211(b) Energy	Total
Expenditures:											
Salaries and wages	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,074	\$ -	\$ -	\$ -	\$ 1,074
Freight	-	19,587	-	35	-	-	-	-	-	-	19,622
Communications and postage	-	-	-	305	-	-	382	-	-	-	687
Medical referrals	-	1,251,512	-	-	-	-	-	-	-	-	1,251,512
Supplies and materials	-	22,776	-	3,628	-	21,833	11,470	-	-	-	59,707
Petroleum products	-	-	-	-	-	-	935	-	-	-	935
Food stuffs	-	913	-	-	-	-	432	-	-	-	1,345
Medical supplies	-	1,043,806	-	-	-	-	-	-	-	-	1,043,806
Travel	-	4,336	-	-	-	-	-	-	-	-	4,336
Equipment	-	-	-	1,028	-	9,891	-	-	-	-	10,919
Investment management fees	-	-	-	-	-	-	-	-	-	6,019	6,019
Dues, fees and registration	-	-	-	140	-	-	-	-	-	-	140
Repairs and maintenance	-	32,371	-	-	-	12,841	70	-	-	-	45,282
Utilities	-	-	-	2,563	-	-	-	-	-	-	2,563
Bank service fee	-	108	-	-	-	-	-	-	-	-	108
Miscellaneous	5,000	-	-	-	-	-	221	-	-	-	5,221
<b>Total expenditures</b>	<b>\$ 5,000</b>	<b>\$ 2,375,409</b>	<b>\$ -</b>	<b>\$ 7,699</b>	<b>\$ -</b>	<b>\$ 44,565</b>	<b>\$ 14,584</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 6,019</b>	<b>\$ 2,453,276</b>

See Accompanying Independent Auditors' Report.

**REPUBLIC OF PALAU**

**OTHER INFORMATION**

September 30, 2013

A brief discussion of other information presented for additional analysis as of September 30, 2013, 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, 2013

	General	Special	Permanent	Other	Total
		Revenue		Governmental	
		Grants	Compact	Funds	
			Section 211(f)		
Expenditures:					
Salaries and wages	\$ 31,543,730	\$ 4,651,852	\$ -	\$ 1,074	\$ 36,196,656
Freight	21,401	10,187	-	19,622	51,210
Rentals	668,783	275,641	-	-	944,424
Communications and postage	878,873	165,582	-	687	1,045,142
Advertising	51,776	81,651	-	-	133,427
Medical referrals	341,526	-	-	1,251,512	1,593,038
Professional and contractual services	578,592	2,738,428	-	-	3,317,020
Supplies and materials	1,701,978	781,678	-	59,707	2,543,363
Petroleum products	886,704	228,015	-	935	1,115,654
Food stuffs	765,603	88,902	-	1,345	855,850
Books and library materials	136,452	137,811	-	-	274,263
Medical supplies	1,182,981	296,887	-	1,043,806	2,523,674
Travel	774,286	1,170,858	-	4,336	1,949,480
Equipment	319,751	726,842	-	10,919	1,057,512
Land	49,109	-	-	-	49,109
Insurance	64,187	1,288	-	-	65,475
Training	17,400	52,257	-	-	69,657
Donations	2,160,567	32,554	-	-	2,193,121
Payments of allotments/benefits	8,364,127	584,891	-	-	8,949,018
Representation and entertainment	17,194	1,150	-	-	18,344
Investment management fees	14,972	-	1,059,468	6,019	1,080,459
Dues, fees and registration	269,069	37,427	-	140	306,636
Board compensation	523,569	273,697	-	-	797,266
Employee incentive awards	700	9,250	-	-	9,950
Allowances	236,750	70	-	-	236,820
Repairs and maintenance	576,238	216,028	-	45,282	837,548
Construction	525,815	7,317,150	-	-	7,842,965
Machinery	-	227,168	-	-	227,168
Vehicles	268,828	113,150	-	-	381,978
Furniture and fixtures	11,230	-	-	-	11,230
Computer software	26,248	12,935	-	-	39,183
Improvements	124,092	-	-	-	124,092
Utilities	5,408,225	86,615	-	-	5,494,840
Principal retirement	1,599,998	-	-	-	1,599,998
Interest charges	588,696	-	-	-	588,696
Bad debts	441,000	-	-	-	441,000
Student loans	309,673	-	-	-	309,673
Scholarships	392,080	602,366	-	-	994,446
Bank service fee	246,351	84	-	2,563	248,998
Grants and contributions	8,584,188	-	-	108	8,584,296
Miscellaneous	58,288	128,352	-	5,221	191,861
	<u>\$ 70,731,030</u>	<u>\$ 21,050,766</u>	<u>\$ 1,059,468</u>	<u>\$ 2,453,276</u>	<u>\$ 95,294,540</u>

See Accompanying Independent Auditors' Report.

**REPUBLIC OF PALAU**

**OTHER COUNTRY GRANTS FUND**

Schedule of Expenditures of Other Country Grants  
Year Ended September 30, 2013

Cost Center	Grantor Account Title	Budget Authorizations	Receivable from Grantor (Deferred Revenue) at 9/30/12	Cash Receipts FY2013	Expenditures FY2013	Receivable from Grantor (Deferred Revenue) at 9/30/13
<u>STATE ECONOMIC STIMULUS PACKAGE 2006</u>						
R64827	NORTH BABELDAOB WATERLINE	\$ 115,000	\$ 5,509	\$ -	\$ -	\$ 5,509
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	3,415,000	(21,186)	-	-	(21,186)
<u>STATE ECONOMIC STIMULUS PACKAGE 2008</u>						
B80101	AIMELIK ROAD REPAIR PROJ	25,000	-	-	-	-
B80102	ELECHUI WATER SYS - PH II	150,000	(7,234)	-	-	(7,234)
B80103	AIMELIK PUBL WORKS BLDG	50,000	(5,000)	-	-	(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	203,777	-	-	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	(15,166)	-	-	(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	(22,386)	-	-	(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 COMPLEX INFO SUPPL	347,000	(154,957)	-	-	(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	(6,222)	-	-	(6,222)
<u>STATE ECONOMIC STIMULUS PACKAGE 2009</u>						
B90701	MELEKEOK MAIN ROAD	850,000	(5,632)	-	5,500	(132)
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	3,239	-	-	3,239
B91101	NGERMLENGUI BRIDGE	640,000	(3,218)	-	-	(3,218)
R94824	KOKSAI/NGCHESAR ACCESS RD	5,000,000	(6,147)	-	-	(6,147)
	SUB TOTAL	11,000,000	(5,502)	-	5,500	(2)

See Accompanying Independent Auditors' Report

**REPUBLIC OF PALAU**

**OTHER COUNTRY GRANTS FUND**

Schedule of Expenditures of Other Country Grants  
Year Ended September 30, 2013

Cost Center	Grantor Account Title	Budget Authorizations	Receivable from Grantor (Deferred Revenue) at 9/30/12	Cash Receipts FY2013	Expenditures FY2013	Receivable from Grantor (Deferred Revenue) at 9/30/13
<u>STATE ECONOMIC STIMULUS PACKAGE 2010</u>						
B00201	RABIT FISH HATCHERY FY2010	400,000	(2,282)	-	-	(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	30,096	-	-	30,096
B01301	NGCHESAR CONCRETE ROAD FY2010	600,000	(33,879)	-	-	(33,879)
H04850	MOH EQUIP & OTHERS FY2010	1,500,000	(3,267)	-	-	(3,267)
R04821	ENERGY EFFICIENT BUILDING FY2010	445,000	-	-	-	-
R04824	KOKSAI-NGCHESAR ROAD II FY2010	3,000,000	356,339	340,771	-	15,568
R04830	AGRI DEV. CENTER FY2010	750,000	(57)	-	78,976	78,919
R04835	COCONUT TREE PLANTING FY2010	175,000	-	-	-	-
R04837	MALAKAL MARINE RESOURCE FY2010	750,000	(204)	-	-	(204)
R04840	STATE MARINE SANCTUARY FY2010	400,000	(1,256)	-	-	(1,256)
R04842	TWN EXPERT AGRICULTURE FY2010	150,000	(1,580)	-	-	(1,580)
R04844	BEAUTIFICATION PROJECT FY2010	100,000	20,000	-	-	20,000
R04871	PCC SCHOOL OF EXCELLENCE FY2010	300,000	-	-	-	-
R04872	BASKETBALL COURTS FY2010	150,000	68	-	-	68
R04873	MOE SOLAR PROJECT FY2010	600,000	-	-	-	-
<b>TOTAL FY2010 STIMULUS GRANTS</b>		<b>10,000,000</b>	<b>338,183</b>	<b>340,771</b>	<b>78,976</b>	<b>76,388</b>
<u>STATE ECONOMIC STIMULUS PACKAGE 2011</u>						
B10101	KOKSAI-NEKKEN RD. FY2011	525,000	(1,007)	100,000	-	(101,007)
B10201	RABIT FISH HATCH EQP FY11	30,000	-	-	-	-
B10202	AIRAI ROAD FY2011	350,000	(200)	-	-	(200)
B10601	NGERMID RD PROJ. PHI FY11	400,000	(350)	-	-	(350)
B10602	T/M-DOCK RD. REHAB FY2011	500,000	(639)	-	-	(639)
B10701	MELKEOK HIST PIER FY2011	200,000	(4,996)	-	4,716	(280)
B10801	NGARARD RD. ULF-ELAB FY11	150,000	74,912	-	23,149	98,061
B10802	NGARARD RD. NGKEKLAU FY11	250,000	22,808	-	-	22,808
B10901	NGARCHELONG ROAD FY2011	275,000	(4)	-	-	(4)
B10902	BADRULCHAU TOUR.CNTR FY11	50,000	(11,911)	-	11,977	66
B11001	NGARDMAU RD. PHIII FY2011	250,000	(5,314)	-	-	(5,314)
B11101	NGERML ROAD REHAB FY2011	500,000	(19,223)	-	-	(19,223)
B11201	TWN EXPERT AQUA FY2011	29,000	(9,500)	-	-	(9,500)
B11301	NGCHESAR ST. ROAD FY2011	250,000	137,444	162,500	28,350	3,294
C14821	JUDICIARY INFO SYST FY'11	820,000	(11,001)	-	-	(11,001)
R14824	KOKSAI-NGCHSR RD PII FY11	4,000,000	3,569	-	-	3,569
R14830	LIVESTOCK DEV. PROJ FY'11	173,000	35,656	-	11,812	47,468
R14837	MALAKAL MRN RES PHII FY11	500,000	(2)	-	-	(2)
R14842	TWN EXPERT AGRI FY2011	29,000	-	-	(10,500)	(10,500)
R14844	GREEN REVLTN PHII FY'11	300,000	39,076	47,500	8,008	(416)
R14971	KOR SEWER PMP UPG FY2011	400,000	(1,163)	-	-	(1,163)
R1PE01	TWN INFRA PROJ. EVAL FY11	19,000	-	-	-	-
<b>TOTAL FY2011 STIMULUS GRANTS</b>		<b>10,000,000</b>	<b>248,155</b>	<b>310,000</b>	<b>77,512</b>	<b>15,667</b>
<u>STATE ECONOMIC STIMULUS PACKAGE 2012</u>						
B20104	KOKS-NEKN RD PH II FY2012	500,000	(206,951)	75,000	382,859	100,908
B20105	AIM CONN. ROAD PHII 2012	150,000	5,646	100,000	84,219	(10,135)
B20202	RBT FISH FLTING CAGE 2012	60,000	(6,000)	54,000	50,000	(10,000)
B20203	AIRAI RD REHAB PH VI 2012	600,000	(171,917)	30,000	183,911	(18,006)
B20204	OMIKOLL WATER LINE 2012	50,000	(9,498)	40,000	43,750	(5,748)
B20205	NGRKIL WTR DIST SYS 2012	300,000	(8,068)	130,000	128,711	(9,357)
B20305	ANGAUR BUCKHOE X2 FY2012	100,000	(50,000)	-	-	(50,000)
B20501	KAYANGEL SOLAR FY2012	100,000	26,160	70,000	6,240	(37,600)

See Accompanying Independent Auditors' Report

**REPUBLIC OF PALAU**

**OTHER COUNTRY GRANTS FUND**

Schedule of Expenditures of Other Country Grants  
Year Ended September 30, 2013

Cost Center	Grantor Account Title	Budget Authorizations	Receivable from Grantor (Deferred Revenue) at 9/30/12	Cash Receipts FY2013	Expenditures FY2013	Receivable from Grantor (Deferred Revenue) at 9/30/13
B20601	NGERMID RD REHAB P11 2012	320,000	(31,237)	32,000	74,638	11,401
B20602	T-DOCK PHASE II 2012	320,000	(56,561)	-	50,578	(5,983)
B20603	IYEBUKEL ROAD REHAB 2012	400,000	(43,209)	180,000	221,496	(1,713)
B20604	NGERBECHED RD REHAB 2012	335,000	61,808	134,000	70,267	(1,925)
B20605	MALAKAL PRT RD REHAB 2012	120,000	23,835	60,000	32,431	(3,734)
B20606	YANOS MARKT ACCES RD 2012	55,000	(8,458)	15,000	11,653	(11,805)
B20607	DESEKEL RD. REHAB 2012	250,000	9,503	62,500	52,940	(57)
B20608	PPUC/MALAKAL RD 2012	100,000	(7,203)	10,000	15,835	(1,368)
B20609	POST TO HEADSTART RD 2012	150,000	(10,401)	15,000	41,200	15,799
B20802	NGARAARD ROAD REHAB 2012	100,000	(113,402)	-	15,440	(97,962)
B20901	NGERCH WATER SYST 2012	350,000	(1,001)	150,000	142,457	(8,544)
B21001	NGARDMAU ROAD P IV 2012	100,000	(19,397)	-	15,560	(3,837)
B21103	NGRML RD REHAB PH II 2012	400,000	33,754	100,000	67,311	1,065
B21401	NGIWAL ROAD REHAB 2012	100,000	(18,052)	-	16,789	(1,263)
B21502	PELELIU GRADERS X2 FY2012	100,000	50,000	-	-	50,000
E24871	PHS DORM PROJ. FY2012	700,000	(4,314)	490,000	494,222	(92)
R24821	PROJECT EVALUATOR FY2012	25,000	12,500	12,500	-	-
R24824	KOKSAI-NGCHSR RD PII FY12	3,500,000	112,953	1,500,000	1,196,790	(190,257)
R24830	ANIMAL PRODUCTION 2012	492,400	(252,770)	26,080	279,900	1,050
R24837	GROUPEY PROJECT FY2012	182,600	-	54,780	54,780	-
R24840	FISHING AGGR. DEVICE 2012	40,000	(4,735)	7,750	45,480	32,995
	<b>SUB TOTAL</b>	<b>10,000,000</b>	<b>(687,015)</b>	<b>3,348,610</b>	<b>3,779,457</b>	<b>(256,168)</b>
B24996	CERAMIC ARTS PROJ FY2012	86,805	-	-	-	-
J24826	KORDA UUEDEL BELAU	100,000	455	-	-	455
R24901	BUOY REHAB 2012	24,242	(24,242)	-	-	(24,242)
	<b>SUB TOTAL</b>	<b>211,047</b>	<b>(23,787)</b>	<b>-</b>	<b>-</b>	<b>(23,787)</b>
	<b>TOTAL FY2012 STIMULUS GRANTS</b>	<b>10,211,047</b>	<b>(710,802)</b>	<b>3,348,610</b>	<b>3,779,457</b>	<b>(279,955)</b>
A34816	POSTAL SERVICE POS & IT S	65,000	-	-	9,864	9,864
A34820	PVA OMR SCANNER & SOFTWARE	70,000	-	-	-	-
B30101	AIMELIHK HEAVY EQUIPMENT	225,000	-	-	10,000	10,000
B30101	AIMELIHK HEAVY EQUIPMENT	-	-	-	-	-
B30202	NGERIKIL PUMP STATION	30,000	-	-	-	-
B30301	ANGAUR STATE BOAT	150,000	-	22,500	142,300	119,800
B30501	KAYANGEL STATE BOAT	150,000	-	22,500	-	(22,500)
B30501	KAYANGEL STATE BOAT	-	-	-	-	-
B30601	KB BRIDGE KOROR-SIDE	200,000	-	15,000	-	(15,000)
B30601	KB BRIDGE KOROR-SIDE	-	-	-	-	-
B30602	MEYUNS OLD AIRPORT	200,000	-	15,000	-	(15,000)
B30602	MEYUNS OLD AIRPORT	-	-	-	-	-
B30606	NGERBECHED RD PAVING PROJ	150,000	-	-	-	-
B30801	NGARAARD RD IMPROVE PROJ	300,000	-	45,000	-	(45,000)
B30801	NGARAARD RD IMPROVE PROJ	-	-	-	-	-
B30802	NGERCHOKL SITE DEVEL PROJ	150,000	-	22,500	-	(22,500)
B30802	NGERCHOKL SITE DEVEL PROJ	-	-	-	-	-
B31001	NGARDMAU ROAD IMPROVE PRO	300,000	-	45,000	-	(45,000)
B31001	NGARDMAU ROAD IMPROVE PRO	-	-	-	-	-
B31201	NGATPANG ROAD IMPROVE PRO	500,000	-	75,000	-	(75,000)
B31201	NGATPANG ROAD IMPROVE PRO	-	-	-	-	-
B31203	NGATPANG MILKFISH FARM PR	65,000	-	-	65,000	65,000
B31301	NGCHESAR ROAD IMPROVE PRO	325,000	-	70,000	40,517	(29,483)
B31301	NGCHESAR ROAD IMPROVE PRO	-	-	-	-	-
B31401	NGIWAL ROAD IMPROVE PROJ	300,000	-	45,000	49,801	4,801

See Accompanying Independent Auditors' Report

**REPUBLIC OF PALAU**

**OTHER COUNTRY GRANTS FUND**

Schedule of Expenditures of Other Country Grants  
Year Ended September 30, 2013

Cost Center	Grantor Account Title	Budget Authorizations	Receivable from Grantor (Deferred Revenue) at 9/30/12	Cash Receipts FY2013	Expenditures FY2013	Receivable from Grantor (Deferred Revenue) at 9/30/13
B31401	NGIWAL ROAD IMPROVE PROJ	-	-	-	-	-
B31405	NGIWAL FORCE ACCT PROJECT	50,000	-	-	-	-
B31501	PELELIU HEAVY EQUIP REPAI	14,000	-	-	9,365	9,365
B31601	TELECOMMUNICATION UPGRADE	75,000	-	-	-	-
C34943	BELAU GAMES	16,000	-	-	15,500	15,500
E34874	JUNIOR STATESMEN CONTRIBU	10,000	-	-	10,000	10,000
F34815	BUD SUPPORT TYPHOON BOPHA	4,000,000	-	3,000,000	3,000,000	-
F34817	CUSTOMS INFO SYS IMPROVE	1,100,000	-	500,000	4,698	(495,302)
F34818	INFO & TELECOM SYS & TECH U	400,000	-	120,000	36,195	(83,805)
F34847	BBP INSTITUTIONAL STRENGT	100,000	-	50,000	23,160	(26,840)
F3DDDU	DRUG DETECTOR DOG UNIT	100,000	-	-	34,601	34,601
G3PRO1	PROPERTY REPAIRS & MAINT	100,000	-	-	51,224	51,224
G3VEH1	GOVT VEHICLE REPRS & ACQU	-	-	-	38,182	38,182
J34921	PSS REMELIIK HALFLIFE REF	64,000	-	-	-	-
J34925	JUVENILE DETENTION CENTER	10,000	-	-	-	-
J3PEFI	POLICE EQUIP & FAC IMPROV	50,000	-	-	-	-
M34834	INVASIVE SPECIES COMMITTEE	25,000	-	-	25,000	25,000
P34944	INDEPENDENCE DAY CELEB	100,000	-	-	47,059	47,059
P3PRS1	PRES IT IMPROVEMENTS	200,000	-	-	95,319	95,319
P3PRS2	PRESIDENT'S SUMMIT	25,000	-	-	23,839	23,839
R34813	MOF PARKING LOT CONCRETIN	75,000	-	-	-	-
R34816	POSTAL SERV PARKING CONCR	50,000	-	-	-	-
R34819	A/C CHILLERS & PREVENT	600,000	-	120,000	262,429	142,429
R34822	MOLD ERADICATION PKG D	75,000	-	18,750	66,412	47,662
R34827	STRUCTURAL REPAIR PKG E-I	300,000	-	-	-	-
R34828	ACCESS ROADS & PARKING RE	-	-	93,750	-	(93,750)
R34829	ELECMECH & CIV WKS PKGC	100,000	-	15,000	28,472	13,472
R34830	ANIMAL HUSBNRDY PROJ 2013	300,000	-	210,000	210,000	-
R34837	GROUPE RESTOCKING 2013	500,000	-	350,000	350,000	-
R34966	MELEKEOK SEWER SYSTEM IMP	600,000	-	120,000	290,057	170,057
		<u>12,219,000</u>	<u>-</u>	<u>4,975,000</u>	<u>4,938,994</u>	<u>(36,006)</u>
<b><u>ROC TAIWAN PROJECT CENTRAL ADMINISTRATIVE COST</u></b>						
R04999	ROC TWN ADMIN COST	668,957	(131,200)	-	107,880	(23,320)
R14999	ROC TWN ADMIN COST	-	-	-	9,463	9,463
R24999	AIRAI NGERIKIIL ROAD	-	51,930	6,469	58,320	103,781
SUB TOTAL		<u>668,957</u>	<u>(79,270)</u>	<u>6,469</u>	<u>175,663</u>	<u>89,924</u>
GRAND TOTAL		<u>\$ 67,225,004</u>	<u>\$ (236,644)</u>	<u>\$ 8,980,850</u>	<u>\$ 9,056,102</u>	<u>\$ (161,392)</u>

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**REPUBLIC OF PALAU**

**OTHER NON-U.S. FEDERAL GRANTS FUND**

Schedule of Expenditures of Other Non-U.S. Federal Grants  
Year Ended September 30, 2013

Fund 360100 Grantor Account Title	Cost Center	Authorization	Receivable from Grantor (Deferred Revenue) at 9/30/12	(Revenues) Cash Receipts FY 2013	Expenditures FY 2013	Receivable from Grantor (Deferred Revenue) at 9/30/13
<u>UNFPA Grant</u>						
UNFPA FY 1996	H63920	\$ 57,889	\$ 1,058	\$ 1,058	\$ -	\$ -
MCCA-GENDER POLICY 2013	C33920	10,000	-	10,000	-	(10,000)
GENDER FHSS FY'12 MOF	F2FHSS	13,435	(13,435)	29,724	73,968	30,809
GENDER FHSS 2013	F3FHSS	195,525	-	-	69,694	69,694
GENDER FHSS FY'12	H2FHSS	31,565	(5,387)	21,790	78,979	51,802
RHCS FY'12	H2RHCS	308,414	(4,105)	-	4,000	(105)
Total UNFPA Grant		<u>616,828</u>	<u>(21,869)</u>	<u>62,572</u>	<u>226,641</u>	<u>142,200</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		<u>116,950</u>	<u>(9,696)</u>	<u>-</u>	<u>5,000</u>	<u>(4,696)</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	743	-	2,119	2,862
WHO OTHERS	H0WHO2	10,000	(18,898)	-	16,925	(1,973)
PHARMACY TECH ONLINE TRNG	H0WHO3	14,929	172	-	2,043	2,215
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	(212)	-	-	(212)
BPMS STRATEGIC PLAN	H9WHO4	24,000	(1,518)	-	-	(1,518)
TOBACCO	H9WHO5	3,000	-	-	-	-
WHO HEALTHY WORK PLACE	H9WHO6	27,000	(5)	-	9,520	9,515
WHO INJURY PREVENTION	H9WHO7	12,500	(1,320)	-	-	(1,320)
POLHN	H9WHO8	26,000	71	-	-	71
Gender Tobacco	H9WHO9	15,000	(11)	-	-	(11)
LF & NTD SUREVEY	H1WHO0	12,000	(4,581)	-	-	(4,581)
COLLEGE OF HEALTH	H1WHO1	40,200	(12,025)	-	19,640	7,615
STEPS TRAINING FY2011	H1WHO2	5,000	(11,347)	-	1,441	(9,906)
HLTH COMM TRAINING FY2011	H1WHO3	7,000	(9,893)	-	-	(9,893)
SCHL GARDENING PROG FY11	H1WHO4	20,000	(28,200)	-	14,609	(13,591)
WHO FELLOWSHIP PROG FY11	H1WHO5	45,000	23,104	-	-	23,104

See Accompanying Independent Auditors' Report.

# REPUBLIC OF PALAU

## OTHER NON-U.S. FEDERAL GRANTS FUND

### Schedule of Expenditures of Other Non-U.S. Federal Grants Year Ended September 30, 2013

MOH LIBRARY UPGRD POLN	H1WHO6	39,700	(11,143)	-	9,633	(1,510)
WHO TOBACCO	H1WHO7	34,400	(4,327)	-	8,062	3,735
CLIMATE CHANGE FY11	H1WHO8	5,000	(1,450)	-	-	(1,450)
PW NTAT'L STEPS SURVEY	H1WHO9	64,700	(11,910)	20,000	14,456	(17,454)
WHO IMMUNIZATION TRNG '12	H23927	15,300	(15,300)	-	8,976	(6,324)
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	-	1,327	7,770
2ND PNEC NCD PREVENTION & CONTROL	H2WHO4	9,900	8,201	-	-	8,201
ICS MEETING MOH F/UP FY '12	H2WHO5	9,800	6,954	-	2,846	9,800
NCP PREVENTION WORKSHOP MOE FY '12	H2WHO6	23,180	(14,713)	-	2,650	(12,063)
INT'L HEALTH LOGISTIC SUPP	H2WHO7	27,200	(21,544)	-	18,161	(3,383)
INT'L HEALTH STRATEGIC PLAN	H2WHO8	15,450	(15,450)	-	20,400	4,950
NCD WORKSHOP YOUTH CONF	H2WHO9	3,810	3,810	-	3,365	7,175
RETAILER & SALT REDUCTION	H3WHO0	8,500	-	8,500	-	(8,500)
PEN TRAINING	H3WHO1	9,700	-	9,700	6,350	(3,350)
WORLD NO TOBACCO DAY 2013	H3WHO2	11,960	-	11,960	8,685	(3,275)
PW HALF MARATHON 2013	H3WHO3	9,254	-	9,254	-	(9,254)
PW BLUE RIBBON CAMPGN	H3WHO4	4,000	-	13,550	-	(13,550)
WROKSHOP ON TOBACCO TAX	H3WHO5	9,950	-	9,950	-	(9,950)
PROF DEV ORAL HEALTH WORKFORCE	H3WHO6	5,400	-	5,400	-	(5,400)
NARCOTICS WORKSHOP	H3WHO7	3,581	-	3,581	-	(3,581)
Total WHO APW health Career Trng		709,854	(126,624)	91,895	171,208	(47,311)
<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		653,642	25	25	-	-
<u>Climate Change (UN) GET</u>						
National Biodiversity Plan	A23930	330,000	(11,870)	-	11,870	-
Climate Change Interim	A43930	15,000	(314)	-	314	-
2ND National Comm. UNFCCC	A63930	405,000	115,010	15,000	-	100,010
PAC ADAPT TO CLIMATE CHNG	A93930	741,000	82,094	197,000	(21,423)	(136,329)
PACC MOH - Implementing Partner	H13930	17,000	(5,625)	(44,000)	-	38,375
PACC BMR - Implementing Partner	M13930	11,000	(4,708)	(57,500)	2,083	54,875
PACC BOA - Implementing partner	N13930	11,000	(695)	(54,500)	-	53,805
PACC Palaris - Implementing Partner	R13930	20,000	23,763	(100,000)	35,543	159,306
PACC EQPB PROJECT	R23930	5,472	5,472	-	702	6,174
Total Climate Change (UN) GET		1,555,472	203,127	(44,000)	29,089	276,216
<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>						
Inte'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		408,775	3,132	3,700	568	-

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**REPUBLIC OF PALAU**

**OTHER NON-U.S. FEDERAL GRANTS FUND**

Schedule of Expenditures of Other Non-U.S. Federal Grants  
Year Ended September 30, 2013

<u>UNDP (WSSD Grants)</u>						
UNDP (WSSD) Projects	A23934	5,965	(50)	-	50	-
CEDAW Translation	C0UN01	4,000	-	-	-	-
Int'l Women's Day 2010	C0UN02	2,000	-	-	-	-
17th Annual Women's Conference	C0UN03	1,000	-	-	-	-
Total UNDP		<u>12,965</u>	<u>(50)</u>	<u>-</u>	<u>50</u>	<u>-</u>
<u>SPREP</u>						
Ozone Depleting Substance	A33936	50,000	8,085	-	-	8,085
Ozone Depleting Substance	A73936	26,733	9,037	-	-	9,037
Ozone Depleting Substance	A03936	60,000	(5,409)	-	11,009	5,600
Ozone Depleting Substance	A13936	26,688	(17,411)	12,000	10,562	(18,849)
Ozone Depleting Substance	A23936	48,000	-	48,000	15,942	(32,058)
Total SPREP		<u>211,421</u>	<u>(5,698)</u>	<u>60,000</u>	<u>37,513</u>	<u>(28,185)</u>
<u>PADI Aware Foundation</u>						
Project Aware	A33937	<u>1,500</u>	<u>21,284</u>	<u>21,284</u>	<u>-</u>	<u>-</u>
<u>UN Pops Grants</u>						
U.N. Pops Grant	A33938	346,400	11,816	11,816	-	-
EQPB- UNEP POP/NIP 2013	R33938	<u>27,000</u>	<u>-</u>	<u>27,000</u>	<u>14,114</u>	<u>(12,886)</u>
		<u>373,400</u>	<u>11,816</u>	<u>38,816</u>	<u>14,114</u>	<u>(12,886)</u>
<u>UNDP (NCSA) Global Env. Mgmt</u>						
UNDP (Global Env. Mgmt.)	A33939	<u>25,000</u>	<u>24,838</u>	<u>24,838</u>	<u>-</u>	<u>-</u>
<u>UNICEF</u>						
Justice Program	J33940	6,200	(345)	-	345	-
UNICEF - PCPBR	H33940	<u>22,450</u>	<u>-</u>	<u>28,510</u>	<u>5,200</u>	<u>(23,310)</u>
		<u>28,650</u>	<u>(345)</u>	<u>28,510</u>	<u>5,545</u>	<u>(23,310)</u>
<u>PALAU NCSA</u>						
PALAU NCSA - TTP/03/G41	F43943	<u>200,000</u>	<u>(29,792)</u>	<u>-</u>	<u>29,792</u>	<u>-</u>
<u>Access to Benefit Sharing</u>						
Access to Benefit Sharing Program	F43945	<u>31,343</u>	<u>(19)</u>	<u>-</u>	<u>19</u>	<u>-</u>
<u>FOOD &amp; AGRICULTURE</u>						
National Forest Policy	R53946	<u>4,350</u>	<u>(833)</u>	<u>-</u>	<u>833</u>	<u>-</u>
<u>REPORT ON BIODIVERSITY</u>						
NR4 GEF-CBD BTNA Phase II	A03947	15,000	22,818	-	-	22,818
3rd Report on Biodiversity	A63947	<u>16,500</u>	<u>(199)</u>	<u>-</u>	<u>-</u>	<u>(199)</u>
Total Reportn on Biodiversity		<u>31,500</u>	<u>22,619</u>	<u>-</u>	<u>-</u>	<u>22,619</u>
<u>8th OEK Orientation &amp; WRKS</u>						
8th OEK Oreintation & WRKS	K93948	22,000	(281)	-	-	(281)
Support to ROP Congress Projects	K13948	<u>200,000</u>	<u>(659)</u>	<u>40,000</u>	<u>35,251</u>	<u>(5,408)</u>
		<u>222,000</u>	<u>(940)</u>	<u>40,000</u>	<u>35,251</u>	<u>(5,689)</u>
<u>UNEP / FNR-RIO</u>						
FNR to Rio Convention	A03949	<u>34,567</u>	<u>1,730</u>	<u>-</u>	<u>-</u>	<u>1,730</u>

See Accompanying Independent Auditors' Report.



**REPUBLIC OF PALAU**

**OTHER NON-U.S. FEDERAL GRANTS FUND**

Schedule of Expenditures of Other Non-U.S. Federal Grants  
Year Ended September 30, 2013

<u>SAICM - EQPB</u>						
QSP Trust Fund - SAICM	R93951	125,000	(14,664)	-	-	(14,664)
<u>TNC GRANTS</u>						
PAN LEGAL FRAMEWORK FY13	M3TNC1	5,000	-	5,000	-	(5,000)
FISHERY DATA COLLECTION	M3TNC2	10,000	-	10,000	600	(9,400)
		<u>15,000</u>	<u>-</u>	<u>15,000</u>	<u>600</u>	<u>(14,400)</u>
<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	(20,000)	(15,575)	13,712	9,287
		<u>97,314</u>	<u>(21,307)</u>	<u>(15,575)</u>	<u>15,019</u>	<u>9,287</u>
<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		<u>151,197</u>	<u>(6,945)</u>	<u>5</u>	<u>6,950</u>	<u>-</u>
<u>SPREP Grants (Fruit Fly)</u>						
SPREP Grants (Fruit Fly)	R23957	4,495	(15)	-	15	-
National Invasive Species	R33957	15,102	-	23,248	28,753	5,505
		<u>19,597</u>	<u>(15)</u>	<u>23,248</u>	<u>28,768</u>	<u>5,505</u>
<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	126	126	-	-
		<u>129,532</u>	<u>(452)</u>	<u>126</u>	<u>578</u>	<u>-</u>
<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	(8)	-	-	(8)
<u>Secretariat Pacific Comm</u>						
Secretariat Pacific Comm	R13961	6,000	2,837	2,837	-	-
GCCA/PSIS OERC 2013	A33961	107,352	-	54,164	5,759	(48,405)
		<u>113,352</u>	<u>2,837</u>	<u>57,001</u>	<u>5,759</u>	<u>(48,405)</u>
<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	-

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# REPUBLIC OF PALAU

## OTHER NON-U.S. FEDERAL GRANTS FUND

### Schedule of Expenditures of Other Non-U.S. Federal Grants Year Ended September 30, 2013

<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)		200,000	21,225	21,225	-	-
Infor Dev. Planning (IBRD)	A93965	103,627	(21,380)	-	21,380	-
Total Info Dev. Planning (IBRD)		303,627	(155)	21,225	21,380	-
<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	943	943	-	-
EMBASSY OF ROC- BOPHA	N33966	-	-	100,000	-	(100,000)
PRES UN/PIF MEETING	P33966	50,000	-	50,000	41,554	(8,446)
Total Republic of China Grants		402,087	(16,619)	150,943	59,116	(108,446)
<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	-	-	-	-
WTR SECT CLIMATE CHANGE VULN	Q33967	333,000	-	333,000	25	(332,975)
PIFS PELELIU DS& PGS 2013	R33967	450,000	-	450,000	405,000	(45,000)
Total Forum Secretariat Grants		818,931	(254)	785,028	407,307	(377,975)
<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	-
FFA - President's Office	A13969	39,000	(70)	-	70	-
FFA - President's Office	A23969	61,195	(50)	-	50	-
FFA - President's Office	A33969	71,194	(1,474)	-	1,474	-
36TH PACIFIC ISLS FORUM	A53969	68,360	(47)	-	47	-
FFA - President's Office	A73969	86,100	(258)	-	258	-
FFA - President's Office	A83969	14,980	(14,980)	-	14,980	-
FFA - 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		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	-

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**REPUBLIC OF PALAU**

**OTHER NON-U.S. FEDERAL GRANTS FUND**

Schedule of Expenditures of Other Non-U.S. Federal Grants  
Year Ended September 30, 2013

<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	(34,027)	16,575	26,160	(24,442)
Marine Law Observer	J8FFA1	25,000	(2,765)	-	2,765	-
Palau PDF 15%	R03971	74,774	(6,790)	-	7,589	799
42nd PIF Leaders Meeting	R13971	63,842	(3,099)	-	3,099	-
Fisheries & Maritime Cons.	R23971	30,000	25	25	-	-
55th Tuna Conference	R43971	16,203	(190)	-	190	-
FFC59 MEETING IN MAJURO	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	-
FFA 2013	R33971	25,000	-	25,000	11,843	(13,157)
Total Fisheries Forum Agency		<u>719,056</u>	<u>(100,266)</u>	<u>66,600</u>	<u>130,066</u>	<u>(36,800)</u>
<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		<u>43,027</u>	<u>(4,345)</u>	<u>-</u>	<u>4,345</u>	<u>-</u>
<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)		<u>90,752</u>	<u>(15,301)</u>	<u>25</u>	<u>15,326</u>	<u>-</u>
<u>GIS/GPS Tarining (SPREP)</u>						
GIS/GPS Training	R23973	32,296	(2,860)	-	-	(2,860)
<u>Tax Equipment Furniture &amp; Supplies</u>						
Tax Equipment Furniture & Supplies	A83973	25,000	(260)	-	260	-
		<u>25,000</u>	<u>(260)</u>	<u>-</u>	<u>260</u>	<u>-</u>
<u>Palau Youth Empowerment Fund</u>						
Palau Youth Empowerment Fund 1998	C83974	53,551	(12,773)	-	12,773	-
PMA Port Samplers (SPC)	R63974	14,790	(392)	-	392	-
Total Palau Youth Empowerment Fund		<u>68,341</u>	<u>(13,165)</u>	<u>-</u>	<u>13,165</u>	<u>-</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	(12,248)	-	-	(12,248)
MCCA-BPNA Survey Analysis	C1ARC2	12,558	-	-	2,745	2,745
Pur Microfilm Read/Printer	C65001	8,600	(298)	-	298	-
TESOL TRAINING 2013	E33975	34,800	-	34,800	11,000	(23,800)
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)	-	20,064	64
Ramsar Wetl'ds Cons Fund	S70201	6,796	(5,721)	-	5,721	-
Total Australian Grants		<u>117,635</u>	<u>(44,623)</u>	<u>34,800</u>	<u>46,184</u>	<u>(33,239)</u>

See Accompanying Independent Auditors' Report.

**REPUBLIC OF PALAU**

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Year Ended September 30, 2013

<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		42,738	(1,314)	-	1,314	-
<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		150,000	(142)	-	142	-
<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	(1,975)	-	1,752	(223)
Total SPREP Grants		54,048	(2,264)	-	2,041	(223)
<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	6,748	-	8,978	15,726
Total WildAid-Packard Foundation		265,634	17,543	14,049	12,232	15,726
<u>Marine Res Conservation</u>						
Marine Res Conservation	R53980	38,900	(4,764)	-	4,764	-
<u>CDC &amp; 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 &amp; 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		99,100	9,243	9,900	657	-
<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		87,564	(370)	-	370	-
<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	-

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**REPUBLIC OF PALAU**

**OTHER NON-U.S. FEDERAL GRANTS FUND**

Schedule of Expenditures of Other Non-U.S. Federal Grants  
Year Ended September 30, 2013

MOH SMALL GRANTS - OTHERS

MOH SEOW FY2011	H13991	100,000	(69,199)	-	60,012	(9,187)
MOH SEOW FY2012	H23991	37,500	(37,500)	37,500	73,332	(1,668)
MOH SEOW 2013	H33991	95,000	-	47,500	16,923	(30,577)
Total SEOW		<u>232,500</u>	<u>(106,699)</u>	<u>85,000</u>	<u>150,267</u>	<u>(41,432)</u>

LSTA State Grants

LSTA State Grants	E13992	40,377	34,934	35,735	-	(801)
LSTA State Grants	E03992	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	-
PALAU LSTA IMLS GRANT	E23992	42,385	-	-	42,385	42,385
IMLS LSTA 2013	E33992	40,720	-	-	-	-
Total LSTA State Grants		<u>327,561</u>	<u>35,003</u>	<u>76,850</u>	<u>82,396</u>	<u>40,549</u>

Genetic Study (MOH)

Genetic Study	H13993	405,000	(593)	-	593	-
Total Genetic Study (MOH)		<u>405,000</u>	<u>(593)</u>	<u>-</u>	<u>593</u>	<u>-</u>

Palau Public Library Grants

Palau Public Library Grant	E23994	39,630	(13,433)	-	13,433	-
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Census (Rare Ctr Trop Con)

Census	A33995	25,000	(92)	-	92	-
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Protected Areas Network

TNC MOU Assist to PAN	A83997	6,000	(57)	-	57	-
Protected Areas Network	R43997	39,700	(535)	-	535	-
		<u>45,700</u>	<u>(592)</u>	<u>-</u>	<u>592</u>	<u>-</u>

ADMINISTRATIVE COST ACCOUNT

Other Administrative Cost	F33999	-	-	-	48,624	48,624
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National Assessment Report-BPOA

National Assessment Report	R48920	5,000	(2,102)	-	2,102	-
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ROP DONATIONS/RELIEF FUND

DONATIONS / RELIEF FUNDS	S28921	1,500	334	334	-	-
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UNDP (SEDREA) ENERGY

UNDP (SEDREA) ENERGY	A58922	25,000	-	-	-	-
Renewable Energy (SEDREA)	P98922	51,870	(482)	5,001	18,365	12,882
Total UNDP SEDREA Energy		<u>76,870</u>	<u>(482)</u>	<u>5,001</u>	<u>18,365</u>	<u>12,882</u>

UN CEDAW

CEDAW CONSULTATION	S18924	1,741	(1,001)	-	-	(1,001)
CEDAW LEGISLATIVE REVIEW	S28924	11,095	(35)	-	-	(35)
Total UN CEDAW		<u>12,836</u>	<u>(1,036)</u>	<u>-</u>	<u>-</u>	<u>(1,036)</u>

EQPB OTHER GRANTS

EQPB other grants	R28925	2,000	-	-	-	-
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**REPUBLIC OF PALAU**

**OTHER NON-U.S. FEDERAL GRANTS FUND**

Schedule of Expenditures of Other Non-U.S. Federal Grants  
Year Ended September 30, 2013

UNEP GRANTS

NBSAP/ 5TH CBD RPT	R28926	50,000	(50,000)	-	-	(50,000)
2ND NAT'L COMM 2013	M38926	35,000	-	35,000	34,444	(556)
NBSAP/ 5TH RPT CBD	R38926	-	-	-	402	402
Total UNEP Grants		<u>85,000</u>	<u>(50,000)</u>	<u>35,000</u>	<u>34,846</u>	<u>(50,154)</u>

UOG GRANTS

MECHESIL BELAU PROJECT 2012	C28950	20,000	(267)	-	135	(132)
SBDC-UOG SBJA Service Contract	P18950	16,000	9,600	12,000	2,400	-
SBDC- UOG PISBDCN 2012	P28950	<u>30,000</u>	<u>8,285</u>	<u>10,541</u>	<u>27,040</u>	<u>24,784</u>
		<u>66,000</u>	<u>17,618</u>	<u>22,541</u>	<u>29,575</u>	<u>24,652</u>

GENEVA GRANTS AND ASSISTANCE

GENEVA- GICHD 2012	S38951	<u>34,300</u>	<u>-</u>	<u>34,300</u>	<u>34,267</u>	<u>(33)</u>
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UNDP/UNCCD/GEF

UNDP (SEDREA) Energy	A68923	<u>12,000</u>	<u>(113)</u>	<u>-</u>	<u>113</u>	<u>-</u>
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SPAIN GRANTS

Pacific Educatin Development Framework	E18960	<u>42,980</u>	<u>1,676</u>	<u>1,676</u>	<u>-</u>	<u>-</u>
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10th International Coral Reef Sympo

International Coral Reef Sympo	F48961	<u>1,400</u>	<u>1,400</u>	<u>1,400</u>	<u>-</u>	<u>-</u>
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Giant Clam Farming Project

Giant Clam Farming Project	T88962	14,967	(1,636)	-	1,636	-
Giant Clam Farming Project	T48962	<u>15,000</u>	<u>(89)</u>	<u>-</u>	<u>89</u>	<u>-</u>
		<u>29,967</u>	<u>(1,725)</u>	<u>-</u>	<u>1,725</u>	<u>-</u>

TUNA DATA COORDINATOR

Tuna DATA Entry Technician	R88963	8,756	(12)	-	12	-
Tuan Data Coordinator	R68963	<u>23,150</u>	<u>(7)</u>	<u>-</u>	<u>7</u>	<u>-</u>
		<u>31,906</u>	<u>(19)</u>	<u>-</u>	<u>19</u>	<u>-</u>

HOUSEHOLD INCOME/EXP SURVEY

Househol Income/Expenditures Survey	F68964	<u>26,684</u>	<u>(8)</u>	<u>-</u>	<u>8</u>	<u>-</u>
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Fisheries Forum Association

Hosting Consultants Negotiations	S5FFA1	7,081	(4,088)	-	4,088	-
Foreign Dignitary Housing	S4FFA1	<u>51,310</u>	<u>(2,645)</u>	<u>-</u>	<u>2,645</u>	<u>-</u>
Total FAA		<u>58,391</u>	<u>(6,733)</u>	<u>-</u>	<u>6,733</u>	<u>-</u>

Korean Grants

Bur.of INT'L EXPO	S88967	<u>7,085</u>	<u>18</u>	<u>18</u>	<u>-</u>	<u>-</u>
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HOSPITAL EQUIP - IINDIA GRT

HOSPITAL EQUIP - INDIA GRT	H58968	149,841	(90)	-	90	-
Ministry of State Equipments	S08968	100,000	(4,636)	-	1,066	(3,570)
Submarine Cable Feasabilitiy	S18968	<u>100,000</u>	<u>(3,005)</u>	<u>-</u>	<u>2,058</u>	<u>(947)</u>
Total India Grants		<u>349,841</u>	<u>(7,731)</u>	<u>-</u>	<u>3,214</u>	<u>(4,517)</u>

PALAU DIGITAL ARCHIVING

DIGITAL ARCHIVING	S58969	<u>240,000</u>	<u>(426)</u>	<u>-</u>	<u>426</u>	<u>-</u>
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DRUG DETECTOR DOG UNIT

DRUG DETECTOR DOG UNIT	F58970	<u>175,000</u>	<u>(71)</u>	<u>-</u>	<u>71</u>	<u>-</u>
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INDEPENDENCE DAY (ROC)

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		<u>350,000</u>	<u>(6,155)</u>	<u>-</u>	<u>6,155</u>	<u>-</u>
Total FAA						

CZECH REPUBLIC GRANT

Czech Dentist Dr. Palek	H78973	23,953	4,211	4,211	-	-
Dental Health Care - CZK	H98973	13,379	191	191	-	-
Total CZECH Republic Grant		<u>37,332</u>	<u>4,402</u>	<u>4,402</u>	<u>-</u>	<u>-</u>

HUMANITARIAN ASSISTANCE TO PSB

Humanitarian Assistance to PSB	F18974	-	115,166	-	(3,479)	111,687
Humanitarian Assistance to PSB	F78974	3,355,000	(51,616)	-	-	(51,616)
		<u>3,355,000</u>	<u>63,550</u>	<u>-</u>	<u>(3,479)</u>	<u>60,071</u>

IWRM Project (SOPAC)

IWRM Project (SOPAC)	A78975	31,300	8,612	-	-	8,612
SOPAC-Ngerikiil Watershed	A98975	408,385	(61,964)	49,681	65,903	(45,742)
IWRM BOA	M98975	10,000	(38,714)	-	24,688	(14,026)
Water Policy Activities	P18975	42,900	7,754	-	(951)	6,803
IWRM Palaris	R98975	30,000	(9,202)	-	3,859	(5,343)
IWRM EQPB LAB	R28975	-	(23,500)	-	753	(22,747)
		<u>522,585</u>	<u>(117,014)</u>	<u>49,681</u>	<u>94,252</u>	<u>(72,443)</u>

PROTECT MARINE BIODIVERSITY

Protect Marine Biodiversity	A78976	43,000	(3,156)	-	3,156	-
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PRIDE GRANTS

Curriculum Frameworks	E7PRI1	150,000	(1,053)	-	1,053	-
Palau Achievement Tests	E7PRI2	150,000	3	3	-	-
Palauan Textbook	E7PRI3	88,899	(3)	-	3	-
MOE School Handbook	E8PRI1	43,000	(2)	-	2	-
Total PRIDE		<u>431,899</u>	<u>(1,055)</u>	<u>3</u>	<u>1,058</u>	<u>-</u>

MICRONESIAN CHALANGE DONATION

Micronesia Chalange Donation TRKY	A78978	75,000	(3,322)	34	3,356	-
Micronesia Chalange Donation Guam	A8GUM1	7,500	7,500	7,500	-	-
Micronesia Chalange Donation PAN	A9TNC1	50,000	5,592	4,992	(600)	-
MCT/PAN SUPPORT FY '12	R2PAN1	4,500	(568)	-	568	-
		<u>137,000</u>	<u>9,202</u>	<u>12,526</u>	<u>3,324</u>	<u>-</u>

ENERGY SECT IN 5 ACP ISLS

Energy Sect in 5 ACP Isls	F88979	287,650	3,094	-	-	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	-	1,185	6,042
		<u>864,820</u>	<u>(30,569)</u>	<u>-</u>	<u>1,185</u>	<u>(29,384)</u>

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NEMO PEACESAT ASSISTANCE

Nemo PEACESAT Assistance	J68980	1,938	(217)	-	217	-
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NATIONAL FISH & WILDLIFE FOUNDATION

Coral Reef Conservation	J68981	41,152	11,630	11,630	-	-
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Sustainable Land MGMT

Sustainable Land MGMT	A88983	475,000	10,947	18,489	-	(7,542)
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Taiwan (ROC) Grants

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	-	-	-	-
One Light TWN Project	A28984	200,000	-	200,000	200,000	-
Purchase X-Ray Machines	H08984	150,000	305	305	-	-
66th UN General Assembly	P18984	25,000	(461)	-	461	-
TAIWAN/PALAU UN TRAINING	S98984	30,000	820	820	-	-
		2,224,000	(230,336)	201,125	200,461	(231,000)

RESEARCH CORP UH-RCUH

PALAU CANCER REGISTRY	H38985	19,754	-	9,308	(106)	(9,414)
REASEARCH CORP OF UH	R88985	10,000	-	-	-	-
		29,754	-	9,308	(106)	(9,414)

Turky Grants

Continental Shelf - Ext	R98986	150,000	(2,429)	-	3,277	848
Peleliu Multipurpose Gymnasium	S98686	150,000	-	-	-	-
		300,000	(2,429)	-	3,277	848

STATISTICS

Socio Economic Assesment	H18987	35,000	32,636	-	-	32,636
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Continental Shelf 09-00180

Contintal Shelf	R98988	154,765	(78,076)	-	-	(78,076)
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Palau Conservatio Society Grants

Capacity Enhancement	R08989	3,250	(3,250)	-	-	(3,250)
Capacity Enhancement	R18989	20,000	(20,000)	-	-	(20,000)
		23,250	(23,250)	-	-	(23,250)

PICRC Assistance

Database Design	R08990	10,000	(1,606)	-	1,606	-
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DUBAI GRANTS

MBD FUNDING- AIRFARES	S38991	-	-	-	2,500	2,500
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KINGDOM OF THAILAND GRANT

KINGDOM OF THAILAND GRANT	N38992	-	-	10,000	-	(10,000)
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UN Grants

Biodiversity Cons Program	9935-PR0001	111,449	(655)	-	655	-
PALAU BSNR2 2011	A19935	15,000	5,000	(15,000)	5,000	25,000
		126,449	4,345	(15,000)	5,655	25,000

Total Other Grants		\$ 22,524,831	\$ (690,650)	\$ 2,074,969	\$ 2,157,813	\$ (607,806)
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See Accompanying Independent Auditors' Report.