

**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, 2014**

**REPUBLIC OF PALAU**

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

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**YEAR ENDED SEPTEMBER 30, 2014**

**REPUBLIC OF PALAU**  
**FINANCIAL STATEMENTS**  
**YEAR ENDED SEPTEMBER 30, 2014**

**TABLE OF CONTENTS**

	<u>Page</u>
I. Independent Auditors' Report	1
II. Management's Discussion and Analysis	4
III. Basic Financial Statements	
Government-Wide Financial Statements:	
Statement of Net Position	17
Statement of Activities	18
Governmental Fund Financial Statements:	
Balance Sheet	19
Statement of Revenues, Expenditures, and Changes in Fund Balances	20
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	21
Fiduciary Fund Financial Statements:	
Statement of Fiduciary Net Position	22
Statement of Changes in Fiduciary Net Position	23
Discretely Presented Component Unit Financial Statements:	
Combining Statement of Net Position	24
Combining Statement of Revenues, Expenses, and Changes in Net Position	25
Notes to the Basic Financial Statements	26
IV. Required Supplementary Information - Other than Management's Discussion and Analysis	72
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund (Fund 100100)	73
Notes to the Required Supplementary Information - Budgetary Reporting	74
V. Other Supplementary Information	75
General Fund:	
Narrative	76
Combining Schedule of Balance Sheet	77
Combining Schedule of Revenues, Expenditures by Function, and Changes in Fund Balance (Deficit)	79
Combining Schedule of Expenditures by Object	81
Schedule of Revenues	83
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual (Fund 100100)	84

**REPUBLIC OF PALAU**  
**FINANCIAL STATEMENTS**  
**YEAR ENDED SEPTEMBER 30, 2014**

**TABLE OF CONTENTS, CONTINUED**

	<u>Page No.</u>
V. Other Supplementary Information, Continued	
Grants Fund:	
Narrative	88
Combining Balance Sheet	89
Combining Statement of Revenues, Expenditures by Function and Changes in Fund Balances	90
Combining Schedule of Expenditures by Object	91
Nonmajor Governmental Funds - Special Revenue Funds:	
Narrative	92
Combining Balance Sheet	93
Combining Statement of Revenues, Expenditures by Function and Changes in Fund Balances (Deficit)	94
Combining Schedule of Expenditures by Object	95
Other Information:	
Narrative	96
Combining Schedule of Expenditures by Object - Governmental Funds	97
Schedule of Expenditures of Other Country Grants	98
Schedule of Expenditures of Other Non-U.S. Federal Grants	102

## **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, 2014, 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 National Development Bank of Palau, Palau Community College, Palau National Communications Corporation, and 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 National Development Bank of Palau, Palau Community College, Palau National Communications Corporation, and 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, 2014, 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.

## **Emphasis-of-Matters**

### *Implementation of New Accounting Standards*

As discussed in note 1, the Republic implemented Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans*. The effects of implementation of GASB 67 are presented in Note 14.

### *Uncertainty*

As discussed in Note 12.H, the Republic of Palau Civil Service Pension Trust Fund's actuarial valuation has determined that the Pension Fund had an actuarial deficiency which may cause the Pension Fund's cash flows to eventually become negative and the Pension Fund may not be able to meet its benefit obligations. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Our opinion is not modified with respect to these matters.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 16 as well as the Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund and notes thereto, on pages 73 and 74, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by GASB 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.

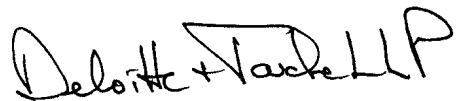
### *Other Supplementary Information*

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 June 30, 2015 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.

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

June 30, 2015

## REPUBLIC OF PALAU

### Management's Discussion and Analysis Year Ended September 30, 2014

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, 2014. We encourage readers to consider the information presented here in conjunction with the Republic's basic financial statements, which follow this section. Fiscal year 2013 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 \$350.3 million (net position), increased by \$3.7 million (or 1%) from net position of \$346.6 million in the prior year. Of this amount, \$157.5 million represents the Republic's investment in capital assets; \$201.1 million represents amounts restricted for various purposes, with the remaining deficiency of \$8.2 million to be funded from future governmental activities.
- During the current fiscal year, the Republic's expenses for governmental activities were \$118.5 million and were funded in part by \$49.2 million in program revenues and \$57.2 million in taxes and other general revenues. General revenues increased by \$5.8 million (or 11.2%) from \$51.4 million in the prior year to \$57.2 million, which was attributable primarily to the increase in tax and unrestricted grant revenues of \$5.2 million and \$8.2 million, respectively. Expenses increased by \$3.1 million (or 2.6%) from \$115.4 million in the prior year to \$118.5 million, which was attributable primarily to the increase in general government expenses.
- The Compact Section 211(f) Trust Fund generated net revenues of \$14.5 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 \$199.1 million from \$189.6 million in the prior year (up 5.0%).
- For the current fiscal year, the General fund revenues (and other financing sources) of \$80.1 million exceeded general fund expenditures (and other financing uses) of \$68.7 million. General fund revenues (and other financing sources) were up \$9.1 million (or 12.9%) from prior year primarily due to increases in taxes, license and permits and loan proceeds received in 2014. General Fund appropriations (and other financing uses), on the other hand, decreased by \$2 million (or 2.8%) from prior year.

#### 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 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.

#### 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.



## REPUBLIC OF PALAU

### Management's Discussion and Analysis Year Ended September 30, 2014

The two government-wide financial statements report the Republic's net position and how they have 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 are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the Republic, additional non-financial factors such as changes in the Republic's tax base, the condition of the Republic's roads and infrastructure, and the quality of services needs to be considered.

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

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

#### **Fund Financial Statements**

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

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

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

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, 2014

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 \$350.3 million at the close of the most recent fiscal year. However, this net position is either restricted as to the purpose it 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 in 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 \$30.4 million while its current liabilities were \$23.6 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, 2014

Net Position  
As of September 30

	Governmental Activities <u>2014</u>	Governmental Activities <u>2013</u>	Total Percentage Change <u>2014-2013</u>
Current and other assets	\$ 234,076,135	\$ 214,841,162	9.0%
Capital assets	<u>169,137,210</u>	<u>183,591,953</u>	-7.9%
Total assets	<u>403,213,345</u>	<u>398,433,115</u>	1.2%
Long-term debt outstanding	27,446,752	23,129,883	18.7%
Other liabilities	<u>25,424,165</u>	<u>28,703,092</u>	-11.4%
Total liabilities	<u>52,870,917</u>	<u>51,832,975</u>	2.0%
Net position:			
Net investment in capital assets	157,480,056	170,335,800	-7.5%
Restricted	201,111,405	189,833,897	5.9%
Unrestricted	<u>(8,249,033)</u>	<u>(13,569,557)</u>	-39.2%
Total net position	\$ <u>350,342,428</u>	\$ <u>346,600,140</u>	1.1%

At the end of the current fiscal year, the Republic's unrestricted net position deficiency was \$8.2 million, a decrease of \$5.3 million (or 39.2%) from the prior year amount. 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 increased by \$3.7 million, representing an increase of 1.1% from the prior year's amount of \$346.6 million. This result indicates that the Republic's financial condition, as a whole, improved slightly 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 Year Ended September 30

	Governmental Activities <u>2014</u>	Governmental Activities <u>2013</u>	Total Percentage Change <u>2014-2013</u>
Revenues:			
Program revenues:			
Charges for services	\$ 17,419,068	\$ 13,662,034	27.5%
Operating grants and contributions	28,971,199	23,780,100	21.8%
Capital grants and contributions	<u>2,863,681</u>	<u>3,620,780</u>	-20.9%
	<u>49,253,948</u>	<u>41,062,914</u>	19.9%

## REPUBLIC OF PALAU

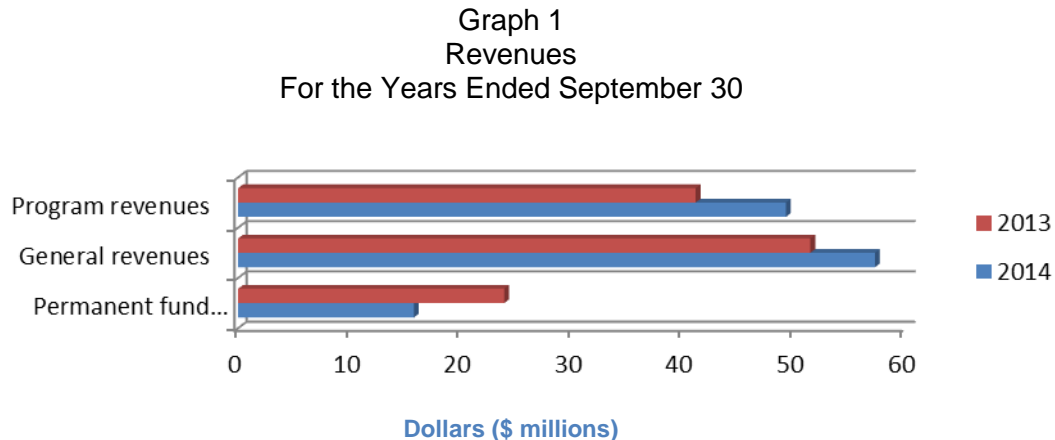
### Management's Discussion and Analysis Year Ended September 30, 2014

General revenues:			
Taxes	41,947,910	36,783,530	14.0%
Other general revenues	<u>15,222,451</u>	<u>14,642,429</u>	4.0%
	<u>57,170,361</u>	<u>51,425,959</u>	11.2%
Total revenues	<u>106,424,309</u>	<u>92,488,873</u>	15.1%
Expenses:			
General government	30,173,475	28,205,671	7.0%
Education	15,262,916	14,556,632	4.9%
Health and welfare	18,274,943	18,611,703	-1.8%
Public safety	5,128,134	5,403,569	-5.1%
Cultural affairs and recreation	3,166,696	3,065,046	3.3%
Transportation and commerce	39,565,203	38,823,765	1.9%
State government appropriations	5,624,049	5,362,553	4.9%
Depreciation – unallocated	787,174	865,241	-9.0%
Interest	<u>526,525</u>	<u>575,675</u>	-8.5%
Total expense	<u>118,509,115</u>	<u>115,469,855</u>	2.6%
Special Item	-	(12,975,020)	100.0%
Contributions to permanent funds	<u>15,827,094</u>	<u>23,910,948</u>	-33.8%
Change in net position	3,742,288	(12,045,054)	131.1%
Net position, beginning of year	<u>346,600,140</u>	<u>358,645,194</u>	-3.4%
Net position, end of year	\$ <u>350,342,428</u>	\$ <u>346,600,140</u>	1.1%

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

- The Compact Section 211(f) Trust Fund contributions of \$15.8 million decreased by \$8.1 million (or 33.8%) from the prior fiscal year when trust fund earnings contributed \$23.9 million. Overall revenues increased in the current year by \$13.9 million (or 15.1%). Concurrently, total expenses increased by \$3.1 million (or 2.6%) in the current year.

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:

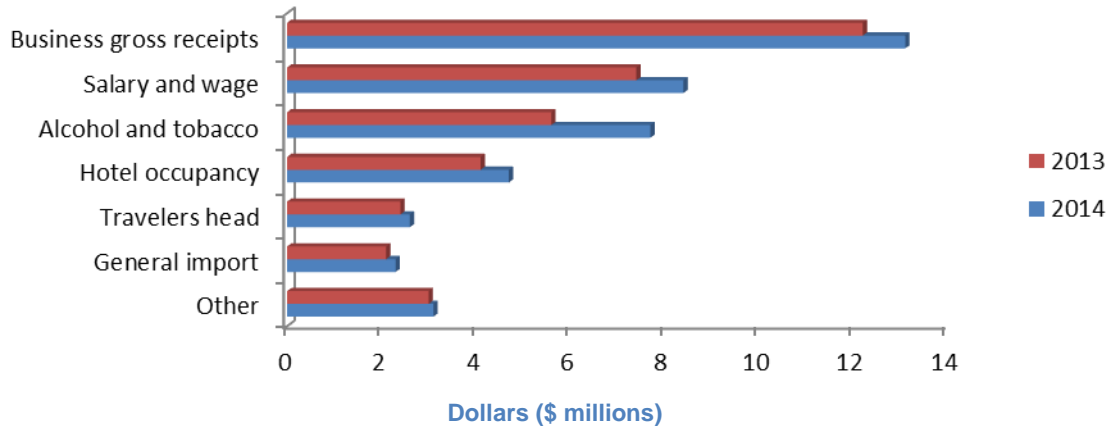


**REPUBLIC OF PALAU**

Management's Discussion and Analysis  
Year Ended September 30, 2014

A significant portion of the Republic's general revenues involves tax revenue collections. At \$41.9 million in the current year, tax revenues were higher than the \$36.8 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:

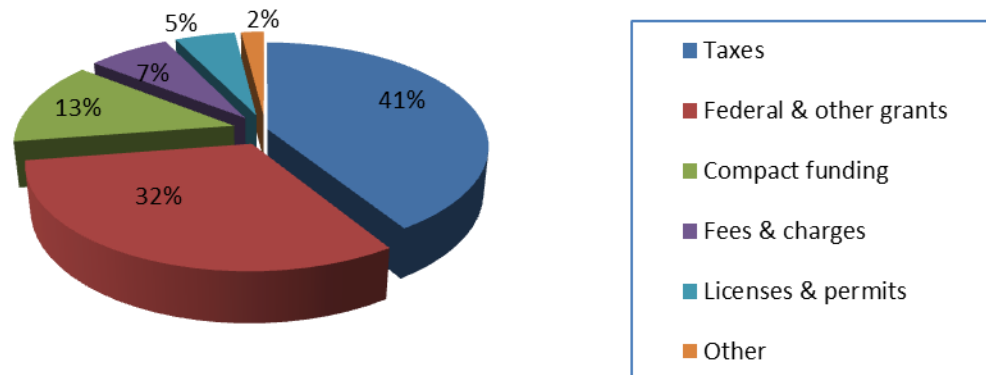
Graph 2  
Tax Revenues  
For the Years Ended September 30



- Cost of governmental activities increased in the current year by \$3.1 million (up 2.6%) compared with prior year. General government significantly increased by \$2.0 million (up 7%) compared with prior year. Cost of Education increased by \$0.7 million (up 4.9%) in the current year while cost of Health slightly decreased by \$0.3 million (down 1.8%) compared with prior year. Cost of Transportation and Commerce slightly increased by \$0.7 million (or 1.9%) compared with prior year.

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

Graph 3  
Revenue Sources  
For the Year Ended September 30, 2014

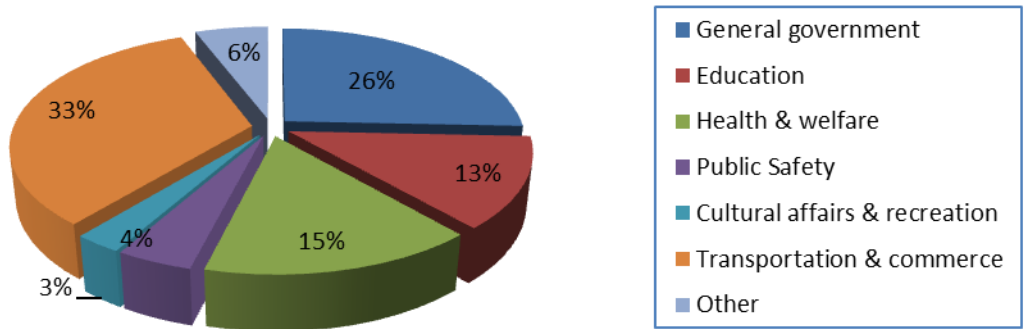


**REPUBLIC OF PALAU**

Management's Discussion and Analysis  
Year Ended September 30, 2014

Compact funding, local taxes and federal and other grants are the major sources of revenue for the Republic, which comprise 70% of the total revenues for the current year. The remaining 30% is primarily comprised of various fees and service charges.

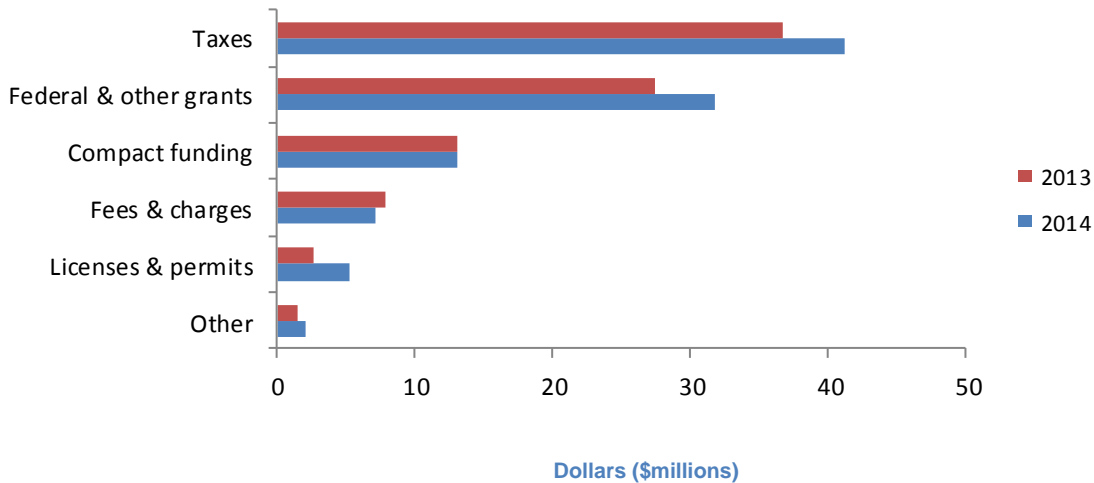
Graph 4  
Cost of Governmental Activities  
For the Year Ended September 30, 2014



Other expenses that make up a portion of the costs of governmental activities include State government appropriations (\$5.6 million), unallocated depreciation expense (\$0.8 million), and interest expense (\$0.5 million).

Graphs 5 and 6 below show a comparison of the major components of revenues and cost of governmental activities for fiscal years 2014 and 2013.

Graph 5  
Revenue sources  
For the Years Ended September 30

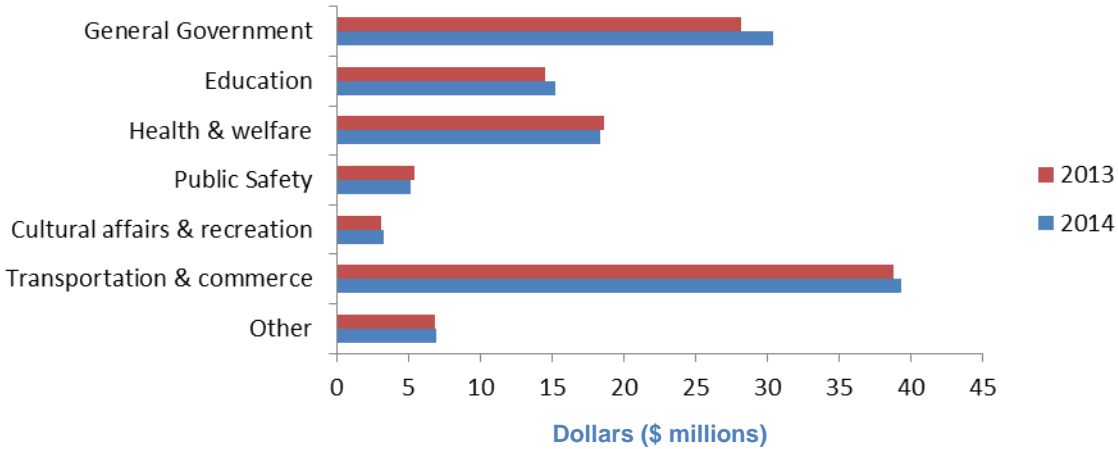


**REPUBLIC OF PALAU**

Management's Discussion and Analysis  
Year Ended September 30, 2014

Graph 6

Cost of Governmental Activities  
For the Years Ended September 30



Other expenses in the current year include State government appropriations of \$5.6 million, which increased by \$0.5 million from the prior year. Overall cost of governmental activities increased by \$3.1 million (up 2.6%) compared to prior fiscal year.

**Analysis of Changes in Net Position**

During the current fiscal year, the Republic's total net position increased by \$3.7 million compared with a decrease in the prior fiscal year of \$12 million. A contributing factor to the decrease in the prior year was the \$12.9 million transfer of Water and Sewer assets to Palau Utilities Corporation. Compact Section 211(f) Trust Fund contributions of \$15.8 million in the current fiscal year, down from \$23.9 million in the prior fiscal year, a decrease in trust fund earnings of \$8.1 million. The elements of these changes are reflected below:

	Governmental Activities <u>2014</u>	Governmental Activities <u>2013</u>	Total Percentage Change <u>2014-2013</u>
General revenues			
Taxes	\$ 41,947,910	\$ 36,783,530	14.0%
Other general revenues	<u>15,222,451</u>	<u>14,642,429</u>	4.0%
Total general revenues	<u>57,170,361</u>	<u>51,425,959</u>	11.2%

**REPUBLIC OF PALAU**

Management's Discussion and Analysis  
Year Ended September 30, 2014

Expenses, net of program revenues			
General government	17,749,990	19,618,616	-9.5%
Education	11,585,691	10,751,844	7.8%
Health and welfare	8,378,834	10,331,194	-18.9%
Public Safety	4,998,933	5,206,778	4.0%
Cultural affairs and recreation	(582,382)	(355,112)	64.0%
Transportation and commerce	20,186,353	22,295,445	-9.5%
State government appropriations	5,624,049	5,117,260	9.9%
Depreciation – unallocated	787,174	865,241	-9.0%
Interest	<u>526,525</u>	<u>575,675</u>	-8.5%
 Total expenses	 <u>69,255,167</u>	 <u>74,406,941</u>	 -6.9%
 Special Item	 -	 (12,975,020)	 -100.0%
Contributions to permanent fund	<u>15,827,094</u>	<u>23,910,948</u>	-33.8%
 Change in net position	 \$ <u>3,742,288</u>	 \$ <u>(12,045,054)</u>	 68.9%

General revenues increased by \$5.7 million (or 11.2%) from the previous fiscal year. The increase was primarily due to increases in taxes of \$5.2 million (or 14.0%) compared with prior year, and other general revenues of \$0.6 million (or 4.0%) 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.

**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 \$215.6 million, which represents an increase of \$22.7 million (or 11.7%) in comparison with the prior year. This increase is primarily attributable to an increase in grant revenues. Of this total combined fund balance, \$202.0 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; \$3.2 million is designated as restricted and is constrained for specific purposes which are externally imposed; and \$ 1.7 million is designated as committed and is constrained for specific purposes which are internally imposed. The combined unassigned fund balance of the Republic's governmental funds is \$8.7 million.

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 was \$9.2 million. Total fund balance was \$11.5 million compared with a total fund balance of \$0.1 million at the end of the prior fiscal year.

The Grants Fund has a total fund balance of \$0.09 million, which primarily represents other grants revenues received not yet expended at year end. The net increase in fund balance during the current year in the Grants Fund was \$0.08 million (or 532.5%).



## REPUBLIC OF PALAU

### Management's Discussion and Analysis Year Ended September 30, 2014

The Compact Section 211(f) Trust Fund has a total fund balance of \$199.2 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 \$9.5 million (or 4.8), 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 \$14.5 million.

#### GENERAL FUND BUDGETARY HIGHLIGHTS

During the course of the fiscal year, budget revisions of \$2.9 million were made by management and elected officials of the Republic to the General Fund budget. Revenues collected (including other financing sources) of \$75.7 million were higher than budgeted amounts of \$65.7 million due primarily to an increase in local revenue collections and receipt of loan proceeds. In addition, charges to appropriations (including other financing uses) of \$64.9 million were lower than budgeted amounts of \$67.7 million due primarily to expenditures associated with the executive branch and debt service of \$53.7 million and \$2.0 million, respectively, which were lower than budgeted amounts of \$61.0 million and \$2.7 million, respectively.

#### CAPITAL ASSET AND DEBT ADMINISTRATION

##### Capital Assets

The Republic's investment in capital assets for its governmental activities as of September 30, 2014 amounted to \$418.9 million (including \$18.2 million of land and construction in progress), net of accumulated depreciation of \$249.8 million, leaving a net book value of \$169.1 million. This represents a decrease of \$14.5 million from the amount of \$183.6 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.

	Capital Assets September 30, (Net of depreciation)		
	Governmental Activities <u>2014</u>	Governmental Activities <u>2013</u>	Total Percentage Change <u>2014-2013</u>
Buildings and other improvements	\$ 76,318,576	\$ 82,833,103	-7.9%
Machinery and equipment	3,020,812	1,763,018	71.3%
Vehicles	1,324,482	1,311,306	1.0%
Infrastructure	70,289,948	79,395,095	-11.5%
Land	3,899,403	3,899,403	0.0%
Construction in progress	<u>14,283,989</u>	<u>14,390,028</u>	-0.7%
Total	\$ <u>169,137,210</u>	\$ <u>183,591,953</u>	-7.9%

**REPUBLIC OF PALAU**

Management's Discussion and Analysis  
Year Ended September 30, 2014

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	\$ 0.20
Capitol Access Roads in Melekeok	\$ 0.39	\$ 0.39
Compact Road	\$ 6.48	\$ 6.48
Ngaraard Road	\$ 0.30	\$ 0.30
Ngardmau State Rd	\$ 0.29	\$ 0.29
Ngatpang Road	\$ 0.40	\$ 0.40
Ngchesar Road	\$ 0.47	\$ 0.47
Ngiwal Road	\$ 0.25	\$ 0.25
KES 40-kw Solar power generating system	\$ 0.27	\$ 0.27

- Acquisition of the following machinery and equipment:

<u>Machinery &amp; Equipment</u>	<u>Current Year Additions (\$ millions)</u>
Two 162-tons chillers	\$ 0.53
Feed Batch Equipment	\$ 0.34
Bus, LP#: 1302, Nissan	\$ 0.10
Customs Info System Improvement	\$ 0.75
Data Equipment (Info & Comm)	\$ 0.10
UPS 120KVA On-line	\$ 0.15
Fire Truck, 1999	\$ 0.18
Postal Service POS & IT System	\$ 0.06

- 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, Stage 1-A	\$ 3.60	\$ 13.50
Palau International Airport Master Plan	\$ 0.26	\$ 0.26
Melekeok Sewer Pump Improvements	\$ 0.10	\$ 0.40
Pablo Ringang Building	\$ 0.15	\$ 0.15

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, 2014

#### Long-term Debt

The Republic has entered into four separate loans with the Mega International Commercial Bank and the Asian Development bank (ADB) (See table below). Long-term debt obligations increased by \$4.3 million (or 18.7%) in the current fiscal year.

	Outstanding Long-term Debt September 30		Total Percentage Change 2013-2012
	Governmental Activities <u>2013</u>	Governmental Activities <u>2012</u>	
Republic of Palau Capitol Building	\$ 6,857,133	\$ 7,999,991	-14.3%
Palau International Airport Repaving	4,800,018	5,257,158	-8.7%
Water Sector Improvement (Loan #2691)	12,316,867	6,400,000	92.5%
Water Sector Improvement (Loan # 2692)	<u>3,472,734</u>	<u>3,472,734</u>	0.0%
Total	\$ <u>27,446,752</u>	\$ <u>23,129,883</u>	18.7%

Additional information on the Republic's debt can be found in notes 6 and 7 to the financial statements.

#### ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Palau's economy grew by 5.4 percent in fiscal year 2014 reflecting strong growth in tourism and construction activities. In fiscal year 2014 arrivals set a new record level of 125,417, a 13 percent increase over fiscal year 2013. While most markets held their own in fiscal year 2014, visitors from the PRC reached 21,641 up from 9,286 the year before. Two newly opened hotels increased overall capacity by an additional 209 rooms that facilitated increased tourist arrivals. In addition to the strong growth in tourism, the resumption of capital improvement projects for the states through economic stimulus package grants, facilities and transportation improvement works in preparation for the Pacific Island Forum, and the construction start of two new hotel development projects contributed to a robust 10 percent growth in the Construction Sector.

Overall revenues recorded a 9 percent growth over fiscal year 2013. Tax effort was particularly strong in fiscal year 2014 with tax collections growing by 15 percent over fiscal year 2013. With increased tourism and construction activities, business gross revenue tax and taxes on imports grew by 14 percent and 20 percent, respectively. A 75 percent increase in excise tax for tobacco products and a scheduled 8 percent increase in the minimum wage further contributed to increased tax collections. Non-tax revenue collections also saw a 42 percent increase primarily due to the record increase of fishing rights revenues derived from the Vessel Day Scheme.

The tourism and construction sectors are expected to continue to be major contributors to positive growth in fiscal year 2015. The scheduled increase in the minimum wage combined with the salary schedule adjustment for public service employees should support sustained consumer spending. Inflation in fiscal year 2014 was recorded at 4% but projections of world inflation and commodity prices remain modest over the medium-term, and will help Palau's economy to maintain a competitive environment for tourism and hold down cost-of-living increases in fiscal year 2015.

## **REPUBLIC OF PALAU**

### **Management's Discussion and Analysis Year Ended September 30, 2014**

The anticipated continued strong growth for fiscal year 2015 is subject to downside risks. Fuel price volatility, U.S. dollar appreciation, and natural disasters could hurt tourism and our growth prospects and weaken our fiscal position. Given the absence of monetary and exchange rate policies, only fiscal measures and structural reforms are available to address these risks. Thusly, the fiscal year 2015 budget will continue fiscal consolidation efforts including expenditure restraint and revenue enhancement measures aimed at improving cash management and building adequate fiscal reserves to ensure long-term fiscal sustainability.

#### **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, 2014

	Primary Government	Component Units
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 9,300,563	\$ 19,818,084
Investments	3,929,425	-
Receivables, net of allowance for uncollectibles	14,776,025	11,433,423
Inventories	46,468	9,374,841
Due from primary government	-	1,458,153
Due from component units	1,000,000	-
Other current assets	1,037,790	518,434
Restricted assets:		
Cash and cash equivalents	304,154	-
Time certificates of deposit	-	453,639
Total current assets	30,394,425	43,056,574
Noncurrent assets:		
Investments	1,185,575	804,860
Receivables	-	18,785,055
Capital assets:		
Nondepreciable capital assets	18,183,392	5,409,093
Capital assets, net of accumulated depreciation	150,953,818	71,862,918
Foreclosed real estate	-	1,587,185
Other noncurrent assets	-	51,550
Restricted assets:		
Cash and cash equivalents	-	1,970,615
Investments	202,496,135	7,360,627
Total noncurrent assets	372,818,920	107,831,903
Total assets	\$ 403,213,345	\$ 150,888,477
<u>LIABILITIES</u>		
Current liabilities:		
Note payable	\$ 198,142	\$ -
Current portion of long-term obligations	2,195,748	4,554,390
Current portion of compensated absences payable	2,749,047	-
Accounts payable	8,993,951	8,798,537
Contracts payable	796,699	-
Due to State governments	3,384,036	-
Due to component units	292,250	-
Due to external parties	-	333,935
Accrued payroll and others	2,927,198	2,757,902
Unearned revenue	404,498	973,761
Other liabilities	617,818	1,759,311
Income tax refunds	995,930	-
Total current liabilities	23,555,317	19,177,836
Noncurrent liabilities:		
Noncurrent portion of long-term obligations	25,251,004	38,147,202
Compensated absences payable, net of current portion	1,064,596	-
Due to U.S. Government	3,000,000	-
Due to primary government	-	1,000,000
Total noncurrent liabilities	29,315,600	43,747,792
Total liabilities	52,870,917	62,925,628
<u>NET POSITION</u>		
Net investment in capital assets	157,480,056	46,656,145
Restricted for:		
Future operations	199,170,134	-
Endowment	-	3,642,537
Debt service	-	15,315,506
Compact related	115,658	-
Other purposes	1,825,613	11,163,356
Unrestricted	(8,249,033)	11,185,305
Total net position	350,342,428	87,962,849
Total liabilities and net position	\$ 403,213,345	\$ 150,888,477

See accompanying notes to basic financial statements.

**REPUBLIC OF PALAU**

Statement of Activities  
Year Ended September 30, 2014

Functions/Programs	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	\$ 30,173,475	\$ 8,764,154	\$ 3,659,331	\$ -	\$ (17,749,990)	\$ -
Education	15,262,916	-	3,677,225	-	(11,585,691)	-
Health and welfare	18,274,943	4,837,373	5,058,736	-	(8,378,834)	-
Public safety	5,128,134	51,664	77,537	-	(4,998,933)	-
Cultural affairs and recreation	3,166,696	3,749,078	-	-	582,382	-
Transportation and commerce	39,565,203	16,799	16,498,370	2,863,681	(20,186,353)	-
State government appropriations	5,624,049	-	-	-	(5,624,049)	-
Depreciation - unallocated	787,174	-	-	-	(787,174)	-
Interest	526,525	-	-	-	(526,525)	-
Total primary government	<u>\$ 118,509,115</u>	<u>\$ 17,419,068</u>	<u>\$ 28,971,199</u>	<u>\$ 2,863,681</u>	<u>(69,255,167)</u>	<u>-</u>
Component units:						
National Development Bank of Palau	\$ 1,327,096	\$ 916,069	\$ 83,320	\$ -	-	(327,707)
Palau Community College	7,626,162	1,012,588	4,506,425	-	-	(2,107,149)
Palau National Communications Corporation	9,979,701	11,343,867	-	-	-	1,364,166
Palau International Coral Reef Center	1,172,600	461,708	363,072	603,535	-	255,715
Palau Visitors Authority	805,037	108,228	-	-	-	(696,809)
Public Utilities Corporation	31,681,693	27,486,326	311,203	14,188,201	-	10,304,037
Palau District Housing Authority	131,222	85,239	-	-	-	(45,983)
Protected Areas Network Fund	1,896,105	-	25,000	-	-	(1,871,105)
Total component units	<u>\$ 54,619,616</u>	<u>\$ 41,414,025</u>	<u>\$ 5,289,020</u>	<u>\$ 14,791,736</u>	<u>-</u>	<u>6,875,165</u>
General revenues:						
Taxes:						
Business gross receipts					13,019,842	-
Salary and wage					8,150,739	-
Alcohol and tobacco					7,411,982	-
Hotel occupancy					4,793,813	-
Travelers head					2,643,270	-
General import					2,771,582	-
Fuel export					402,968	-
Fish export					514,004	-
Other					2,239,710	-
Grants and contributions not restricted for specific programs					13,147,000	-
Unrestricted investment earnings					892,439	277,545
Contributions from primary government					-	7,208,753
Other					1,183,012	-
Total general revenues					<u>57,170,361</u>	<u>7,486,298</u>
Contributions to permanent funds					<u>15,827,094</u>	<u>-</u>
Total general revenues and contributions					<u>72,997,455</u>	<u>7,486,298</u>
Change in net position					3,742,288	14,361,463
Net position at beginning of year					<u>346,600,140</u>	<u>73,601,386</u>
Net position at end of year					<u>\$ 350,342,428</u>	<u>\$ 87,962,849</u>

See accompanying notes to basic financial statements.

**REPUBLIC OF PALAU**

**Balance Sheet  
Governmental Funds  
September 30, 2014**

		<u>Special Revenue</u>	<u>Permanent</u>	<u>Other Governmental Funds</u>	
	<u>General</u>	<u>Grants</u>	<u>Compact Section 211(f)</u>		<u>Total</u>
<b>ASSETS</b>					
Cash and cash equivalents	\$ 9,300,563	\$ -	\$ -	\$ -	\$ 9,300,563
Investments	5,114,971	-	-	29	5,115,000
Receivables, net:					
Taxes	4,974,102	-	-	-	4,974,102
General	712,745	4,618,422	-	1,548	5,332,715
Federal agencies	-	4,466,274	-	-	4,466,274
Accrued interest	2,934	-	-	-	2,934
Due from component units	1,000,000	-	-	-	1,000,000
Due from other funds	5,770,637	540,673	-	2,861,060	9,172,370
Advances	240,939	171,521	-	-	412,460
Inventory	46,468	-	-	-	46,468
Prepaid items	128,209	476,708	-	20,413	625,330
Restricted assets:					
Cash and cash equivalents	304,154	-	-	-	304,154
Investments	-	-	199,422,419	3,073,716	202,496,135
	<u>\$ 27,595,722</u>	<u>\$ 10,273,598</u>	<u>\$ 199,422,419</u>	<u>\$ 5,956,766</u>	<u>\$ 243,248,505</u>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities:</b>					
Note payable	\$ 198,142	\$ -	\$ -	\$ -	\$ 198,142
Accounts payable	4,364,345	3,528,862	-	1,100,744	8,993,951
Contracts payable	-	796,699	-	-	796,699
Due to State governments	3,384,036	-	-	-	3,384,036
Due to component units	292,250	-	-	-	292,250
Due to other funds	3,401,733	5,505,795	252,285	12,557	9,172,370
Accrued payroll and others	2,757,919	-	-	2,637	2,760,556
Other liabilities	493,576	124,242	-	-	617,818
Unearned revenues	180,454	224,044	-	-	404,498
Income tax refunds	995,930	-	-	-	995,930
Total liabilities	<u>16,068,385</u>	<u>10,179,642</u>	<u>252,285</u>	<u>1,115,938</u>	<u>27,616,250</u>
<b>Fund balances:</b>					
Nonspendable	2,360,252	476,708	199,170,134	20,413	202,027,507
Restricted	-	87,586	-	3,115,658	3,203,244
Committed	-	-	-	1,718,831	1,718,831
Unassigned:					
General fund	9,167,085	-	-	-	9,167,085
Special revenue funds	-	(470,338)	-	(14,074)	(484,412)
Total fund balances	<u>11,527,337</u>	<u>93,956</u>	<u>199,170,134</u>	<u>4,840,828</u>	<u>215,632,255</u>
	<u>\$ 27,595,722</u>	<u>\$ 10,273,598</u>	<u>\$ 199,422,419</u>	<u>\$ 5,956,766</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					169,137,210
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:					
				(27,446,752)	
				(3,813,643)	
				(166,642)	
				(3,000,000)	
					<u>(34,427,037)</u>
					<u>\$ 350,342,428</u>
					Net position of governmental activities

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, 2014

	Special Revenue		Permanent		Other Governmental Funds	Total
	General	Grants	Compact Section 211(f)	-		
<b>Revenues:</b>						
Taxes	\$ 41,222,403	\$ -	\$ -	\$ 725,507	\$ -	\$ 41,947,910
Federal and other grants	-	28,971,199	-	-	-	28,971,199
Compact funding	13,147,000	-	-	-	-	13,147,000
Net change in the fair value of investments	811,393	-	15,827,094	81,046	-	16,719,533
Fees and charges	7,217,914	-	-	4,902,834	-	12,120,748
Licenses and permits	5,262,301	-	-	36,019	-	5,298,320
Other	1,183,012	-	-	-	-	1,183,012
<b>Total revenues</b>	<b>68,844,023</b>	<b>28,971,199</b>	<b>15,827,094</b>	<b>5,745,406</b>	<b>-</b>	<b>119,387,722</b>
<b>Expenditures:</b>						
<b>Current:</b>						
Judicial Branch	2,190,073	-	-	-	-	2,190,073
Legislative Branch	4,678,273	18,402	-	-	-	4,696,675
Office of the President	1,267,812	321,330	-	-	-	1,589,142
Office of the Vice-President	363,790	-	-	-	-	363,790
Ministry of Finance	3,177,318	122,558	-	-	-	3,299,876
Ministry of State	2,476,257	2,384,379	-	5,472	-	4,866,108
Ministry of Community and Cultural Affairs	1,053,669	-	-	-	-	1,053,669
Ministry of Education	6,990,226	3,677,225	-	-	-	10,667,451
Ministry of Public Infrastructure, Industry and Commerce	5,775,621	2,424,775	-	142,454	-	8,342,850
Ministry of Justice	4,803,145	77,537	-	30,914	-	4,911,596
Ministry of Health	8,616,442	5,058,736	-	3,896,304	-	17,571,482
Ministry of Natural Resources, Environment and Tourism	1,388,478	584,579	-	11,846	-	1,984,903
Boards, Commissions, and Authorities	2,691,641	-	-	-	-	2,691,641
State Block Grants	5,624,049	-	-	-	-	5,624,049
Independent Agencies	2,001,219	151,647	-	6,502	-	2,159,368
Other Agencies and Activities	2,627,247	-	-	-	-	2,627,247
Education assistance	4,584,259	-	-	-	-	4,584,259
Typhoon emergency assistance	1,874,700	-	-	-	-	1,874,700
Financial and Compliance Audit	32,500	786,490	-	-	-	818,990
Compact Review Office	284,781	-	-	-	-	284,781
Investment management fees	-	-	1,304,981	6,904	-	1,311,885
Claims and judgments	70,000	-	-	-	-	70,000
Other	1,870,168	-	-	-	-	1,870,168
Capital projects	1,431,592	13,618,727	-	-	-	15,050,319
<b>Debt service:</b>						
Principal retirement	1,883,131	-	-	-	-	1,883,131
Interest	541,943	-	-	-	-	541,943
<b>Total expenditures</b>	<b>68,298,334</b>	<b>29,226,385</b>	<b>1,304,981</b>	<b>4,100,396</b>	<b>-</b>	<b>102,930,096</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>545,689</b>	<b>(255,186)</b>	<b>14,522,113</b>	<b>1,645,010</b>	<b>-</b>	<b>16,457,626</b>
<b>Other financing sources (uses):</b>						
Loan proceeds	6,200,000	-	-	-	-	6,200,000
Operating transfers in	5,050,000	384,288	-	-	-	5,434,288
Operating transfers out	(384,288)	(50,000)	(5,000,000)	-	-	(5,434,288)
<b>Total other financing sources (uses), net</b>	<b>10,865,712</b>	<b>334,288</b>	<b>(5,000,000)</b>	<b>-</b>	<b>-</b>	<b>6,200,000</b>
<b>Net change in fund balances</b>	<b>11,411,401</b>	<b>79,102</b>	<b>9,522,113</b>	<b>1,645,010</b>	<b>-</b>	<b>22,657,626</b>
<b>Fund balances at beginning of year</b>	<b>115,936</b>	<b>14,854</b>	<b>189,648,021</b>	<b>3,195,818</b>	<b>-</b>	<b>192,974,629</b>
<b>Fund balances at end of year</b>	<b>\$ 11,527,337</b>	<b>\$ 93,956</b>	<b>\$ 199,170,134</b>	<b>\$ 4,840,828</b>	<b>\$ -</b>	<b>\$ 215,632,255</b>

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, 2014

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 \$ 22,657,626

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	\$ 11,666,717	
Depreciation expense, net	<u>(26,121,460)</u>	
		(14,454,743)

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	
Repayment of ADB loan	283,133	
Proceeds from ADB loan	<u>(6,200,000)</u>	
		(4,316,869)

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	\$ (159,144)	
Change in accrued interest payable	<u>15,418</u>	<u>(143,726)</u>

Change in net position of governmental activities. \$ 3,742,288

See accompanying notes to basic financial statements.

## REPUBLIC OF PALAU

### Statement of Fiduciary Net Position Fiduciary Funds September 30, 2014

	Private Purpose Trust	Pension (and Other Employee Benefit) Trust	Total
<b><u>ASSETS</u></b>			
Cash and cash equivalents	\$ 12,893,872	\$ 534,261	\$ 13,428,133
Receivables, net:			
Contributions	3,064,547	172,212	3,236,759
Accrued interest and dividends	283,192	-	283,192
Other	360,624	27,333	387,957
Investments	84,435,212	32,582,999	117,018,211
Due from component units	4,934,525	-	4,934,525
Prepaid items	45,054	-	45,054
Capital assets, net	298,263	1,897	300,160
Total assets	\$ 106,315,289	\$ 33,318,702	\$ 139,633,991
<b><u>LIABILITIES</u></b>			
Benefits payable	\$ 750,815	\$ -	\$ 750,815
Other liabilities and accruals	32,689	29,379	62,068
Total liabilities	783,504	29,379	812,883
<b><u>NET POSITION</u></b>			
Held in trust for:			
Social security benefits	105,531,785	-	105,531,785
Pension benefits	-	33,289,323	33,289,323
Total net position	105,531,785	33,289,323	138,821,108
	\$ 106,315,289	\$ 33,318,702	\$ 139,633,991

See accompanying notes to basic financial statements.

**REPUBLIC OF PALAU**

Statement of Changes in Fiduciary Net Position  
Fiduciary Funds  
Year Ended September 30, 2014

	Private Purpose Trust	Pension (and Other Employee Benefit) Trust	Total
	<u>Trust</u>	<u>Trust</u>	<u>Trust</u>
Additions:			
Contributions:			
Government employees	\$ 8,487,005	\$ -	\$ 8,487,005
Private employees	8,421,433	-	8,421,433
Employer contributions	-	2,820,693	2,820,693
Plan member contributions	-	2,797,512	2,797,512
Penalties and interest	191,362	-	191,362
Other	138,216	-	138,216
	<u>17,238,016</u>	<u>5,618,205</u>	<u>22,856,221</u>
Allowance for doubtful accounts	(58,823)	-	(58,823)
Total contributions	<u>17,179,193</u>	<u>5,618,205</u>	<u>22,797,398</u>
Investment earnings:			
Net change in the fair value of investments	6,512,216	2,097,995	8,610,211
Interest and dividends	2,197,086	939,254	3,136,340
Total investment earnings	<u>8,709,302</u>	<u>3,037,249</u>	<u>11,746,551</u>
Less investment expense	456,947	276,911	733,858
Net investment earnings	<u>8,252,355</u>	<u>2,760,338</u>	<u>11,012,693</u>
Other	246,757	317,429	564,186
Total additions	<u>25,678,305</u>	<u>8,695,972</u>	<u>34,374,277</u>
Deductions:			
Benefits	18,891,747	9,298,152	28,189,899
General and administrative	1,282,296	369,703	1,651,999
Total deductions	<u>20,174,043</u>	<u>9,667,855</u>	<u>29,841,898</u>
Change in net position held in trust for:			
Social security benefits	5,504,262	-	5,504,262
Pension benefits	-	(971,883)	(971,883)
Net position at beginning of year	<u>100,027,523</u>	<u>34,261,206</u>	<u>134,288,729</u>
Net position at end of year	<u>\$ 105,531,785</u>	<u>\$ 33,289,323</u>	<u>\$ 138,821,108</u>

See accompanying notes to basic financial statements.

**REPUBLIC OF PALAU**

**Combining Statement of Net Position  
Component Units  
September 30, 2014**

	National Development Bank of Palau	Palau Community College	Palau National Communications Corporation	Palau International Coral Reef Center	Palau Visitors Authority	Palau Public Utilities Corporation	Palau District Housing Authority	Protected Areas Network Fund	Total
<b>Assets</b>									
<b>Current assets:</b>									
Cash and cash equivalents	\$ 6,054,109	\$ 330,618	\$ 680,101	\$ 608,781	\$ 192,830	\$ 8,439,100	\$ 780,305	\$ 2,732,240	\$ 19,818,084
Restricted time certificates of deposit	453,639	-	-	-	-	-	-	-	453,639
Receivables, net	3,201,286	3,502,126	1,295,714	174,090	26,704	3,071,067	162,436	-	11,433,423
Inventories	282,138	360,737	175,407	56,484	-	8,500,075	-	-	9,374,841
Due from primary government	-	396,823	-	-	2,343	1,058,987	-	-	1,458,153
Prepaid expenses and other	21,462	-	225,717	5,276	17,393	246,235	-	2,351	518,434
<b>Total current assets</b>	<b>10,012,634</b>	<b>4,590,304</b>	<b>2,376,939</b>	<b>844,631</b>	<b>239,270</b>	<b>21,315,464</b>	<b>942,741</b>	<b>2,734,591</b>	<b>43,056,574</b>
<b>Noncurrent assets:</b>									
Investments	-	-	612,157	192,703	-	-	-	-	804,860
Receivables	16,634,339	-	-	-	-	207,415	1,943,301	-	18,785,055
<b>Capital assets:</b>									
Nondepreciable capital assets	-	-	4,831,744	-	-	577,349	-	-	5,409,093
Capital assets, net of accumulated depreciation	651,710	1,260,212	15,954,208	2,309,480	62,176	51,590,347	15,663	19,122	71,862,918
Foreclosed real estate	1,587,185	-	-	-	-	-	-	-	1,587,185
Other noncurrent assets	-	-	51,550	-	-	-	-	-	51,550
<b>Restricted assets:</b>									
Cash and cash equivalents	915,526	1,055,089	-	-	-	-	-	-	1,970,615
Investments	-	3,636,000	3,724,627	-	-	-	-	-	7,360,627
<b>Total noncurrent assets</b>	<b>19,788,760</b>	<b>5,951,301</b>	<b>25,174,286</b>	<b>2,502,183</b>	<b>62,176</b>	<b>52,375,111</b>	<b>1,958,964</b>	<b>19,122</b>	<b>107,831,903</b>
<b>Total assets</b>	<b>\$29,801,394</b>	<b>\$10,541,605</b>	<b>\$ 27,551,225</b>	<b>\$ 3,346,814</b>	<b>\$ 301,446</b>	<b>\$73,690,575</b>	<b>\$ 2,901,705</b>	<b>\$ 2,753,713</b>	<b>\$ 150,888,477</b>
<b>Liabilities</b>									
<b>Current liabilities:</b>									
Current portion of long-term debt	\$ 635,759	\$ -	\$ 3,370,448	\$ -	\$ -	\$ 548,183	\$ -	\$ -	\$ 4,554,390
Accounts payable	181,733	1,466,190	233,315	30,327	11,126	6,795,747	-	80,099	8,798,537
Due to fiduciary funds	333,935	-	-	-	-	-	-	-	333,935
Accrued payroll and others	434,482	453,314	673,807	53,654	31,608	1,101,598	6,751	2,688	2,757,902
Unearned revenues	-	782,328	143,458	-	47,975	-	-	-	973,761
Other liabilities	425,693	-	698,345	-	24,410	473,895	742	136,226	1,759,311
<b>Total current liabilities</b>	<b>2,011,602</b>	<b>2,701,832</b>	<b>5,119,373</b>	<b>83,981</b>	<b>115,119</b>	<b>8,919,423</b>	<b>7,493</b>	<b>219,013</b>	<b>19,177,836</b>
<b>Noncurrent liabilities:</b>									
Long-term debt, net of current portion	4,925,967	-	26,228,289	-	-	6,992,946	-	-	38,147,202
Due to primary government	1,000,000	-	-	-	-	-	-	-	1,000,000
Due to fiduciary funds	4,600,590	-	-	-	-	-	-	-	4,600,590
<b>Total noncurrent liabilities</b>	<b>10,526,557</b>	<b>-</b>	<b>26,228,289</b>	<b>-</b>	<b>-</b>	<b>6,992,946</b>	<b>-</b>	<b>-</b>	<b>43,747,792</b>
<b>Total liabilities</b>	<b>12,538,159</b>	<b>2,701,832</b>	<b>31,347,662</b>	<b>83,981</b>	<b>115,119</b>	<b>15,912,369</b>	<b>7,493</b>	<b>219,013</b>	<b>62,925,628</b>
<b>Net position</b>									
<b>Net position:</b>									
Net investment in capital assets	651,710	1,260,212	(4,888,785)	2,309,480	62,176	47,226,567	15,663	19,122	46,656,145
<b>Restricted:</b>									
Endowment	-	3,642,537	-	-	-	-	-	-	3,642,537
Debt service	11,590,879	-	3,724,627	-	-	-	-	-	15,315,506
Other purposes	5,020,646	1,408,171	-	123,556	-	-	2,095,405	2,515,578	11,163,356
Unrestricted	-	1,528,853	(2,632,279)	829,797	124,151	10,551,639	783,144	-	11,185,305
<b>Total net position</b>	<b>17,263,235</b>	<b>7,839,773</b>	<b>(3,796,437)</b>	<b>3,262,833</b>	<b>186,327</b>	<b>57,778,206</b>	<b>2,894,212</b>	<b>2,534,700</b>	<b>87,962,849</b>
<b>Total liabilities and net position</b>	<b>\$29,801,394</b>	<b>\$10,541,605</b>	<b>\$ 27,551,225</b>	<b>\$ 3,346,814</b>	<b>\$ 301,446</b>	<b>\$73,690,575</b>	<b>\$ 2,901,705</b>	<b>\$ 2,753,713</b>	<b>\$ 150,888,477</b>

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, 2014

	National Development Bank of Palau	Palau Community College	Palau National Communications Corporation	Palau International Coral Reef Center	Palau Visitors Authority	Palau Public Utilities Corporation	Palau District Housing Authority	Protected Areas Network Fund	Total
<b>Operating revenues:</b>									
Charges for services	\$ 2,055,049	\$ 568,985	\$ 11,254,208	\$ 455,866	\$ -	\$ 26,813,994	\$ 77,172	\$ -	\$ 41,225,274
Grants and contributions	-	4,506,425	-	363,072	-	-	-	-	4,869,497
Other	(1,138,980)	443,603	89,659	5,842	108,228	672,332	8,067	-	188,751
<b>Total operating revenues</b>	<b>916,069</b>	<b>5,519,013</b>	<b>11,343,867</b>	<b>824,780</b>	<b>108,228</b>	<b>27,486,326</b>	<b>85,239</b>	<b>-</b>	<b>46,283,522</b>
<b>Operating expenses:</b>									
Cost of services	-	5,629,784	5,436,277	-	-	25,932,961	-	1,632,253	38,631,275
Depreciation	50,253	342,618	2,128,506	216,798	16,541	3,953,456	7,109	4,678	6,719,959
Administration costs	720,209	1,653,760	1,078,695	955,802	788,496	1,670,112	123,746	261,276	7,252,096
<b>Total operating expenses</b>	<b>770,462</b>	<b>7,626,162</b>	<b>8,643,478</b>	<b>1,172,600</b>	<b>805,037</b>	<b>31,556,529</b>	<b>130,855</b>	<b>1,898,207</b>	<b>52,603,330</b>
<b>Operating income (loss)</b>	<b>145,607</b>	<b>(2,107,149)</b>	<b>2,700,389</b>	<b>(347,820)</b>	<b>(696,809)</b>	<b>(4,070,203)</b>	<b>(45,616)</b>	<b>(1,898,207)</b>	<b>(6,319,808)</b>
<b>Nonoperating revenues (expenses):</b>									
Contributions from primary government	-	2,411,000	-	400,000	645,000	1,800,729	70,000	1,882,024	7,208,753
Net change in the fair value of investments	-	223,809	32,568	13,357	-	-	-	-	269,734
Interest income	4,625	-	596	-	-	1,416	1,174	-	7,811
Grant revenues	83,320	-	-	-	-	311,203	-	25,000	419,523
Interest expense	(483,272)	-	(1,433,267)	-	-	(383,207)	-	-	(2,299,746)
Other, net	(73,362)	-	97,044	-	-	258,043	(367)	2,102	283,460
<b>Total nonoperating revenues (expenses), net</b>	<b>(468,689)</b>	<b>2,634,809</b>	<b>(1,303,059)</b>	<b>413,357</b>	<b>645,000</b>	<b>1,988,184</b>	<b>70,807</b>	<b>1,909,126</b>	<b>5,889,535</b>
<b>Capital contributions</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>603,535</b>	<b>-</b>	<b>14,188,201</b>	<b>-</b>	<b>-</b>	<b>14,791,736</b>
<b>Change in net position</b>	<b>(323,082)</b>	<b>527,660</b>	<b>1,397,330</b>	<b>669,072</b>	<b>(51,809)</b>	<b>12,106,182</b>	<b>25,191</b>	<b>10,919</b>	<b>14,361,463</b>
<b>Net position at beginning of year</b>	<b>17,586,317</b>	<b>7,312,113</b>	<b>(5,193,767)</b>	<b>2,593,761</b>	<b>238,136</b>	<b>45,672,024</b>	<b>2,869,021</b>	<b>2,523,781</b>	<b>73,601,386</b>
<b>Net position at end of year</b>	<b>\$ 17,263,235</b>	<b>\$ 7,839,773</b>	<b>\$ (3,796,437)</b>	<b>\$ 3,262,833</b>	<b>\$ 186,327</b>	<b>\$ 57,778,206</b>	<b>\$ 2,894,212</b>	<b>\$ 2,534,700</b>	<b>\$ 87,962,849</b>

See accompanying notes to basic financial statements.

# REPUBLIC OF PALAU

Notes to Financial Statements  
September 30, 2014

## (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, 2014

### (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, 2014

### (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, 2014

### (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, 2014

## (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 \$201,111,405 of restricted net position, of which \$1,731,657 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, 2014

### (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, 2014

### (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, 2014

(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 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, 2014

(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, 2014.

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, 2014

(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 Revenues

In the government-wide financial statements, unearned revenues are recognized when cash, receivables or other assets are recorded prior to being earned. In the governmental fund financial statements, unearned revenues represent 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, 2014

## (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 2014, the Republic implemented the following pronouncements:

- GASB Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The implementation of this statement did not have a material effect on the accompanying financial statements.



REPUBLIC OF PALAU

Notes to Financial Statements  
September 30, 2014

(1) Summary of Significant Accounting Policies, Continued

T. New Accounting Standards, Continued

- GASB Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans.
- GASB 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 implementation of this statement did not have a material effect on the accompanying financial statements.

In June 2012, GASB issued 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 68 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of this statement on the financial statements of the Republic.

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 this statement on the financial statements of the Republic.

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, which addresses an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions in Statement 71 are effective for fiscal years beginning after June 15, 2014. Management does not believe that the implementation of this statement will have a material effect 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, 2014, 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>883,064</u>	\$ <u>7,075,840</u>	\$ <u>-</u>	\$ <u>293,537</u>	\$ <u>8,252,441</u>

# REPUBLIC OF PALAU

## Notes to Financial Statements September 30, 2014

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

#### 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, 2013 from which summarized information was derived.

### (2) Deposits and Investments

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

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

- (i) Time Horizon: Investment guidelines are based upon an investment horizon of greater than twenty years, so that interim fluctuations should be viewed with appropriate perspective. Strategic asset allocation is based on this long-term perspective.
- (ii) Risk Tolerance: Risk is evaluated by:
  - Over a market cycle, risk associated with any Investment Managers portfolio, as measured by the variability of quarterly returns (standard deviation) must not exceed that of the Investment Manager's respective performance benchmark, without a commensurate increases in return;
  - Over a market cycle, risk associated with the total Fund, as measured by the variability of quarterly returns (standard deviation) must not exceed that of the blend of indices representing that strategic asset allocation of the Fund, without a commensurate increase in return; and
  - During market cycles the risk measures, as indicated herein, will be reviewed periodically by the Fund's Management Committee (Committee).
- (iii) Performance Expectations: The investment objective is a long-term nominal rate of return on assets that is at least equal to 6.0%. This target rate of return for the Fund was derived from earnings assumptions employed in the renewed terms of the COFA agreed upon by and between the ROP and the U.S. Government in September 2010. The rate was based upon modeling that employed the assumption that future real returns will approximate the long-run rates of return experienced for various asset class.

## REPUBLIC OF PALAU

### Notes to Financial Statements September 30, 2014

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

The investment objective of the Fund is to strive for positive real rates of return and to meet the target rate of return over a complete market cycle. Over market cycles, Investment Managers will be expected to provide returns with a positive Alpha, as measured against their respective benchmark index; and have a higher Sharpe Ratio than the index. The Fund as a whole will be measured in the same manner against an index composite in the same allocation as the Fund's strategize allocation.

- (iv) **Asset Allocation Constraints:** The Committee believes that the Fund's risk and liquidity posture are, in large part, a function of asset class mix. The Committee has reviewed the long-term performance characteristics of various asset classes, focusing on balancing the risks and rewards inherent in the marketplace. The following is a strategic asset allocation for the Fund:

Asset class	Lower <u>limit</u>	Strategic <u>Allocation</u>	Upper <u>limit</u>
U.S. Equities	28%	38%	48%
Large Cap Value		8%	
Large Cap Core		8%	
Large Cap Growth		8%	
Small/Mid Cap Core	5	14%	25
Non-U.S. Equities	15%	25%	35%
Developed		18%	
Emerging		7%	
Fixed Income	9%	19%	29%
U.S. Core		13%	
U.S. High Yield		3%	
Global		3%	
Alternatives	8%	18%	28%
Commodities		6%	
Real Estate		6%	
Private Equity		6%	

The percentage allocation to each broad asset class may vary as much as plus or minus 10% of target. The Fund's asset allocation will be reviewed for compliance by the Committee after the end of each fiscal quarter.

When necessary and/or available, cash inflows/outflows will be deployed in a manner consistent with the strategic asset allocation of the Fund. When cash flows are insufficient to bring the Fund within the strategic allocation ranges, the Committee shall determine the appropriate course of action to be taken. The Investment Managers will then be instructed to execute such action required to bring the strategic allocation within the pre-specified ranges.

#### A. Deposits

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

REPUBLIC OF PALAU

Notes to Financial Statements  
September 30, 2014

(2) Deposits and Investments, Continued

A. Deposits, Continued

As of September 30, 2014, the carrying amount of the primary government's total cash and cash equivalents was \$9,604,717 and the corresponding bank balances were \$12,064,592. Of the bank balances, \$11,700,663 is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2014, bank deposits in the amount of \$500,000 were FDIC insured. The remaining bank deposits of \$363,929 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, 2014, the carrying amount of the fiduciary fund's total cash and cash equivalents was \$13,428,133 and the corresponding bank balances were \$5,847,260, which are maintained in financial institutions subject to FDIC insurance. As of September 30, 2014, 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, 2014, the carrying amount in the aggregate of the discretely presented component units' total cash and cash equivalents and time certificates of deposit was \$22,242,338 and the corresponding bank balances were \$22,946,320. Of the bank balances, \$22,945,273 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, 2014, bank deposits in the amount of \$4,729,842 were FDIC or SIPC insured. The remaining bank deposits of \$1,047 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, 2014, investments of the primary government recorded at fair value are as follows:

General Fund:

Fixed income	\$ 1,362,306
Equities	2,016,621
Money market funds	550,469
	<u>3,929,396</u>

Compact Section 211(f) Trust Fund:

Fixed income	47,518,030
Equities	141,390,654
Alternative	4,538,495
Money market funds	5,975,240
	<u>199,422,419</u>

**REPUBLIC OF PALAU**

Notes to Financial Statements  
September 30, 2014

(2) Deposits and Investments, Continued

B. Investments, Continued

Nonmajor Governmental Funds:

Fixed income	1,201,414
Equities	1,849,106
Money market funds	<u>23,225</u>
	<u>3,073,745</u>
	<u>\$ 206,425,560</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, 2014.

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, 2014, there were no investments in any one issuer that exceeded 5% of total investments.

Fixed income maturities of the general fund are as follows:

<u>Investment Type</u>	<u>Fair value</u>	<u>Less than 1 year</u>	<u>1 - 5 years</u>	<u>6 - 10 years</u>	<u>More than 10 years</u>	<u>Ratings</u>
Treasury Securities	\$ 245,182	\$ -	\$ 161,324	\$ 40,238	\$ 43,620	Aaa/AAA
Municipal Bonds	26,019	-	-	15,283	10,736	Aaa/AAA
Federal Agencies	537,350	105,623	345,222	57,333	29,172	Aaa/AAA
Corporate Bonds	24,921	-	24,921	-	-	Aaa/AAA
Corporate Bonds	42,092	-	-	42,092	-	Baa/BBB
Corporate Bonds	<u>486,742</u>	<u>71,344</u>	<u>286,433</u>	<u>58,433</u>	<u>70,532</u>	No Rating
	<u>\$1,362,306</u>	<u>\$ 176,967</u>	<u>\$ 817,900</u>	<u>\$ 213,379</u>	<u>\$ 154,060</u>	

**REPUBLIC OF PALAU**

Notes to Financial Statements  
September 30, 2014

(2) Deposits and Investments, Continued

**B. Investments, Continued**

Fixed income maturities of the nonmajor governmental funds are as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less than 1 year</u>	<u>1 - 5 years</u>	<u>6 - 10 years</u>	<u>More than 10 years</u>	<u>Rating</u>
Treasury Securities	\$ 205,073	\$ -	\$ 137,658	\$ 30,178	\$ 37,237	Aaa/AAA
Municipal Bonds	23,072	-	-	10,189	12,883	Aaa/AAA
Municipal Bonds	5,658	-	-	-	5,658	Aa/AA
Federal Agencies	448,033	90,530	255,069	78,262	24,172	Aaa/AAA
Corporate Bonds	24,921	-	24,921	-	-	Aaa/AAA
Corporate Bonds	43,342	-	-	43,342	-	Baa/BBB
Corporate Bonds	<u>451,315</u>	<u>69,337</u>	<u>247,385</u>	<u>72,119</u>	<u>62,474</u>	No Rating
	<u>\$ 1,201,414</u>	<u>\$ 159,867</u>	<u>\$ 665,033</u>	<u>\$ 234,090</u>	<u>\$ 142,424</u>	

As of September 30, 2014, maturities of investments in fixed income securities for the Compact Section 211(f) Trust Fund were as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less than 1 year</u>	<u>1 - 5 years</u>	<u>6 - 10 years</u>	<u>More than 10 years</u>	<u>Ratings</u>
Treasury Securities	\$ 9,895,773	\$ 150,993	\$ 2,295,078	\$ 1,947,608	\$ 502,094	None
Municipal Bonds	206,967	-	-	206,967	-	AAA
Municipal Bonds	672,737	-	249,716	244,414	178,607	AA+
Municipal Bonds	283,732	-	283,732	-	-	AA
Municipal Bonds	142,063	-	142,063	-	-	A+
Municipal Bonds	554,995	-	-	440,315	114,680	None
Federal Agencies	4,607,173	-	3,618,490	847,113	141,570	AA+
Federal Agencies	1,799,961	-	1,799,961	-	-	AA-
Federal Agencies	7,204,514	-	73,166	1,902,050	5,229,298	Not Rated
Sovereign Securities	104,242	-	104,242	-	-	AA+
Sovereign Securities	417,612	-	317,589	-	100,023	Not Rated
Corporate Bonds	244,403	-	-	105,548	138,855	AAA
Corporate Bonds	1,033,772	-	326,624	707,148	-	AA+
Corporate Bonds	304,743	-	-	304,743	-	AA+ (-)
Corporate Bonds	725,727	-	199,636	96,595	429,496	AA
Corporate Bonds	1,133,477	85,266	509,550	419,370	119,291	AA-
Corporate Bonds	862,989	-	598,241	264,748	-	A+
Corporate Bonds	1,572,455	-	618,628	568,263	385,564	A
Corporate Bonds	1,948,097	-	285,885	1,417,693	244,519	A-
Corporate Bonds	1,130,338	-	139,697	686,407	304,234	BBB+
Corporate Bonds	121,079	-	-	121,079	-	BBB
Corporate Bonds	77,800	-	-	77,800	-	BBB-
Corporate Bonds	1,183,627	-	217,181	966,446	-	BB+
Corporate Bonds	1,330,321	-	263,337	1,066,984	-	BB
Corporate Bonds	962,106	-	493,815	468,291	-	BB-
Corporate Bonds	941,544	-	232,112	709,432	-	B+
Corporate Bonds	175,475	-	175,475	-	-	B (+)
Corporate Bonds	932,232	-	81,886	850,346	-	B
Corporate Bonds	169,429	-	169,429	-	-	B-
Corporate Bonds	75,567	-	-	75,567	-	B- (-)
Corporate Bonds	592,656	-	-	374,045	218,611	Not Rated
Other Fixed Income	125,047	-	125,047	-	-	None
International	<u>5,985,377</u>	<u>5,985,377</u>	<u>-</u>	<u>-</u>	<u>-</u>	Not Rated
	<u>\$47,518,030</u>	<u>\$6,221,636</u>	<u>\$13,320,580</u>	<u>\$19,868,972</u>	<u>\$8,106,842</u>	

**REPUBLIC OF PALAU**

Notes to Financial Statements  
September 30, 2014

(2) Deposits and Investments, Continued

B. Investments, Continued

As of September 30, 2014, investments of the Republic of Palau Social Security Retirement Fund recorded at fair value are as follows:

Equities	\$ 15,526,527
Fixed income	27,277,779
Mutual funds	40,986,780
Money market funds	<u>644,126</u>
	<u>\$ 84,435,212</u>

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

(1) Cash

- a. Investments in this category must adhere to the guidelines in Rule 2a-7 under the U.S. Securities and Exchange Commission (SEC) Investment Company Act of 1940.

(2) 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 stocks;
- c. Secured debt instruments with credit ratings of AAA excluding "interest only" and "principal only" derivatives securities;
- d. Debt issued by foreign entities; and
- 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.

(3) U.S. Equities

- a. Common stock and convertible securities of U.S. listed 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);
- 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;

**REPUBLIC OF PALAU**

Notes to Financial Statements  
September 30, 2014

(2) Deposits and Investments, Continued

B. Investments, Continued

(3) U.S. Equities, Continued

- 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.

(4) International Equities

- a. Equity securities of Corporations provided they are listed on the stock exchange of countries included in the Morgan Stanley Capital International (MSCI) All Country World excluding US Index;
- b. ADRs, European Depository Receipts (EDRs) and Global Depository Receipts (GDRs) relating to any of the above are allowable; and
- c. 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, 2014, maturities of investments in fixed income securities for the Republic of Palau Social Security Retirement 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>	
U.S. Treasury notes	\$ 5,240,590	\$ 677,706	\$ 2,592,448	\$ 993,768	\$ 976,668	Aaa
Other U.S. government obligations	4,379,416	150,574	2,844,560	1,053,598	330,684	Aaa
Other U.S. government obligations	897,392	-	507,545	-	389,847	Unrated
Mortgage pass throughs	2,989,475	-	18,359	94,861	2,876,255	Aaa
State and local government	420,596	-	20,002	203,768	196,826	Aaa
State and local government	599,019	15,050	432,284	27,200	124,485	Aa
State and local government	10,115	-	10,115	-	-	A
Asset-backed securities	175,021	-	175,021	-	-	Aaa
Corporate bonds	1,382,050	44,586	653,267	546,748	137,449	Aaa
Corporate bonds	3,175,811	260,573	1,498,855	1,084,823	331,560	Aa
Corporate bonds	4,570,064	520,075	1,361,736	1,628,014	1,060,239	A
Corporate bonds	2,167,696	-	1,146,469	896,833	124,394	Baa
Corporate bonds	<u>1,270,534</u>	<u>25,064</u>	<u>812,973</u>	<u>-</u>	<u>432,497</u>	Unrated
	<u>\$ 27,277,779</u>	<u>\$ 1,693,628</u>	<u>\$ 12,073,634</u>	<u>\$ 6,529,613</u>	<u>\$ 6,980,904</u>	



REPUBLIC OF PALAU

Notes to Financial Statements  
September 30, 2014

(2) Deposits and Investments, Continued

B. Investments, Continued

As of September 30, 2014, investments of the Republic of Palau Civil Service Pension Trust Fund recorded at fair value are as follows:

Equities	\$ 16,690,046
Fixed income	11,341,530
Mutual Funds	3,542,714
Money market funds	<u>1,008,709</u>
	\$ <u>32,582,999</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 Republic with respect to the Fund, that may exist now or in the future, will be the governing restriction.
2. U.S. and non-U.S. equities, American Depository Receipts, convertible bonds, preferred stocks, fixed income securities, mutual funds and short-term securities are permissible investments.
3. No individual security or any issuer, other than that of the United States Government, shall constitute more than 10% (at cost) of any investment manager's portfolio.
4. Holdings of any issuer shall constitute no more than 5% of the outstanding securities of such issuer.
5. Investments in a registered mutual fund managed by the investment manager are subject to the prior approval of the Board of Trustees.
6. The following securities and transactions are not authorized without prior written Board of Trustees approval: letter stock and other unregistered securities; non-negotiable securities; commodities or other commodity contracts; options; futures; short sales; and, margin transactions.
7. An investment manager's portfolio shall not be excessively over weighted in any one industry (as compared to respective benchmark index) without prior approval by timely reporting and advice to the Board of Trustees.

**REPUBLIC OF PALAU**

Notes to Financial Statements  
September 30, 2014

(2) Deposits and Investments, Continued

B. Investments, Continued

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.
  - 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.

**REPUBLIC OF PALAU**

Notes to Financial Statements  
September 30, 2014

(2) Deposits and Investments, Continued

B. Investments, Continued

Equities, Continued:

- (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.

As of September 30, 2014, maturities of investments in fixed income securities for the Republic of Palau Civil Service Pension Trust Fund were as follows:

Investment Type	Fair Value	Investment Maturities (In Years)				Credit Rating
		Less Than 1	1 - 5	6 - 10	More Than 10	
Mortgage and asset backed securities	\$ 4,013,007	\$ -	\$ 1,962,354	\$ 1,516,875	\$ 533,778	AAA
Mortgage and asset backed securities	704,370	-	704,370	-	-	AA-
Government bonds	4,228,059	-	349,797	2,259,612	1,618,650	AAA
Corporate bonds	179,155	-	-	179,155	-	AA+
Corporate bonds	138,416	-	-	138,416	-	AA-
Corporate bonds	168,379	-	-	168,379	-	A+
Corporate bonds	584,048	-	168,677	415,371	-	A
Corporate bonds	879,529	-	-	879,529	-	A-
Corporate bonds	446,567	-	166,183	280,384	-	BBB+
	<u>\$ 11,341,530</u>	<u>\$ -</u>	<u>\$ 3,351,381</u>	<u>\$ 5,837,721</u>	<u>\$ 2,152,428</u>	

**REPUBLIC OF PALAU**

Notes to Financial Statements  
September 30, 2014

(2) Deposits and Investments, Continued

B. Investments, Continued

As of September 30, 2014, investments of the discretely presented component units are as follows:

Palau Community College (PCC):

	<u>Fair Value</u>
Fixed income	\$ 1,127,669
Domestic equities	1,557,358
Cash and cash equivalents	102,445
Non-U.S. equities	<u>848,528</u>
	<u>\$ 3,636,000</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 - 5</u>	<u>6 - 10</u>	<u>More than 10</u>	<u>Moody</u>	<u>Standard &amp; Poor's</u>
Government securities	\$ 270,648	\$ -	\$ 270,648	\$ -	\$ -	AAA	No rating
Corporate bonds	11,186	-	11,186	-	-	BAA2	BBB
Corporate bonds	10,147	-	10,147	-	-	AA2	AA
Corporate bonds	11,192	-	11,192	-	-	A3(-)	A-
Corporate bonds	8,014	--	8,014	-	-	BAA1	A-
Government securities	66,725	-	66,725	-	-	AAA	No rating
Government securities	34,558	-	34,558	-	-	AAA	No rating
Government securities	82,451	-	82,451	-	-	AAA	No rating
Government securities	199,247	--	199,247	-	-	AAA	No rating
Corporate bonds	11,209	-	11,209	-	-	BAA2	BBB+
Corporate bonds	11,060	-	11,060	-	-	BAA3	BBB-
Corporate bonds	11,038	-	11,038	-	-	BAA2	A-
Corporate bonds	9,553	-	-	9,553	-	BA1	BBB
Corporate bonds	11,175	-	-	11,175	-	A1	AA+
Corporate bonds	11,062	-	-	11,062	-	BAA3	BBB-
Corporate bonds	11,038	-	-	11,038	-	BAA1	BBB+
Corporate bonds	10,842	-	-	10,842	-	BAA1	BBB+
Corporate bonds	11,014	-	-	11,014	-	BAA3	BBB
Government securities	23,944	-	-	23,944	-	AAA	No rating
Government securities	98,149	-	-	98,149	-	AAA	No rating
Corporate bonds	10,752	-	-	10,752	-	A3	A
Corporate bonds	10,233	-	-	10,233	-	BAA1	A-
Corporate bonds	9,489	-	-	9,489	-	BAA3	BBB-
Corporate bonds	11,266	-	-	-	11,266	No rating	A-
Corporate bonds	11,269	-	-	-	11,269	BAA1	BBB+
Corporate bonds	10,939	-	-	-	10,939	A3	A-
Corporate bonds	10,135	-	-	-	10,135	BAA2	BBB
Corporate bonds	9,703	-	-	-	9,703	BAA2	A-
Government securities	86,748	-	-	-	86,748	AAA	No rating
Corporate bonds	10,432	-	-	-	10,432	BAA2(-)	BBB(-)
Corporate bonds	11,143	-	-	-	11,143	A3	A
Corporate bonds	10,107	-	-	-	10,107	BAA3	BBB-
Corporate bonds	<u>11,201</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,201</u>	<u>BAA3</u>	<u>BBB</u>
	<u>\$ 1,127,669</u>	<u>\$ -</u>	<u>\$ 727,475</u>	<u>\$ 217,251</u>	<u>\$ 182,943</u>		

**REPUBLIC OF PALAU**

Notes to Financial Statements  
September 30, 2014

(2) Deposits and Investments, Continued

B. Investments, Continued

Palau National Communications Corporation (PNCC):

	<u>Actual Allocation</u>	<u>Allocation Per Policy</u>	<u>Fair Value</u>
Cash deposits	11%	10%	\$ 69,763
Fixed income	23%	30%	141,581
Domestic equities	55%	50%	340,371
Non-U.S. equities	11%	10%	<u>60,442</u>
			<u>\$ 612,157</u>

Maturities of investments in fixed income securities for PNCC were as follows:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment maturities (in years)</u>				<u>Rating</u>	
		<u>Less than</u>		<u>More than</u>		<u>Moody</u>	<u>Standard &amp; Poor</u>
		<u>1</u>	<u>1-5</u>	<u>6-10</u>	<u>10</u>		
Corporate bonds	\$ 3,997	\$ -	\$ 3,997	\$ -	\$ -	A3	A
Corporate bonds	4,635	-	4,635	-	-	BAA1	BBB+
Corporate bonds	4,515	-	-	4,515	-	BAA1	A-
Corporate bonds	3,780	-	-	3,780	-	BAA3	BBB
Corporate bonds	4,176	-	-	4,176	-	A2	A+
Corporate bonds	7,365	-	-	7,365	-	BAA3	BBB-
Corporate bonds	4,970	-	-	4,970	-	BAA3	BBB
Corporate bonds	12,302	-	-	12,302	-	A3	A-
Corporate bonds	7,916	-	-	7,916	-	A2	A
Corporate bonds	4,306	-	-	4,306	-	A2	A-
Corporate bonds	5,061	-	-	-	5,061	A1	AA+
Federal agencies	25,079	-	25,079	-	-	AAA	AA+
U.S. Treasury	20,289	-	20,289	-	-	AAA	No rating
U.S. Treasury	20,926	-	-	20,926	-	AAA	No rating
U.S. Treasury	<u>12,264</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,264</u>	AAA	No rating
	<u>\$ 141,581</u>	<u>\$ -</u>	<u>\$54,000</u>	<u>\$ 70,256</u>	<u>\$ 17,325</u>		

**REPUBLIC OF PALAU**

Notes to Financial Statements  
September 30, 2014

(2) Deposits and Investments, Continued

B. Investments, Continued

Palau National Communications Corporation (PNCC), Continued:

As of September 30, 2014, PNCC maintained investments in short-term money market mutual funds of \$3,724,627 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	\$ 7,217
Common stocks	111,041
Mutual funds	29,951
Fixed income	<u>44,494</u>
	<b>\$ <u>192,703</u></b>

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, 2014, for the primary government's individual major funds, and nonmajor governmental funds and fiduciary funds in the aggregate, including applicable allowances for uncollectible accounts, are as follows:

	<u>General</u>	<u>Grants</u>	<u>Compact Section 211(f)</u>	<u>Nonmajor Governmental Funds</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Taxes	\$ 4,974,102	\$ -	\$ -	\$ -	\$ -	\$ 4,974,102
General	1,972,802	4,618,422	-	3,721,203	5,893,796	16,206,223
Federal agencies	-	4,466,274	-	-	-	4,466,274
Accrued interest	2,934	-	-	1,548	283,192	287,674
Other	-	-	-	-	<u>387,957</u>	<u>387,957</u>
	6,949,838	9,084,696	-	3,722,751	6,564,945	26,322,230
Less: allowance for uncollectibles	<u>(1,260,057)</u>	-	-	<u>(3,721,203)</u>	<u>(2,657,037)</u>	<u>(7,638,297)</u>
Net receivables	<b>\$ <u>5,689,781</u></b>	<b>\$ <u>9,084,696</u></b>	<b>\$ -</b>	<b>\$ <u>1,548</u></b>	<b>\$ <u>3,907,908</u></b>	<b>\$ <u>18,683,933</u></b>

**REPUBLIC OF PALAU**

Notes to Financial Statements  
September 30, 2014

(3) Receivables, Continued

Discretely Presented Component Units

Receivables as of September 30, 2014, for the discretely presented component units', including applicable allowances for uncollectible accounts, are as follows:

	National Development <u>Bank of Palau</u>	Palau Community <u>College</u>	Palau National Communi- cations <u>Corporation</u>	Palau International Coral Reef <u>Center</u>	Palau Visitors <u>Authority</u>	Public Utilities <u>Corporation</u>	Palau District Housing <u>Authority</u>	Protected Areas Network <u>Fund</u>	<u>Total</u>
General	\$ -	\$ 2,421,279	\$ 4,494,548	\$ -	\$ -	\$ 3,705,146	\$ -	\$ -	\$10,620,973
Federal agencies	-	2,568,982	-	148,362	-	118,000	-	-	2,835,344
Loans	23,275,544	-	-	-	-	-	2,183,399	-	25,458,943
Accrued interest	181,236	-	-	-	-	-	9,590	-	190,826
Other	<u>448,450</u>	<u>197,475</u>	<u>219,129</u>	<u>72,939</u>	<u>26,838</u>	<u>102,336</u>	<u>742</u>	-	<u>1,067,909</u>
	23,905,230	5,187,736	4,713,677	221,301	26,838	3,925,482	2,193,731	-	40,173,995
Less allowance for uncollectible	<u>(4,069,605)</u>	<u>(1,685,610)</u>	<u>(3,417,963)</u>	<u>(47,211)</u>	<u>(134)</u>	<u>(647,000)</u>	<u>(87,994)</u>	-	<u>(9,955,517)</u>
	<u>\$ 19,835,625</u>	<u>\$ 3,502,126</u>	<u>\$ 1,295,714</u>	<u>\$ 174,090</u>	<u>\$ 26,704</u>	<u>\$ 3,278,482</u>	<u>\$ 2,105,737</u>	<u>\$ -</u>	<u>\$ 30,218,478</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.

(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, 2014, are summarized as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Grants	\$ 5,505,795
General	Nonmajor governmental funds	12,557
General	Compact Section 211(f)	252,285
Grants	General	540,673
Nonmajor governmental funds	General	<u>2,861,060</u>
		<u>\$ 9,172,370</u>

**REPUBLIC OF PALAU**

Notes to Financial Statements  
September 30, 2014

(4) Interfund Receivables and Payables, Continued

Primary Government, Continued

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, 2014, are summarized as follows:

	<u>Due From</u>	<u>Due To</u>
<b>General Fund:</b>		
National Development Bank of Palau	\$ 1,000,000	\$ -
Palau Community College	-	<u>292,250</u>
	<u>1,000,000</u>	<u>292,250</u>
<b>Republic of Palau Social Security Retirement Fund:</b>		
National Development Bank of Palau	<u>4,934,525</u>	-
	<u>\$ 5,934,525</u>	<u>\$ 292,250</u>

The amount recorded as due from component units by the General Fund of \$1,000,000 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.

The amount recorded as due from component units by the Republic of Palau Social Security Retirement Fund (the Fund) due from NDBP of \$4,934,525 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.



**REPUBLIC OF PALAU**

Notes to Financial Statements  
September 30, 2014

(4) Interfund Receivables and Payables, Continued

Primary Government, Continued

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>
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	401,468	152,924	554,392
2020 – 2024	2,298,024	473,936	2,771,960
2024 - 2025	<u>796,963</u>	<u>34,625</u>	<u>831,588</u>
	\$ <u>4,934,524</u>	\$ <u>1,440,984</u>	\$ <u>6,375,508</u>

The amount recorded as due to component units of the primary government of \$292,250 does not equal the corresponding due from primary government of the discretely presented component units of \$1,458,153 due to the recording of due from primary government by the Public Utilities Corporation (PUC) of \$1,058,987 for utility services of the water and wastewater operation of the Republic prior to its transfer to PUC and timing differences recorded by Palau Community College and Palau Visitors Authority of \$104,573 and \$2,343, respectively.

Discretely Presented Component Units

Receivables and payables between funds reflected as due to/from primary government at September 30, 2014, are summarized as follows:

<u>General Fund</u>	<u>Due From</u>	<u>Due To</u>
National Development Bank of Palau	\$ -	\$ 1,000,000
Republic of Palau Social Security Retirement Fund	-	4,934,525
Public Utilities Corporation	1,058,987	-
Palau Community College	396,823	-
Protected Areas Network Fund	<u>-</u>	<u>39,476</u>
	<u>\$ 1,458,153</u>	<u>\$ 5,934,525</u>

**REPUBLIC OF PALAU**

Notes to Financial Statements  
September 30, 2014

**(5) Capital Assets**

Capital asset activities for the year ended September 30, 2014, are as follows:

**Primary Government**

	Balance at October <u>1, 2013</u>	<u>Additions</u>	Deletions and <u>Transfers</u>	Balance at September <u>30, 2014</u>
Depreciable capital assets:				
Buildings and other improvements	\$ 144,706,830	\$ 268,800	\$ -	\$ 144,975,630
Machinery and equipment	22,606,571	1,342,976	860,737	24,810,284
Vehicles	6,586,746	718,486	(64,888)	7,240,344
Infrastructure	<u>215,168,715</u>	<u>2,097,296</u>	<u>6,484,461</u>	<u>223,750,472</u>
Total capital assets being depreciated	<u>389,068,862</u>	<u>4,427,558</u>	<u>7,280,310</u>	<u>400,776,730</u>
Accumulated depreciation:				
Buildings and other improvements	(61,873,727)	(6,783,327)	-	(68,657,054)
Machinery and equipment	(20,843,553)	(945,919)	-	(21,789,472)
Vehicles	(5,275,440)	(705,310)	64,888	(5,915,862)
Infrastructure	<u>(135,773,620)</u>	<u>(17,686,904)</u>	<u>-</u>	<u>(153,460,524)</u>
Total accumulated depreciation	<u>(223,766,340)</u>	<u>(26,121,460)</u>	<u>64,888</u>	<u>(249,822,912)</u>
Total depreciable capital assets, net	<u>165,302,522</u>	<u>(21,693,902)</u>	<u>7,345,198</u>	<u>150,953,818</u>
Non-depreciable capital assets:				
Land	3,899,403	-	-	3,899,403
Construction in progress	<u>14,390,028</u>	<u>7,372,562</u>	<u>(7,478,601)</u>	<u>14,283,989</u>
Total non-depreciable capital assets	<u>18,289,431</u>	<u>7,372,562</u>	<u>(7,478,601)</u>	<u>18,183,392</u>
Capital assets, net	<u>\$ 183,591,953</u>	<u>\$ (14,321,340)</u>	<u>\$ (133,403)</u>	<u>\$ 169,137,210</u>

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

General government	\$ 553,355
Education	406,046
Health and welfare	1,019,353
Public safety	431,535
Cultural affairs and recreation	219,404
Transportation and commerce	22,704,593
Unallocated	<u>787,174</u>
Total depreciation expense	<u>\$ 26,121,460</u>

**REPUBLIC OF PALAU**

Notes to Financial Statements  
September 30, 2014

**(5) Capital Assets, Continued**

**Fiduciary Funds**

	Estimated Useful <u>Lives</u>	Balance at October <u>1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	Balance at September <u>30, 2014</u>
Depreciable capital assets:					
Office equipment and furniture	4 - 13 yrs	\$ 515,953	\$ 23,070	\$ (52,330)	\$ 486,693
Building and improvements	30 yrs	132,315	4,098	-	136,413
Vehicles	5 yrs	<u>110,344</u>	<u>15,900</u>	<u>(12,900)</u>	<u>113,344</u>
		758,612	43,068	(65,230)	736,450
Less accumulated depreciation		<u>(642,665)</u>	<u>(71,544)</u>	<u>70,901</u>	<u>(643,308)</u>
Total depreciable capital assets, net		115,947	(28,476)	5,671	93,142
Non-depreciable capital assets:					
Land		<u>207,018</u>	-	-	<u>207,018</u>
		<u>\$ 322,965</u>	<u>\$ (28,476)</u>	<u>\$ 5,671</u>	<u>\$ 300,160</u>

**Discretely Presented Component Units**

	Estimated Useful <u>Lives</u>	Balance October <u>1, 2013</u>	<u>Additions</u>	<u>Retirements</u>	Balance September <u>30, 2014</u>
Depreciable capital assets:					
Buildings	3 - 30 yrs	\$ 20,966,678	\$ 55,163	\$ -	\$ 21,021,841
Utility plant	2 - 30 yrs	146,491,886	17,451,045	(83,528)	163,859,403
Machinery and equipment	2 - 20 yrs	3,434,610	497,318	(124,763)	3,807,165
Infrastructure	2 - 15 yrs	<u>2,997,001</u>	<u>586,243</u>	<u>(90,973)</u>	<u>3,492,271</u>
		173,890,175	18,589,769	(299,264)	192,180,680
Less accumulated depreciation		<u>(113,811,522)</u>	<u>(6,719,959)</u>	<u>213,719</u>	<u>(120,317,762)</u>
Total depreciable capital assets, net		60,078,653	11,869,810	(85,545)	71,862,918
Nondepreciable capital assets:					
Construction in progress		<u>2,732,541</u>	<u>17,340,103</u>	<u>(14,663,551)</u>	<u>5,409,093</u>
		<u>\$ 62,811,194</u>	<u>\$ 29,209,913</u>	<u>\$ (14,749,096)</u>	<u>\$ 77,272,011</u>

**(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, 2014. This loan is in noncompliance with local requirements since only the President of the Republic is authorized to enter into debt agreements.

## REPUBLIC OF PALAU

### Notes to Financial Statements September 30, 2014

#### (7) Long-Term Obligations

##### Primary Government

As of September 30, 2014, 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. \$ 6,857,131

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. 4,800,020

##### 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, 2014), 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. 12,316,867

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

\$ 27,446,752

**REPUBLIC OF PALAU**

Notes to Financial Statements  
September 30, 2014

(7) Long-Term Obligations, Continued

Primary Government, Continued

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>
2015	\$ 2,195,748	\$ 499,755	\$ 2,695,503
2016	2,256,812	440,996	2,697,808
2017	2,324,136	381,955	2,706,091
2018	2,398,360	322,603	2,720,963
2019	2,588,715	280,270	2,868,985
2020 - 2024	10,467,801	690,505	11,158,306
2025 - 2029	4,021,429	165,433	4,186,862
2030 - 2034	1,085,229	56,975	1,142,204
2035	<u>108,522</u>	<u>1,628</u>	<u>110,150</u>
	<u>\$ 27,446,752</u>	<u>\$ 2,840,120</u>	<u>\$ 30,286,872</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, 2014 and therefore has restricted assets of \$3,073,716 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, 2014

(7) Long-Term Obligations, Continued

Changes in long-term liabilities of the primary government for the year ended September 30, 2014, are as follows:

	Balance October <u>1, 2013</u>	<u>Additions</u>	<u>Reductions</u>	Balance September <u>30, 2014</u>	Due Within <u>One Year</u>
Loans payable:					
MICB loans	\$ 13,257,149	\$ -	\$ (1,599,998)	\$ 11,657,151	\$ 1,599,998
ADB loans	<u>9,872,734</u>	<u>6,200,000</u>	<u>(283,133)</u>	<u>15,789,601</u>	<u>595,750</u>
	23,129,883	6,200,000	(1,883,131)	27,446,752	2,195,748
Other:					
Compensated absences	3,654,499	6,160,284	(6,001,140)	3,813,643	2,749,047
Due to U.S. Government	<u>3,000,000</u>	<u>-</u>	<u>-</u>	<u>3,000,000</u>	<u>-</u>
	<u>\$ 29,784,382</u>	<u>\$ 12,360,284</u>	<u>\$ (7,884,271)</u>	<u>\$ 34,260,395</u>	<u>\$ 4,944,795</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.

\$ 2,857,130

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.

2,704,596

\$ 5,561,726

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>
2015	\$ 635,759	\$ 119,457	\$ 755,216
2016	542,429	212,787	755,216
2017	561,381	193,835	755,216
2018	581,957	173,259	755,216
2019	604,226	150,990	755,216
2020 - 2024	<u>2,635,974</u>	<u>401,382</u>	<u>3,037,356</u>
	<u>\$ 5,561,726</u>	<u>\$ 1,251,710</u>	<u>\$ 6,813,436</u>

**REPUBLIC OF PALAU**

Notes to Financial Statements  
September 30, 2014

(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.

\$ 24,257,785

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>
2015	\$ 1,218,155	\$ 1,088,017	\$ 2,306,172
2016	1,275,259	1,030,913	2,306,172
2017	1,335,041	971,131	2,306,172
2018	1,397,625	908,547	2,306,172
2019	1,463,143	843,029	2,306,172
2020 - 2024	8,411,165	3,119,696	11,530,861
2025 - 2029	<u>9,157,397</u>	<u>971,561</u>	<u>10,128,958</u>
	<u>\$ 24,257,785</u>	<u>\$ 8,932,894</u>	<u>\$ 33,190,679</u>

*Extended Service Level of Agreement (ESLA) with Chunghwa Telecom Co. Ltd.*

In December 2009, PNCC recorded and capitalized the costs of the build-up of the earth station and related equipment and improvements for PNCC's mobile and satellite network services, in exchange for a non-interest bearing note with Chunghwa Telecom Co. Ltd (CHT), a contractor from Taiwan, Republic of China, totaling \$3,067,830, payable monthly in ninety (90) installments of \$34,087 including interest, starting in January 2010 through July 2017. The liability recorded in the financial statements reflects future payments discounted at an imputed interest rate of 4.90%, which was the assumed long-term borrowing rate in December 2009.

At December 31, 2014, the future note payments to CHT are as follows:

<u>Years Ending December 31,</u>	<u>Present Value of Note</u>	<u>Discount Amortization</u>	<u>Total Note Payments</u>
2015	\$ 368,709	\$ 40,335	\$ 409,044
2016	387,187	21,857	409,044
2017	<u>234,760</u>	<u>3,849</u>	<u>238,609</u>
	<u>\$ 990,656</u>	<u>\$ 60,041</u>	<u>\$ 1,056,697</u>

REPUBLIC OF PALAU

Notes to Financial Statements  
September 30, 2014

(7) Long-Term Obligations, Continued

Discretely Presented Component Units, Continued

Palau National Communications Corporation (PNCC), Continued:

Pursuant to the repayment terms stated in the ESLA, in addition to non-interest bearing note disclosed in the preceding paragraph, PNCC is required to pay a monthly bandwidth fee of \$14,000, net of a \$1,000 courtesy discount, throughout the term of the note agreement maturing July 2017.

*New billing and customer care information technology system*

In August 2012, PNCC entered into a note agreement with the National Information Solutions Cooperative (NISC) for the acquisition of a new billing and customer care information technology system, and for the improvement of the communication system between the PNCC sales sites and its main office. In 2012, the capitalized costs of the new information system approximates \$1,180,000 with an outstanding note payable balance with NISC amounting to \$764,298 as of December 31, 2012. The note was non-interest bearing, payable in fifty-eight (58) monthly installments of \$10,482 from January 2013 through March 2013, and thereafter at \$13,325 monthly from April 2013 through October 2017. The liability recorded in the financial statements reflects future payments discounted at an imputed interest rate of 4.59%, which was the assumed long-term borrowing rate of PNCC from the Federal Government at December 31, 2013. At December 31, 2014, the future note payments to NISC are as follows:

<u>Years Ending December 31,</u>	<u>Present Value of Note</u>	<u>Discount Amortization</u>	<u>Total Note Payments</u>
2015	\$ 143,323	\$ 16,577	\$ 159,900
2016	150,042	9,858	159,900
2017	<u>132,931</u>	<u>319</u>	<u>133,250</u>
	\$ <u>426,296</u>	\$ <u>26,754</u>	\$ <u>453,050</u>

*Third Generation (3G) Mobile Network Agreement*

PNCC entered into a Third Generation (3G) Mobile Network Agreement on April 2, 2014. Under this agreement, PNCC agreed to purchase a turnkey complete 3G network for Palau for a total of \$4,360,000. The contract calls for a down payments of \$218,000 within two weeks of signing, another \$218,000 on or before September 30, 2014 and \$697,600 on or before January 31, 2015. The remaining balance is to be paid at \$83,000 per month from February 2015 to July 2015 and then at \$100,000 per month until the balance is paid off. Interest will be applied to the unpaid balance at the rate of 2.4% per annum for the first 12 months from February 2015 to January 2016 and then at the rate of 4.8% per annum until the balance is paid off.

As of December 31, 2014 PNCC had paid \$436,000 to the vendor under this contract. The system was completed and activated on January 10, 2015. Since the system was substantially complete as of December 31, 2014 the entire system cost has been capitalized as construction in progress and the remaining unpaid balance of \$3,924,000 has been recognized as a liability.



**REPUBLIC OF PALAU**

Notes to Financial Statements  
September 30, 2014

(7) Long-Term Obligations, Continued

Discretely Presented Component Units, Continued

Palau National Communications Corporation (PNCC), Continued:

Future payments under this contract are as follows:

<u>Years Ending December 31,</u>	<u>Present Value of Note</u>	<u>Discount Amortization</u>	<u>Total Note Payments</u>
2015	\$ 1,695,600	\$ 59,515	\$ 1,755,115
2016	1,200,000	71,506	1,271,506
2017	<u>1,028,400</u>	<u>19,136</u>	<u>1,047,536</u>
	<u>\$ 3,924,000</u>	<u>\$ 150,157</u>	<u>\$ 4,074,157</u>

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.

\$ 5,000,000

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.

2,541,129

\$ 7,541,129

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>
2015	\$ 548,183	\$ 355,118	\$ 903,301
2016	559,183	330,350	889,533
2017	572,043	302,867	874,910
2018	585,399	275,317	860,716
2019	599,792	246,729	846,521
2020 - 2024	3,256,549	763,532	4,020,081
2025 - 2027	<u>1,419,980</u>	<u>65,006</u>	<u>1,484,986</u>
	<u>\$ 7,541,129</u>	<u>\$ 2,338,919</u>	<u>\$ 9,880,048</u>

**REPUBLIC OF PALAU**

Notes to Financial Statements  
September 30, 2014

(7) Long-Term Obligations, Continued

Discretely Presented Component Units, Continued

Changes in long-term liabilities of the discretely presented component units for the year ended September 30, 2014, are as follows:

	Balance October <u>1, 2013</u>	<u>Additions</u>	<u>Reductions</u>	Balance September <u>30, 2014</u>	Due Within <u>One Year</u>
Loans payable:					
NDBP	\$ 6,167,665	\$ -	\$ (605,939)	\$ 5,561,726	\$ 635,759
PNCC	27,343,320	4,360,000	(2,104,583)	29,598,737	3,370,448
PUC	8,078,546	-	(537,417)	7,541,129	548,183
Other liabilities:					
Due to primary government	1,000,000	-	-	1,000,000	-
Due to fiduciary funds	<u>5,255,926</u>	<u>-</u>	<u>(321,401)</u>	<u>4,934,525</u>	<u>333,935</u>
	<u>\$ 47,845,457</u>	<u>\$ 4,360,000</u>	<u>\$ (3,569,340)</u>	<u>\$ 48,636,117</u>	<u>\$ 4,888,325</u>

(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. \$ 199,422,419

Investments held in a trust fund for the purpose of funding a liability to the United States government. 3,073,716

\$ 202,496,135

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. \$ 453,639

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. 50,188

REPUBLIC OF PALAU

Notes to Financial Statements  
September 30, 2014

(8) Restricted Assets, Continued

Discretely Presented Component Units, Continued

National Development Bank of Palau, Continued:

Deposit account collateralizing loans funded by Rural Housing Service. 532,554

Deposit account established for cash received from grantor agencies. 332,784

Palau Community College:

Deposit accounts established for library fund and endowment fund. 1,055,089

\$ 2,424,254

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

Palau Community College:

Investments held for endowment purposes. \$ 3,636,000

Palau National Communications Corporation:

Investment account established in accordance with Rural Utilities Service loan agreement for the purposes of a reserve account. 3,724,627

\$ 7,360,627

(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, 2014, the Republic made no payments under this agreement. Please refer to Note 7 for matters involving potential release of this liability.

**REPUBLIC OF PALAU**

Notes to Financial Statements  
September 30, 2014

(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, 2014, are as follows:

	<u>Transfer Out</u>	<u>Transfer In</u>
General Fund:		
Grants Fund	\$ 384,288	\$ 50,000
Compact Section 211(f) Fund	<u>-</u>	<u>5,000,000</u>
	<u>384,288</u>	<u>5,050,000</u>
Grants Fund:		
General Fund	<u>50,000</u>	<u>384,288</u>
Compact Section 211(f) Fund:		
General Fund	<u>5,000,000</u>	<u>-</u>
	<u>\$ 5,434,288</u>	<u>\$ 5,434,288</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.

(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:

	<u>General</u>	<u>Grants</u>	<u>Compact Section 211 (f)</u>	<u>Nonmajor Governmental Funds</u>	<u>Totals</u>
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	128,209	476,708	-	20,413	625,330
Permanent fund principal	<u>-</u>	<u>-</u>	<u>199,170,134</u>	<u>-</u>	<u>199,170,134</u>
	<u>2,360,252</u>	<u>476,708</u>	<u>199,170,134</u>	<u>20,413</u>	<u>202,027,507</u>
Restricted:					
Capital projects	-	87,586	-	-	87,586
Compact Section 211(b) Energy	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,115,658</u>	<u>3,115,658</u>
	<u>-</u>	<u>87,586</u>	<u>-</u>	<u>3,115,658</u>	<u>3,203,244</u>

**REPUBLIC OF PALAU**

Notes to Financial Statements  
September 30, 2014

(11) Fund Balances, Continued

Committed:					
Environmental protection	-	-	-	87,735	87,735
Hospital	-	-	-	920,656	920,656
Road maintenance	-	-	-	660,378	660,378
Publication law access unit	-	-	-	28,179	28,179
Other	-	-	-	21,883	21,883
	-	-	-	<u>1,718,831</u>	<u>1,718,831</u>
Unassigned	<u>9,167,085</u>	<u>(470,338)</u>	-	<u>(14,074)</u>	<u>8,682,673</u>
	<u>\$ 11,527,337</u>	<u>\$ 93,956</u>	<u>\$ 199,170,134</u>	<u>\$ 4,840,828</u>	<u>\$ 215,632,255</u>

(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, 2014, amounted to \$7,646,622.

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, 2014, demand had not occurred. The notes are to be held 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 have been set forth in the Republic's Single Audit Report for the year ended September 30, 2014. 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.

**REPUBLIC OF PALAU**

Notes to Financial Statements  
September 30, 2014

(12) Commitments and Contingencies, Continued

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 \$47,515,000 as of October 1, 2013. 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, 2014 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.

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, 2014, are as follows:

- a) Guaranteed bank debt of the National Development Bank of Palau (NDBP) with letters of guarantee. At September 30, 2014, NDBP had guaranteed debt totaling \$5,561,726
- 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, 2014, NDBP had guaranteed debt associated with this loan totaling \$4,934,525.
- 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, 2014, PNCC had guaranteed debt totaling \$24,257,785.
- d) Guaranteed bank debt of the Public Utilities Corporation (PUC) with a letter of guarantee. At September 30, 2014, PUC had guaranteed debt totaling \$5,000,000.
- e) Guaranteed a debt of PUC in respect of a loan from NDBP with a letter of guarantee. At September 30, 2014, PUC had guaranteed debt associated with this loan totaling \$2,541,129.

REPUBLIC OF PALAU

Notes to Financial Statements  
September 30, 2014

(12) Commitments and Contingencies, Continued

H. Civil Service Pension Trust Fund

As of September 30, 2014, 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, 2014, 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.

An actuarial valuation of the Pension Fund has determined that the Pension Fund had an actuarial deficiency of approximately \$172,765,473 as of September 30, 2014. Unless the existing deficiency is corrected, the Pension Fund's cash flow may eventually become negative, which will cause the Pension Fund to become depleted to the point that the Pension Fund will not be able to meet its benefit obligations. The Pension Fund has not developed a formal plan as of September 30, 2014, to correct this potential funding deficiency.

I. Budgetary Compliance

For the year ended September 30, 2014, significant over-expenditures exceeding appropriations within the General Fund were as follows:

Ministry of Finance - bank fees	\$709,396
Local Capital Projects Fund	\$114,119
Grants Fund	\$284,288

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

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, 2014, will not have a material impact on the accompanying financial statements.

## REPUBLIC OF PALAU

### Notes to Financial Statements September 30, 2014

#### (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 \$1,785,090, \$1,666,717 and \$1,554,455 to the Pension Fund during the years ended September 30, 2014, 2013 and 2012, 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 2014 was covered in total by the Pension Fund's pension plan.

The Pension Fund utilizes the actuarial cost method termed "level aggregate cost method" with actuarial assumptions used to compute the pension benefit obligation as follows: (a) a rate of return of 7.5% per year on the investment of present and future assets, (b) a 3% increase in employee salaries until retirement, and (c) members are assumed to retire at their normal retirement date.

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

RPPL No. 5-45 earmarked \$1,000,000 to the Pension Fund, to be derived from revenues generated from a Virtual Pachinko Business. Of this \$1,000,000, RPPL No. 6-12, passed into law on September 30, 2002, allocated \$500,000 to the Pension Fund for the employer contribution of the Palau Community College (PCC) for employees of PCC electing to participate. PCC employees opting to retroactively participate shall be enrolled in the Pension Fund effective as of their start date with PCC or October 1, 1987, whichever is later. These employees are required to pay into the Pension Fund their proportionate contribution for each year of retroactive participation. The Pension Fund did not receive funds related to RPPL No. 5-45 and RPPL No. 6-12 from the Republic during the year ended September 30, 2014.



**REPUBLIC OF PALAU**

Notes to Financial Statements  
September 30, 2014

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

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

As a result of the provisions of RPPL No. 6-12, PCC employees who opted to claim prior year's service executed payment agreements with the Pension Fund totaling \$978,907 for prior year's service claimed. As these employees are not mandated to continue payment agreements and can elect to have contributions refunded upon termination of payment agreements, and due to the uncertainty of collection of the employee's share through RPPL No. 6-12, the Pension Fund has elected not to record PCC employee receivables for prior year service. The Pension Fund received \$12,555 from PCC employees during the year ended September 30, 2014.

The funded status as of October 1, 2013, 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)
\$ 34,261,206	\$ 147,288,541	\$ 113,027,335	23.26%	\$ 39,004,000	289.78 %

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, 2013
Actuarial Cost Method:	Entry age normal cost method
Amortization Method:	Level percent open
Remaining Amortization Period:	30 years
Asset Valuation Method:	Market value, including accrued but unpaid contributions
Actuarial Assumptions:	
Investment rate of return:	7.5% per year
Projected salary increases:	3% per annum
COLAS:	0%

REPUBLIC OF PALAU

Notes to Financial Statements  
September 30, 2014

(14) Civil Service Pension Trust Fund's Net Pension Liability

The components of the net pension liability of the Pension Fund as of September 30, 2014 are as follows:

Total pension liability	\$ 206,054,796
Fiduciary net position	<u>(33,289,323)</u>
Net pension liability	\$ <u>172,765,473</u>
Fiduciary net position as a percentage of the total pension liability	16.16%

*Actuarial Assumptions*

The total pension liability was determined by an actuarial valuation as of September 30, 2014, using the following actuarial assumptions:

Actuarial Cost Method:	Normal costs are calculated under the level aggregate cost method
Investment Income:	7.5% per year
Expenses:	\$300,000 each year
Salary Increase:	3.0% per year
Mortality:	1984 Unisex Pension Mortality Table
Disabled Mortality:	PBGC Mortality Table for Disabled Persons receiving Social Security
Retirement Age:	Earlier of age 60 or 30 Years of Total Service.
Early Retirement:	Earlier of age 55 with 20 Years of Total Service or after 25 Years of Total Service. 10% of workers eligible for early retirement who are at least age 55 are assumed to retire each year, and 5% of those eligible for early retirement who are younger than age 55 are assumed to retire each year.
Pre-retirement Beneficiary Benefit Members:	Greater of actuarial equivalent of the greater of three times members Average Annual Salary or the present value of accrued benefit earned by the member. 80% of the workers are assumed to be married and males are assumed to be 3 years older than their spouses.

REPUBLIC OF PALAU

Notes to Financial Statements  
September 30, 2014

(14) Civil Service Pension Trust Fund's Net Pension Liability, Continued

*Actuarial Assumptions, Continued*

Pre-retirement Beneficiary Benefit Former Members:	Present value of accrued benefit earned by the member. 80% of the workers are assumed to be married and males are assumed to be 3 years older than their spouses.
Post Retirement Survivor's Benefit:	100% of the benefit the retiree was receiving prior to death. 80% of active workers are assumed to be married when they retire. Males are assumed to be 3 years older than their spouses.
Disability:	Rates are from the 2007 US Social Security Trustees Report Intermediate Assumptions.
Turnover:	5% per year prior to age 40; none after age 40.
Refund of Contributions:	80% of those who terminate and are eligible to receive a refund of their employee contributions in lieu of a future benefit elect to receive the refund.
Workers Included In the Valuation:	Workers indicated in the census as Active or Inactive with a vested benefit. Salary used as a basis to project future salaries is the greater of the greatest of the salary earned in fiscal year 2006 or 2007, or if no salary was indicated for an Active worker for these years, the greatest salary earned during the workers' career.

*Discount Rate*

The discount rate used to measure the total pension liability was 4.64%. The discount rate was determined using the current assumed rate of return until the point where the fiduciary net position is negative. Using the current contribution rates, a negative position happens in 2021. For years after 2021, a discount rate of 4.53% is used. This rate is the September 26, 2013 Bond Buyer 20-Bond Go Index rate.

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

The following presents the net pension liability of the Pension Fund, calculated using the discount rate of 4.64%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (3.64%) or 1.00% higher (5.64%) from the current rate.

<u>1% Decrease 3.64%</u>	<u>Current Single Discount Rate Assumption 4.64%</u>	<u>1% Increase 5.64%</u>
\$178,385,000	\$ 206,054,796	\$ 224,903,000

**REPUBLIC OF PALAU**

**REQUIRED SUPPLEMENTARY INFORMATION  
- BUDGETARY REPORTING**

**YEAR ENDED SEPTEMBER 30, 2014**

**REPUBLIC OF PALAU**

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual  
General Fund (Fund 100100)  
Year Ended September 30, 2014

	Original Budget	Final Budget	Actual - Budgetary Basis (see note 1)	Variance
<b>Revenues:</b>				
Local revenue	\$ 42,887,600	\$ 45,544,103	\$ 50,162,578	\$ 4,618,475
Compact funding - Section 211(a)	6,000,000	6,000,000	6,000,000	-
Compact funding - Section 215 inflation adjustment	4,250,000	4,250,000	5,147,000	897,000
Net change in the fair value of investments	-	-	32,040	32,040
Other	-	228,624	184,246	(44,378)
Total revenues	<u>53,137,600</u>	<u>56,022,727</u>	<u>61,525,864</u>	<u>5,503,137</u>
<b>Expenditures - budgetary basis:</b>				
Office of the President	1,181,653	1,373,700	1,333,239	40,461
Office of the Vice-President	380,202	380,202	368,785	11,417
Ministry of Finance	2,973,958	3,045,535	3,026,729	18,806
Ministry of State	2,411,874	2,586,974	2,493,892	93,082
Ministry of Community and Cultural Affairs	1,074,160	1,077,160	1,056,677	20,483
Ministry of Education	7,330,410	7,209,410	7,150,701	58,709
Ministry of Public Infrastructure, Industry and Commerce	6,202,569	6,260,569	5,630,922	629,647
Ministry of Justice	4,598,135	4,668,135	4,628,654	39,481
Ministry of Health	9,287,323	9,586,323	8,790,465	795,858
Ministry of Natural Resources, Environment and Tourism	1,400,247	1,420,247	1,397,038	23,209
Boards, Commissions and Authorities	688,788	713,788	631,108	82,680
Judicial Branch	2,200,000	2,200,000	2,190,073	9,927
Legislative Branch	4,811,716	4,821,716	4,724,909	96,807
State Block Grants	5,703,600	5,703,600	5,624,049	79,551
Independent Agencies	2,206,646	2,119,646	2,015,379	104,267
Other Agencies and Activities	2,214,625	2,282,925	2,339,481	(56,556)
Education Assistance	3,204,000	3,254,000	3,254,000	-
Other Appropriations	1,841,165	4,333,268	3,938,467	394,801
Total expenditures	<u>59,711,071</u>	<u>63,037,198</u>	<u>60,594,568</u>	<u>2,442,630</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(6,573,471)</u>	<u>(7,014,471)</u>	<u>931,296</u>	<u>7,945,767</u>
<b>Other financing sources (uses):</b>				
Loan proceeds	1,300,000	1,700,000	6,200,000	4,500,000
Operating transfers in	8,000,000	8,000,000	8,000,000	-
Operating transfers out	(4,735,000)	(4,694,000)	(4,365,799)	328,201
Total other financing sources (uses), net	<u>4,565,000</u>	<u>5,006,000</u>	<u>9,834,201</u>	<u>4,828,201</u>
	(2,008,471)	(2,008,471)	10,765,497	12,773,968
<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	<u>2,008,471</u>	<u>2,008,471</u>	<u>658,495</u>	<u>(1,349,976)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,423,992</u>	<u>\$ 11,423,992</u>

See Accompanying Notes to Required Supplementary Information - Budgetary Reporting.

**REPUBLIC OF PALAU**

Notes to Required Supplementary Information - Budgetary Reporting  
September 30, 2014

(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</u> <u>Fund Balance</u>	<u>Encumbrances</u>
General Fund (Fund 100100):		
Budgetary basis	\$ <u>11,423,992</u>	\$ <u>658,495</u>
GASB 54 Funds included within the General Fund:		
Financial Institutions Commission Fund (Fund 100116)	(1,954)	3,922
Scholarship Fund (Fund 100150)	(29,079)	381
Non-Lapsing Fund (Fund 100200)	278,828	43,092
Receivable Fund (Fund 100900)	-	7,240
Compact Section 211(e) Fund (Fund 311500)	(5,771)	-
Compact Section 213 Fund (Fund 313000)	529,182	-
Compact Section 212 Fund (Fund 500100)	(552)	-
Local CIP Fund (Fund 410100)	(693,473)	169,934
Debt Service Fund (Fund 600000)	(89,772)	-
	<u>(12,591)</u>	<u>224,569</u>
	\$ <u>11,411,401</u>	\$ <u>883,064</u>

See Accompanying Independent Auditors' Report.

**REPUBLIC OF PALAU**

**OTHER SUPPLEMENTARY INFORMATION**

**YEAR ENDED SEPTEMBER 30, 2014**

**REPUBLIC OF PALAU**

**GENERAL FUND**

September 30, 2014

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.

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.

Debt Service Fund – To account for annual repayment of long term debt and related interest.

ADB Loan Proceeds Fund – To account for loan proceeds (tranche 1).

See Accompanying Independent Auditors' Report.



**REPUBLIC OF PALAU**

**GENERAL FUND**

Combining Schedule of Balance Sheet  
September 30, 2014

	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>ASSETS</b>							
Cash and cash equivalents	\$ 9,300,563	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Investments	1,193,148	-	-	-	442,442	3,425,412	-
Receivables, net:							
Taxes	4,974,102	-	-	-	-	-	-
General	712,745	-	-	-	-	-	-
Accrued interest	-	-	-	-	-	2,934	-
Due from component units	-	-	-	-	-	-	-
Due from other funds	74,687,636	-	102,889	48,136	-	-	-
Advances	238,959	-	-	-	-	-	-
Inventory	46,468	-	-	-	-	-	-
Prepaid items	128,209	-	-	-	-	-	-
Restricted assets:							
Cash and cash equivalents	304,154	-	-	-	-	-	-
Total assets	<u>\$ 91,585,984</u>	<u>\$ -</u>	<u>\$ 102,889</u>	<u>\$ 48,136</u>	<u>\$ 442,442</u>	<u>\$ 3,428,346</u>	<u>\$ -</u>
<b>LIABILITIES AND FUND BALANCES (DEFICIT)</b>							
Liabilities:							
Note payable	\$ 198,142	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Accounts payable	4,122,823	16,543	-	-	-	-	-
Due to State governments	3,384,036	-	-	-	-	-	-
Due to component units	292,250	-	-	-	-	-	-
Due to other funds	74,109,448	749,297	-	-	-	-	-
Accrued payroll and others	2,779,543	1,594	-	-	-	-	-
Other liabilities and accruals	493,576	-	-	-	-	-	-
Unearned revenue	-	-	-	-	-	-	-
Income tax refunds	995,930	-	-	-	-	-	-
Total liabilities	<u>86,375,748</u>	<u>767,434</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances (deficit):							
Nonspendable	1,360,252	-	-	-	-	-	-
Unassigned	3,849,984	(767,434)	102,889	48,136	442,442	3,428,346	-
Total fund balances (deficit)	<u>5,210,236</u>	<u>(767,434)</u>	<u>102,889</u>	<u>48,136</u>	<u>442,442</u>	<u>3,428,346</u>	<u>-</u>
Total liabilities and fund balances (deficit)	<u>\$ 91,585,984</u>	<u>\$ -</u>	<u>\$ 102,889</u>	<u>\$ 48,136</u>	<u>\$ 442,442</u>	<u>\$ 3,428,346</u>	<u>\$ -</u>

See Accompanying Independent Auditors' Report.

**REPUBLIC OF PALAU**

**GENERAL FUND**

Combining Schedule of Balance Sheet, Continued  
September 30, 2014

	<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	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9,300,563
Investments	10,200	-	43,769	-	-	-	5,114,971
Receivables, net:							
Taxes	-	-	-	-	-	-	4,974,102
General	-	-	-	-	-	-	712,745
Accrued interest	-	-	-	-	-	-	2,934
Due from component units	-	-	-	-	1,000,000	-	1,000,000
Due from other funds	-	82,740	72,302	-	5,340,813	(74,563,879)	5,770,637
Advances	1,580	400	-	-	-	-	240,939
Inventory	-	-	-	-	-	-	46,468
Prepaid items	-	-	-	-	-	-	128,209
Restricted assets:							
Cash and cash equivalents	-	-	-	-	-	-	304,154
Total assets	<u>\$ 11,780</u>	<u>\$ 83,140</u>	<u>\$ 116,071</u>	<u>\$ -</u>	<u>\$ 6,340,813</u>	<u>\$ (74,563,879)</u>	<u>\$ 27,595,722</u>
<b>LIABILITIES AND FUND BALANCES (DEFICIT)</b>							
Liabilities:							
Note payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 198,142
Accounts payable	224,979	-	-	-	-	-	4,364,345
Due to State governments	-	-	-	-	-	-	3,384,036
Due to component units	-	-	-	-	-	-	292,250
Due to other funds	225,918	-	-	2,880,949	-	(74,563,879)	3,401,733
Accrued payroll and others	-	-	-	(23,218)	-	-	2,757,919
Other liabilities and accruals	-	-	-	-	-	-	493,576
Unearned revenue	-	180,454	-	-	-	-	180,454
Income tax refunds	-	-	-	-	-	-	995,930
Total liabilities	<u>450,897</u>	<u>180,454</u>	<u>-</u>	<u>2,857,731</u>	<u>-</u>	<u>(74,563,879)</u>	<u>16,068,385</u>
Fund balances (deficit):							
Nonspendable	-	-	-	-	1,000,000	-	2,360,252
Unassigned	(439,117)	(97,314)	116,071	(2,857,731)	5,340,813	-	9,167,085
Total fund balances (deficit)	<u>(439,117)</u>	<u>(97,314)</u>	<u>116,071</u>	<u>(2,857,731)</u>	<u>6,340,813</u>	<u>-</u>	<u>11,527,337</u>
Total liabilities and fund balances (deficit)	<u>\$ 11,780</u>	<u>\$ 83,140</u>	<u>\$ 116,071</u>	<u>\$ -</u>	<u>\$ 6,340,813</u>	<u>\$ (74,563,879)</u>	<u>\$ 27,595,722</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

GENERAL FUND

Combining Schedule of Revenues, Expenditures By Function,  
and Changes in Fund Balance (Deficit)  
Year Ended September 30, 2014

	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	\$ 41,222,403	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Compact funding	11,147,000	-	-	-	-	-	2,000,000
Net change in the fair value of investments	282,040	-	-	-	156	529,182	-
Fees and charges	7,217,914	-	-	-	-	-	-
Licenses and permits	5,262,301	-	-	-	-	-	-
Other	1,102,150	30,862	-	-	-	-	-
<b>Total revenues</b>	<b>66,233,808</b>	<b>30,862</b>	<b>-</b>	<b>-</b>	<b>156</b>	<b>529,182</b>	<b>2,000,000</b>
<b>Expenditures:</b>							
<b>Current:</b>							
Judicial Branch	2,190,073	-	-	-	-	-	-
Legislative Branch	4,678,273	-	-	-	-	-	-
Office of the President	1,267,812	-	-	-	-	-	-
Office of the Vice-President	363,790	-	-	-	-	-	-
Ministry of Finance	3,177,318	-	-	-	-	-	-
Ministry of State	2,476,257	-	-	-	-	-	-
Ministry of Community and Cultural Affairs	1,053,669	-	-	-	-	-	-
Ministry of Education	6,990,226	-	-	-	-	-	-
Ministry of Public Infrastructure, Industry and Commerce	5,775,621	-	-	-	-	-	-
Ministry of Justice	4,803,145	-	-	-	-	-	-
Ministry of Health	8,616,442	-	-	-	-	-	-
Ministry of Natural Resources, Environment and Tourism	1,388,478	-	-	-	-	-	-
Boards, Commissions, and Authorities	2,691,641	-	-	-	-	-	-
State Block Grants	5,624,049	-	-	-	-	-	-
Independent Agencies	2,001,219	-	-	-	-	-	-
Other Agencies and Activities	2,530,981	-	-	-	5,927	-	-
Education assistance	3,254,000	1,330,259	-	-	-	-	-
PPUC Water & Sewer Operations	1,874,700	-	-	-	-	-	-
Financial and Compliance Audit	32,500	-	-	-	-	-	-
Compact Review Office	284,781	-	-	-	-	-	-
Health care fund contributions	301,480	-	-	-	-	-	-
Low-income assistance	19,200	-	-	-	-	-	-
Uighur Detainees Settlement Assistance	36,845	-	-	-	-	-	-
2014 Micronesian Games	301,000	-	-	-	-	-	-
Typhoon emergency assistance	1,211,643	-	-	-	-	-	-
Claims and judgments	70,000	-	-	-	-	-	-
Capital projects	-	-	-	-	-	-	-
Debt service:							
Principal retirement	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-
<b>Total expenditures</b>	<b>63,015,143</b>	<b>1,330,259</b>	<b>-</b>	<b>-</b>	<b>5,927</b>	<b>-</b>	<b>-</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>3,218,665</b>	<b>(1,299,397)</b>	<b>-</b>	<b>-</b>	<b>(5,771)</b>	<b>529,182</b>	<b>2,000,000</b>
<b>Other financing sources (uses):</b>							
Loan proceeds	6,200,000	-	-	-	-	-	-
Operating transfers in	8,050,000	1,270,318	-	-	-	-	-
Operating transfers out	(5,767,799)	-	-	-	-	-	(2,000,000)
<b>Total other financing sources (uses), net</b>	<b>8,482,201</b>	<b>1,270,318</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(2,000,000)</b>
<b>Net change in fund balances (deficit)</b>	<b>11,700,866</b>	<b>(29,079)</b>	<b>-</b>	<b>-</b>	<b>(5,771)</b>	<b>529,182</b>	<b>-</b>
<b>Fund balances (deficit) at beginning 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>
<b>Fund balances (deficit) at end of year</b>	<b>\$ 5,210,236</b>	<b>\$ (767,434)</b>	<b>\$ 102,889</b>	<b>\$ 48,136</b>	<b>\$ 442,442</b>	<b>\$ 3,428,346</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), Continued  
Year Ended September 30, 2014**

	410100	430100	500100	600000	700100		
	Local CIP	DOI CIP	Compact Section 212 (b)	Debt Service	ADB Loan Proceeds	Elimination	Total
<b>Revenues:</b>							
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 41,222,403
Compact funding	-	-	-	-	-	-	13,147,000
Net change in the fair value of investments	-	-	15	-	-	-	811,393
Fees and charges	-	-	-	-	-	-	7,217,914
Licenses and permits	-	-	-	-	-	-	5,262,301
Other	50,000	-	-	-	-	-	1,183,012
<b>Total revenues</b>	<b>50,000</b>	<b>-</b>	<b>15</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>68,844,023</b>
<b>Expenditures:</b>							
<b>Current:</b>							
Judicial Branch	-	-	-	-	-	-	2,190,073
Legislative Branch	-	-	-	-	-	-	4,678,273
Office of the President	-	-	-	-	-	-	1,267,812
Office of the Vice-President	-	-	-	-	-	-	363,790
Ministry of Finance	-	-	-	-	-	-	3,177,318
Ministry of State	-	-	-	-	-	-	2,476,257
Ministry of Community and Cultural Affairs	-	-	-	-	-	-	1,053,669
Ministry of Education	-	-	-	-	-	-	6,990,226
Ministry of Public Infrastructure, Industry and Commerce	-	-	-	-	-	-	5,775,621
Ministry of Justice	-	-	-	-	-	-	4,803,145
Ministry of Health	-	-	-	-	-	-	8,616,442
Ministry of Natural Resources, Environment and Tourism	-	-	-	-	-	-	1,388,478
Boards, Commissions, and Authorities	-	-	-	-	-	-	2,691,641
State Block Grants	-	-	-	-	-	-	5,624,049
Independent Agencies	-	-	-	-	-	-	2,001,219
Other Agencies and Activities	-	-	567	89,772	-	-	2,627,247
Education assistance	-	-	-	-	-	-	4,584,259
Pension plan interest	-	-	-	-	-	-	1,874,700
Financial and Compliance Audit	-	-	-	-	-	-	32,500
Compact Review Office	-	-	-	-	-	-	284,781
Health care fund contributions	-	-	-	-	-	-	301,480
Low-income assistance	-	-	-	-	-	-	19,200
Uighur Detainees Settlement Assistance	-	-	-	-	-	-	36,845
Pacific Mini Games	-	-	-	-	-	-	301,000
Festival of Arts	-	-	-	-	-	-	1,211,643
Claims and judgments	-	-	-	-	-	-	70,000
Capital projects	1,431,592	-	-	-	-	-	1,431,592
<b>Debt service:</b>							
Principal retirement	-	-	-	1,883,131	-	-	1,883,131
Interest	-	-	-	541,943	-	-	541,943
<b>Total expenditures</b>	<b>1,431,592</b>	<b>-</b>	<b>567</b>	<b>2,514,846</b>	<b>-</b>	<b>-</b>	<b>68,298,334</b>
Excess (deficiency) of revenues over (under) expenditures	(1,381,592)	-	(552)	(2,514,846)	-	-	545,689
<b>Other financing sources (uses):</b>							
Loan proceeds	-	-	-	-	-	-	6,200,000
Operating transfers in	688,119	-	-	2,425,074	-	(7,383,511)	5,050,000
Operating transfers out	-	-	-	-	-	7,383,511	(384,288)
<b>Total other financing sources (uses), net</b>	<b>688,119</b>	<b>-</b>	<b>-</b>	<b>2,425,074</b>	<b>-</b>	<b>-</b>	<b>10,865,712</b>
<b>Net change in fund balances (deficit)</b>	<b>(693,473)</b>	<b>-</b>	<b>(552)</b>	<b>(89,772)</b>	<b>-</b>	<b>-</b>	<b>11,411,401</b>
Fund balances (deficit) at beginning of year	254,356	(97,314)	116,623	(2,767,959)	6,340,813	-	115,936
Fund balances (deficit) at end of year	\$ (439,117)	\$ (97,314)	\$ 116,071	\$ (2,857,731)	\$ 6,340,813	\$ -	\$ 11,527,337

See Accompanying Independent Auditors' Report.

**REPUBLIC OF PALAU**

**GENERAL FUND**

**Combining Schedule of Expenditures By Object  
Year Ended September 30, 2014**

	<b>100150</b>	<b>311300</b>	<b>311400</b>	<b>311500</b>	<b>313000</b>	<b>321000</b>	
	<u>General</u>	<u>Scholarship</u>	<u>Compact Section 211 (c)</u>	<u>Compact Section 211 (d)</u>	<u>Compact Section 211 (e)</u>	<u>Compact Section 213</u>	<u>Compact Section 221 (b)</u>
Expenditures:							
Salaries and wages	\$ 31,966,376	\$ 59,114	\$ -	\$ -	\$ -	\$ -	\$ -
Freight	3,468	-	-	-	-	-	-
Rentals	590,085	20	-	-	-	-	-
Communications and postage	971,757	1,110	-	-	-	-	-
Advertising	56,011	-	-	-	-	-	-
Medical referrals	1,296	-	-	-	-	-	-
Professional and contractual services	396,307	231	-	-	-	-	-
Supplies and materials	1,297,088	3,572	-	-	-	-	-
Petroleum products	902,165	630	-	-	-	-	-
Food stuffs	1,059,735	143	-	-	-	-	-
Books and library materials	99,670	-	-	-	-	-	-
Medical drugs and supplies	749,844	-	-	-	-	-	-
Travel	834,026	10,741	-	-	-	-	-
Equipment	340,895	-	-	-	-	-	-
Insurance	27,878	-	-	-	-	-	-
Training	4,392	-	-	-	-	-	-
Donations	412,970	-	-	-	-	-	-
Payments of allotments/benefits	16,236,504	-	-	-	-	-	-
Representation and entertainment	19,404	-	-	-	-	-	-
Cleaning service	90,290	-	-	-	-	-	-
Investment management fees	-	-	-	-	5,927	-	-
Dues, fees and registration	(243,406)	-	-	-	-	-	-
Board compensation	150,247	(18,193)	-	-	-	-	-
Employee incentive awards	8,025	-	-	-	-	-	-
Allowances	272,560	-	-	-	-	-	-
Repairs and maintenance	507,110	650	-	-	-	-	-
Construction	156,224	-	-	-	-	-	-
Building	-	-	-	-	-	-	-
Vehicles	155,076	-	-	-	-	-	-
Furniture and fixtures	4,392	-	-	-	-	-	-
Computer software	400	-	-	-	-	-	-
Improvements	83,857	-	-	-	-	-	-
Utilities	3,866,300	4,700	-	-	-	-	-
Principal retirement	-	-	-	-	-	-	-
Interest charges	-	-	-	-	-	-	-
Bad debts	(47,943)	-	-	-	-	-	-
Student loans	-	548,828	-	-	-	-	-
Scholarships	-	718,713	-	-	-	-	-
Bank service fee	765,559	-	-	-	-	-	-
Grants and contributions	1,016,599	-	-	-	-	-	-
Miscellaneous	259,982	-	-	-	-	-	-
<b>Total expenditures</b>	<u>\$ 63,015,143</u>	<u>\$ 1,330,259</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,927</u>	<u>\$ -</u>	<u>\$ -</u>

See Accompanying Independent Auditors' Report.

**REPUBLIC OF PALAU**

**GENERAL FUND**

Combining Schedule of Expenditures By Object, Continued  
Year Ended September 30, 2014

	410100	430100	500100	600000	700100	
	Local CIP	DOI CIP	Compact Section 212 (b)	Debt Service	ADB Loan Proceeds	Total
Expenditures:						
Salaries and wages	\$ -	\$ -	\$ -	\$ 25,717	\$ -	\$ 32,051,207
Freight	-	-	-	-	-	3,468
Rentals	-	-	-	-	-	590,105
Communications and postage	-	-	-	-	-	972,867
Advertising	-	-	-	-	-	56,011
Medical referrals	-	-	-	-	-	1,296
Professional and contractual services	99,818	-	-	-	-	496,356
Supplies and materials	20,942	-	-	-	-	1,321,602
Petroleum products	-	-	-	-	-	902,795
Food stuffs	1,859	-	-	-	-	1,061,737
Books and library materials	-	-	-	-	-	99,670
Medical supplies	-	-	-	-	-	749,844
Travel	43,659	-	-	-	-	888,426
Equipment	12,442	-	-	-	-	353,337
Insurance	-	-	-	-	-	27,878
Training	5,277	-	-	-	-	9,669
Donations	-	-	-	-	-	412,970
Payments of allotments/benefits	-	-	-	42,340	-	16,278,844
Representation and entertainment	-	-	-	-	-	19,404
Cleaning service	-	-	-	-	-	90,290
Investment management fees	-	-	567	-	-	6,494
Dues, fees and registration	-	-	-	-	-	(243,406)
Board compensation	-	-	-	-	-	132,054
Employee incentive awards	-	-	-	-	-	8,025
Allowances	-	-	-	-	-	272,560
Repairs and maintenance	-	-	-	-	-	507,760
Construction	723,219	-	-	-	-	879,443
Building	48,170	-	-	-	-	48,170
Vehicles	16,690	-	-	-	-	171,766
Furniture and fixtures	-	-	-	-	-	4,392
Computer software	-	-	-	-	-	400
Improvements	458,247	-	-	-	-	542,104
Utilities	-	-	-	-	-	3,871,000
Principal retirement	-	-	-	1,883,131	-	1,883,131
Interest charges	-	-	-	541,943	-	541,943
Bad debts	-	-	-	-	-	(47,943)
Student loans	-	-	-	-	-	548,828
Scholarships	-	-	-	-	-	718,713
Bank service fee	-	-	-	-	-	765,559
Grants and contributions	-	-	-	-	-	1,016,599
Miscellaneous	1,269	-	-	21,715	-	282,966
Total expenditures	<u>\$ 1,431,592</u>	<u>\$ -</u>	<u>\$ 567</u>	<u>\$ 2,514,846</u>	<u>\$ -</u>	<u>\$ 68,298,334</u>

See Accompanying Independent Auditors' Report.

**REPUBLIC OF PALAU**

**GENERAL FUND**

Schedule of Revenues  
Year Ended September 30, 2014  
(With comparative totals for the year ended September 30, 2013)

	2014	2013
Compact funding:		
Section 211(a)	\$ 6,000,000	\$ 6,000,000
Section 221(b)	2,000,000	2,000,000
Section 215 inflation adjustment	5,147,000	5,147,000
Total compact funding	13,147,000	13,147,000
Taxes:		
Gross receipts	13,019,842	12,196,018
Salary and wage	8,150,739	7,356,812
Alcohol and tobacco	7,411,982	5,561,299
Hotel occupancy	4,793,813	4,121,823
Travelers head	2,643,270	2,384,399
General import	2,771,582	2,175,399
Fish export	514,004	745,847
Fuel excise	402,968	744,847
Road use	-	431,582
Penalties, interest and delinquencies	535,328	430,832
Beverage container tax	454,711	414,199
Vessel cabin and foreign water vessel	177,956	143,373
Other	346,208	(225)
Total taxes	41,222,403	36,706,205
Licenses and permits:		
Foreign labor permits	1,146,859	966,974
Fishing rights fees	283,611	339,596
Fishing days fees	2,867,463	556,263
Business licenses	363,354	223,799
Foreign investment permits and fees	219,034	223,700
Court fines and fees	99,675	121,979
Corporate filing fees	37,006	36,832
Other licenses and permits	245,299	191,189
Total licenses and fees	5,262,301	2,660,332
Fees and charges:		
Green fees	3,749,078	3,398,389
Airport fees and rentals	2,768,167	2,255,438
Water utility charges	5	816,706
Sewer utility charges	-	389,959
Postal service	385,584	352,279
Banking fees	132,750	132,250
Palau passport fees	88,228	78,160
Seaport fees	33,925	34,600
Belau Mariculture Demonstration Center sales	6,462	3,106
Other	53,715	322,552
Total fees and charges	7,217,914	7,783,439
Net change in the fair value of investments	811,393	516,385
Other:		
Indirect cost recoveries	184,246	122,344
Other	998,766	850,618
Total other	1,183,012	972,962
Total revenues	\$ 68,844,023	\$ 61,786,323

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, 2014

	Budgeted Amounts		Actual	Variance
	Original	Final		
<b>Revenues:</b>				
Local revenue	\$ 42,887,600	\$ 45,544,103	\$ 50,162,578	4,618,475
Compact funding - Section 211(a)	6,000,000	6,000,000	6,000,000	-
Compact funding - Section 215 inflation adjustment	4,250,000	4,250,000	5,147,000	897,000
Net change in the fair value of investments	-	-	32,040	32,040
Other	-	228,624	184,246	(44,378)
Total revenues	<u>53,137,600</u>	<u>56,022,727</u>	<u>61,525,864</u>	<u>5,503,137</u>
<b>Expenditures - budgetary basis:</b>				
<b>Office of the President:</b>				
President's Office	876,619	876,619	850,941	25,678
Official Expenses	34,034	34,034	29,045	4,989
Indirect Cost Recoveries	-	175,216	175,188	28
Administrative Overhead	-	6,831	6,799	32
Grants Coordinator Office	76,000	86,000	85,117	883
Council of Chiefs	150,000	150,000	141,149	8,851
Presidential Stipend	45,000	45,000	45,000	-
Total Office of the President	<u>1,181,653</u>	<u>1,373,700</u>	<u>1,333,239</u>	<u>40,461</u>
<b>Office of the Vice-President:</b>				
Vice-President's Office	256,006	256,006	251,002	5,004
National Emergency Management Office	124,196	124,196	117,783	6,413
Total Office of the Vice-President	<u>380,202</u>	<u>380,202</u>	<u>368,785</u>	<u>11,417</u>
<b>Ministry of Finance:</b>				
Office of the Minister	58,000	58,000	57,987	13
Administrative Overhead	1,536	48,113	48,112	1
Workmen's Compensation	37,000	37,000	35,545	1,455
Information System Support Service	239,360	254,360	253,716	644
Bureau of National Treasury	761,760	761,760	761,510	250
Bureau of Budget and Planning	242,000	242,000	240,523	1,477
Bureau of Public Service System	133,500	143,500	142,810	690
Bureau of Revenue, Customs and Taxation	1,500,802	1,500,802	1,486,526	14,276
Total Ministry of Finance	<u>2,973,958</u>	<u>3,045,535</u>	<u>3,026,729</u>	<u>18,806</u>
<b>Ministry of State:</b>				
Office of the Minister	58,000	58,000	57,505	495
Consulate Office in Guam	87,000	92,000	91,951	49
Consulate Office in Saipan	50,000	45,000	42,913	2,087
Embassy in Washington D.C.	270,000	250,000	246,202	3,798
Embassy in Japan	350,255	335,255	333,389	1,866
Embassy in Taipei, Taiwan	79,000	148,000	136,600	11,400
Embassy in Manila, Philippines	100,000	115,000	108,672	6,328
United Nations Representative Office	197,000	290,000	252,773	37,227
Office of the Public Defender	240,000	227,000	213,537	13,463
Bureau of Trade and Foreign Affairs	401,311	441,311	432,655	8,656
Bureau of Domestic Affairs	277,178	250,178	245,738	4,440
Passport Office	52,130	52,130	49,577	2,553
International Organizations Obligations	250,000	225,000	224,280	720
Southwest Islands Field Trips	-	58,100	58,100	-
Total Ministry of State	<u>2,411,874</u>	<u>2,586,974</u>	<u>2,493,892</u>	<u>93,082</u>
<b>Ministry of Community and Cultural Affairs:</b>				
Office of the Minister	58,000	58,000	57,828	172
Bureau of National Archives	78,730	81,730	79,646	2,084
Bureau of Youth, Sports and Recreation	178,222	188,222	184,155	4,067
Bureau of Aging and Gender	275,158	267,158	260,863	6,295
Sports Facilities Maintenance and Utilities	90,050	90,050	87,930	2,120
Bureau of Arts and Culture	139,000	137,000	135,814	1,186
Guam Micronesai Island Fair	10,000	10,000	9,993	7
Olchotel Belau Fair	20,000	20,000	20,000	-
Palau Severely Disabled Assistance Fund	225,000	225,000	220,448	4,552
Total Ministry of Community and Cultural Affairs	<u>1,074,160</u>	<u>1,077,160</u>	<u>1,056,677</u>	<u>20,483</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, 2014

	Budgeted Amounts		Actual	Variance
	Original	Final		
<b>Ministry of Education:</b>				
Office of the Minister	58,000	33,000	25,563	7,437
School Books, Supplies and Instructional Equipment	300,000	300,000	299,227	773
Bureau of Curriculum and Instruction	395,000	356,000	328,948	27,052
Bureau of School Administration	5,856,334	5,799,334	5,776,078	23,256
Food Services Program	721,076	721,076	720,885	191
Total Ministry of Education	<u>7,330,410</u>	<u>7,209,410</u>	<u>7,150,701</u>	<u>58,709</u>
<b>Ministry of Public Infrastructure, Industry and Commerce:</b>				
Office of the Minister	58,000	58,000	57,637	363
PALARIS	124,000	112,000	105,799	6,201
Bureau of Commercial Development	249,432	264,432	261,031	3,401
Palau Small Business Development Center (UOG)	45,000	45,000	45,000	-
Bureau of Aviation	1,555,377	1,600,377	1,597,735	2,642
Bureau of Lands and Survey	842,808	822,808	800,351	22,457
Bureau of Public Works	1,266,525	1,316,525	1,314,387	2,138
Landfill Operations	90,000	81,000	69,776	11,224
National Capitol Electricity/Maintenance	1,277,000	1,277,000	1,275,359	1,641
Capital Improvement Office	692,953	681,953	103,847	578,106
Rural Sanitation Project	1,474	1,474	-	1,474
Total Ministry of Public Infrastructure, Industry and Commerce	<u>6,202,569</u>	<u>6,260,569</u>	<u>5,630,922</u>	<u>629,647</u>
<b>Ministry of Justice:</b>				
Office of the Attorney General	487,222	554,222	538,987	15,235
Bureau of Immigration	347,085	367,085	360,444	6,641
Bureau of Public Safety	2,917,481	2,907,481	2,891,028	16,453
Bureau of Marine Law Enforcement	646,347	639,347	638,195	1,152
Patrol Boat Dry Dock and Refitting	200,000	200,000	200,000	-
Total Ministry of Justice	<u>4,598,135</u>	<u>4,668,135</u>	<u>4,628,654</u>	<u>39,481</u>
<b>Ministry of Health:</b>				
Office of the Minister	58,000	58,000	55,955	2,045
Bureau of Public Health	1,081,913	1,049,913	1,045,401	4,512
Health Administration	2,726,587	3,116,587	3,050,095	66,492
Manila Medical Referral Office	110,000	110,000	104,958	5,042
Hawaii Medical Referral Office	125,000	115,000	111,546	3,454
Taipei Medical Referral	100,000	90,000	84,424	5,576
Medical Supplies and Drugs	1,029,757	969,757	435,505	534,252
Hemodialysis	550,066	500,066	462,048	38,018
Hyperbaric Chamber	36,000	36,000	600	35,400
Bureau of Clinical Service	3,370,000	3,441,000	3,430,850	10,150
Electroencephalograph (EEG) Machine Training	100,000	100,000	9,083	90,917
Total Ministry of Health	<u>9,287,323</u>	<u>9,586,323</u>	<u>8,790,465</u>	<u>795,858</u>
<b>Ministry of Natural Resources, Environment and Tourism:</b>				
Office of the Minister	58,000	58,000	57,271	729
Bureau of Marine Resources	550,205	550,205	549,748	457
Bureau of Agriculture	433,042	488,042	486,564	1,478
Bureau of Labor and Human Resources	259,000	234,000	230,168	3,832
Bureau of Tourism	100,000	90,000	73,287	16,713
Total Ministry of Natural Resources, Environment and Tourism	<u>1,400,247</u>	<u>1,420,247</u>	<u>1,397,038</u>	<u>23,209</u>
Total Executive Branch	<u>36,840,531</u>	<u>37,608,255</u>	<u>35,877,102</u>	<u>1,731,153</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, 2014

	Budgeted Amounts		Actual	Variance
	Original	Final		
<b>Boards, Commissions and Authorities:</b>				
Foreign Investment Board	63,034	63,034	54,250	8,784
Palau Election Commission	186,424	186,424	150,707	35,717
Palau National Code Commission	40,000	40,000	27,665	12,335
Palau Public Lands Authority	100,032	100,032	99,577	455
Parole Board	30,000	30,000	24,491	5,509
Palau Housing Authority	70,000	70,000	70,000	-
Ethics Commission	50,000	50,000	36,057	13,943
Financial Institutions Commission	86,828	86,828	83,875	2,953
Ngardmau Free Trade Zone Authority	25,470	25,470	25,000	470
COFA Board of Trustees	-	25,000	23,954	1,046
Language Commission	37,000	37,000	35,532	1,468
<b>Total Boards, Commissions and Authorities</b>	<b>688,788</b>	<b>713,788</b>	<b>631,108</b>	<b>82,680</b>
<b>Judicial Branch:</b>				
Judiciary	2,200,000	2,200,000	2,190,073	9,927
<b>Total Judicial Branch</b>	<b>2,200,000</b>	<b>2,200,000</b>	<b>2,190,073</b>	<b>9,927</b>
<b>Olbiil Era Kelulau:</b>				
Senate	1,823,520	1,831,520	1,810,802	20,718
Senate Legal Counsel Office	210,498	192,498	189,330	3,168
House of Delegates	2,233,907	2,223,907	2,178,812	45,095
Delegates Legal Counsel Office	209,654	209,654	205,426	4,228
State Visits	9,000	19,000	16,922	2,078
Joint Staff	230,137	250,137	238,704	11,433
Association of Pacific Island Legislatures	15,000	15,000	10,571	4,429
Asian-Pacific Parliamentarians' Union	15,000	15,000	14,999	1
Palau Japan Parliamentary Friendship League	35,000	35,000	30,140	4,860
Electricity for the Koror Olbiil Era Kelulau Building	30,000	30,000	29,203	797
<b>Total Legislative Branch</b>	<b>4,811,716</b>	<b>4,821,716</b>	<b>4,724,909</b>	<b>96,807</b>
<b>State Block Grants</b>	<b>5,703,600</b>	<b>5,703,600</b>	<b>5,624,049</b>	<b>79,551</b>
<b>Independent Agencies:</b>				
Office of the Public Auditor	430,942	430,942	417,758	13,184
Office of the Special Prosecutor	223,000	123,000	79,381	43,619
Palau Environmental Quality Protection Board	400,955	400,955	357,344	43,611
National Postal Service	346,460	359,460	356,574	2,886
Palau Visitors Authority	645,000	645,000	645,000	-
National Aviation Administration	160,289	160,289	159,322	967
<b>Total Independent Agencies</b>	<b>2,206,646</b>	<b>2,119,646</b>	<b>2,015,379</b>	<b>104,267</b>
<b>Other Agencies and Activities:</b>				
Bank fees	-	-	709,396	(709,396)
Palau National Museum	170,000	170,000	169,820	180
Micronesian Legal Services	125,000	125,000	125,000	-
Palau Community Action Agency	175,000	175,000	175,000	-
Head Start Program	167,000	167,000	167,000	-
Palau Red Cross	10,000	10,000	10,000	-
WIA Grant Contribution	93,000	93,000	93,000	-
Civic Action Team Share	250,000	250,000	250,000	-
Peace Corps Contribution	992	20,992	15,989	5,003
PNOC and Sports Organizations	177,000	177,000	176,076	924
Palau International Coral Reef Center	400,000	400,000	400,000	-
Youth Congress	5,000	5,000	5,000	-
Palau Little League/T Ball	5,000	5,000	5,000	-
Junior Statesmen of America	10,000	10,000	-	10,000
Typhoon Emergencny	601,633	601,633	(6,000)	607,633
Low-income household	-	48,300	19,200	29,100
Ngarachamayong Cultural Center	25,000	25,000	25,000	-
<b>Total Other Agencies and Activities</b>	<b>2,214,625</b>	<b>2,282,925</b>	<b>2,339,481</b>	<b>(56,556)</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, 2014

	Budgeted Amounts		Actual	Variance
	Original	Final		
Education Assistance:				
Palau Community College Operations	2,338,000	2,388,000	2,388,000	-
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	768,000	768,000	768,000	-
Total Education Assistance	<u>3,204,000</u>	<u>3,254,000</u>	<u>3,254,000</u>	<u>-</u>
Other Appropriations:				
Financial and Compliance Audit	32,500	32,500	32,500	-
Compact Review Office	204,665	338,768	286,932	51,836
Health Care Fund Contributions	304,000	304,000	301,480	2,520
PPUC Water & Sewer Operations	1,300,000	1,700,000	1,700,000	-
Supertyphoon Haiyan Relief	-	1,480,000	1,209,710	270,290
Uighur Detainees Temporary Settlement Assistance	-	50,000	36,845	13,155
Payment of Judgments	-	127,000	70,000	57,000
2014 Micronesian Games	-	301,000	301,000	-
Total Other Appropriations	<u>1,841,165</u>	<u>4,333,268</u>	<u>3,938,467</u>	<u>394,801</u>
Total expenditures	<u>59,711,071</u>	<u>63,037,198</u>	<u>60,594,568</u>	<u>2,442,630</u>
Deficiency of revenues under expenditures	<u>(6,573,471)</u>	<u>(7,014,471)</u>	<u>931,296</u>	<u>7,945,767</u>
Other financing sources (uses):				
Loan proceeds	1,300,000	1,700,000	6,200,000	4,500,000
Operating transfers in:				
Non-Lapsing Fund	1,000,000	1,000,000	1,000,000	-
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>9,300,000</u>	<u>9,700,000</u>	<u>14,200,000</u>	<u>4,500,000</u>
Operating transfers out:				
Debt Service Fund	(2,745,000)	(2,745,000)	(2,023,074)	721,926
Local CIP Fund	(715,000)	(674,000)	(788,119)	(114,119)
Non-DOI Capital Projects Fund	-	-	(284,288)	(284,288)
National Scholarship Fund	(1,275,000)	(1,275,000)	(1,270,318)	4,682
Total other financing uses	<u>(4,735,000)</u>	<u>(4,694,000)</u>	<u>(4,365,799)</u>	<u>328,201</u>
Total other financing sources (uses), net	<u>4,565,000</u>	<u>5,006,000</u>	<u>9,834,201</u>	<u>4,828,201</u>
	<u>(2,008,471)</u>	<u>(2,008,471)</u>	<u>10,765,497</u>	<u>12,773,968</u>
Other changes:				
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	2,008,471	2,008,471	658,495	(1,349,976)
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,423,992</u>	<u>\$ 11,423,992</u>

See Accompanying Independent Auditors' Report.

**REPUBLIC OF PALAU**

**GRANTS FUND**

September 30, 2014

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, 2014

	<b>350100</b>	<b>350200</b>	<b>360100</b>	<b>420100</b>	<b>440100</b>	
	U.S. Federal Grants	OTIA Direct Grants	Other Non U.S. Federal Grants	Non-DOI Capital Projects	Other Country Grants	Total
<b><u>ASSETS</u></b>						
Receivables, net:						
General	\$ 1,277	\$ -	\$ -	\$ -	\$ 4,617,145	\$ 4,618,422
Federal agencies	3,818,654	58,259	-	589,361	-	4,466,274
Due from other funds	-	110,048	221,917	208,708	-	540,673
Advances	119,285	16,332	27,369	-	8,535	171,521
Prepaid items	280,746	30	179,729	-	16,203	476,708
Total assets	<u>\$ 4,219,962</u>	<u>\$ 184,669</u>	<u>\$ 429,015</u>	<u>\$ 798,069</u>	<u>\$ 4,641,883</u>	<u>\$ 10,273,598</u>
<b><u>LIABILITIES AND FUND BALANCES</u></b>						
Liabilities:						
Accounts payable	\$ 954,163	\$ 97,053	\$ 196,840	\$ -	\$ 2,280,806	\$ 3,528,862
Contracts payable	-	-	-	796,699	-	796,699
Unearned revenues	-	-	224,044	-	-	224,044
Other liabilities and accruals	104,890	-	8,131	1,370	9,851	124,242
Due to other funds	3,154,569	-	-	-	2,351,226	5,505,795
Total liabilities	<u>4,213,622</u>	<u>97,053</u>	<u>429,015</u>	<u>798,069</u>	<u>4,641,883</u>	<u>10,179,642</u>
Fund balances:						
Nonspendable	280,746	30	179,729	-	16,203	476,708
Restricted	-	87,586	-	-	-	87,586
Unassigned	(274,406)	-	(179,729)	-	(16,203)	(470,338)
Total fund balances	<u>6,340</u>	<u>87,616</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>93,956</u>
Total liabilities and fund balances	<u>\$ 4,219,962</u>	<u>\$ 184,669</u>	<u>\$ 429,015</u>	<u>\$ 798,069</u>	<u>\$ 4,641,883</u>	<u>\$ 10,273,598</u>

See Accompanying Independent Auditors' Report.

**REPUBLIC OF PALAU**

**GRANTS FUND**

**Combining Statement of Revenues, Expenditures By Function,  
and Changes in Fund Balances  
Year Ended September 30, 2014**

	350100	350200	360100	420100	440100	
	U.S. Federal Grants	OTIA Direct Grants	Other Non U.S. Grants	Non-DOI Capital Projects	Other Country Grants	Total
<b>Revenues:</b>						
Federal contributions	\$ 9,321,198	\$ 624,531	\$ -	\$ 4,011,850	\$ -	\$ 13,957,579
Other grants	-	-	5,506,743	-	9,506,877	15,013,620
<b>Total revenues</b>	<u>9,321,198</u>	<u>624,531</u>	<u>5,506,743</u>	<u>4,011,850</u>	<u>9,506,877</u>	<u>28,971,199</u>
<b>Expenditures:</b>						
<b>Current:</b>						
Legislative Branch	-	-	18,402	-	-	18,402
Office of the President	274,438	-	46,892	-	-	321,330
Ministry of Finance	-	7,654	114,904	-	-	122,558
Ministry of State	-	-	2,384,379	-	-	2,384,379
Ministry of Education and Commerce	3,669,886 79,711	- 850	7,339 2,344,214	- -	- -	3,677,225 2,424,775
Ministry of Justice	61,648	-	15,889	-	-	77,537
Ministry of Health	4,825,961	-	232,775	-	-	5,058,736
Ministry of Natural Resources, Environment and Tourism	409,554	-	175,025	-	-	584,579
Independent Agencies	-	34,723	116,924	-	-	151,647
Financial and Compliance Audit	-	786,490	-	-	-	786,490
Capital projects	-	-	-	4,011,850	9,606,877	13,618,727
<b>Total expenditures</b>	<u>9,321,198</u>	<u>829,717</u>	<u>5,456,743</u>	<u>4,011,850</u>	<u>9,606,877</u>	<u>29,226,385</u>
Excess (deficiency) of revenues over (under) expenditures	-	(205,186)	50,000	-	(100,000)	(255,186)
<b>Other financing sources (uses):</b>						
Operating transfers in	-	284,288	-	-	100,000	384,288
Operating transfers out	-	-	(50,000)	-	-	(50,000)
<b>Total other financing sources (uses), net</b>	<u>-</u>	<u>284,288</u>	<u>(50,000)</u>	<u>-</u>	<u>100,000</u>	<u>334,288</u>
<b>Net change in fund balances</b>	<u>-</u>	<u>79,102</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>79,102</u>
Fund balances at beginning of year	6,340	8,514	-	-	-	14,854
<b>Fund balances at end of year</b>	<u>\$ 6,340</u>	<u>\$ 87,616</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 93,956</u>

See Accompanying Independent Auditors' Report.

# REPUBLIC OF PALAU

## GRANTS FUND

### Combining Schedule of Expenditures By Object Year Ended September 30, 2014

	350100	350200	360100	420100	440100	
	U.S. Federal Grants	OTIA Direct Grants	Other Non U.S. Grants	Non-DOI Capital Projects	Other Country Grants	Total
Expenditures:						
Salaries and wages	\$ 3,919,292	\$ -	\$ 368,790	\$ 64,635	\$ 436,907	\$ 4,789,624
Freight	27,432	-	150	-	80,000	107,582
Rentals	255,727	-	93,011	-	10,485	359,223
Communications and postage	131,095	357	6,859	-	3,253	141,564
Advertising	38,408	1,813	16,058	-	1,483	57,762
Professional and contractual services	1,532,814	707,750	177,150	747,594	573,566	3,738,874
Supplies and materials	519,758	231	144,370	-	16,129	680,488
Petroleum products	95,791	1,997	12,396	2,282	20,862	133,328
Food stuffs	30,016	-	43,286	-	4,010	77,312
Medical supplies	131,307	-	234	-	-	131,541
Medical drugs	53,698	-	-	-	-	53,698
Travel	998,544	12,028	262,723	-	24,785	1,298,080
Equipment	199,070	29,138	68,886	-	250,865	547,959
Insurance	504	-	-	-	-	504
Training	39,364	-	6,140	-	9,800	55,304
Donations	-	-	92,422	-	1,447,696	1,540,118
Payments of allotments/benefits	274,438	-	3,253,172	-	357,300	3,884,910
Representation and entertainment	-	-	3,053	-	-	3,053
Dues, fees and registration	15,121	1,650	2,444	-	-	19,215
Board compensation	173,483	-	18,094	-	-	191,577
Employee incentive awards	10,925	-	22,000	-	-	32,925
Allowances	1,800	17,845	200	-	18,480	38,325
Repairs and maintenance	63,946	-	4,679	-	1,694,734	1,763,359
Construction	-	-	596,013	3,197,339	2,938,564	6,731,916
Machinery	250	-	-	-	476,363	476,613
Vehicles	-	49,300	75,644	-	14,695	139,639
Computer software	5,675	-	-	-	1,088,000	1,093,675
Utilities	89,801	-	100	-	-	89,901
Scholarships	529,405	-	-	-	-	529,405
Bank service fee	-	-	293	-	-	293
Miscellaneous	183,534	7,608	188,576	-	138,900	518,618
<b>Total expenditures</b>	<b>\$ 9,321,198</b>	<b>\$ 829,717</b>	<b>\$ 5,456,743</b>	<b>\$ 4,011,850</b>	<b>\$ 9,606,877</b>	<b>\$ 29,226,385</b>

See Accompanying Independent Auditors' Report.

## REPUBLIC OF PALAU

### NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS

September 30, 2014

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.

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

Palau Agricultural Fund – 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).

Road Maintenance Fund – This fund was established to account for collections of road use tax on all motor vehicles to be used solely for the upkeep and maintenance of the Republic's national and state government roads.

Giant Clam Seed Sustainability Project Fund - This fund accounts for the receipt of processing fees of the Bureau of Marine Resources Marine Export Declaration Form, issuance of endangered species import/export certificates and the production of giant clam seeds. Such funds are to be used to provide assistance to clam farmers, promote and increase production of cultured clams, restock wild clam population, and increase the population of wild giant clams and preserve the species.

See Accompanying Independent Auditors' Report.



**REPUBLIC OF PALAU**

**NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS**

Combining Balance Sheet  
September 30, 2014

	100115	100130	100140	100145	100147	100148	100160	100165	100170	300100	311120	Total
	Drug Fine Collection	Hospital Trust	Palauan Ed Textbook Development and Sales	Publication and Law Access Unit	Sports Facilities Trust	Operator License	EQPB Mitigation Trust	Road Maintenance	Giant Clam Seed Sustainability Project	Palau Agricultural	Compact Section 211(b) Energy	
<b>ASSETS</b>												
Investments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 29	\$ 29
Receivables, net:												
General	-	8	-	-	-	-	-	-	-	-	1,540	1,548
Due from other funds	-	1,995,147	50	30,229	416	33,313	89,494	663,015	3,971	5,052	40,373	2,861,060
Prepaid items	-	20,413	-	-	-	-	-	-	-	-	-	20,413
Restricted assets:												
Investments	-	-	-	-	-	-	-	-	-	-	3,073,716	3,073,716
Total assets	<u>\$ -</u>	<u>\$ 2,015,568</u>	<u>\$ 50</u>	<u>\$ 30,229</u>	<u>\$ 416</u>	<u>\$ 33,313</u>	<u>\$ 89,494</u>	<u>\$ 663,015</u>	<u>\$ 3,971</u>	<u>\$ 5,052</u>	<u>\$ 3,115,658</u>	<u>\$ 5,956,766</u>
<b>LIABILITIES AND FUND BALANCES</b>												
<b>(DEFICIT)</b>												
Liabilities:												
Accounts payable	\$ -	\$ 1,074,499	\$ -	\$ 2,050	\$ -	\$ 15,867	\$ 1,759	\$ -	\$ -	\$ 6,569	\$ -	\$ 1,100,744
Accrued payroll and others	-	-	-	-	-	-	-	2,637	-	-	-	2,637
Due to other funds	12,557	-	-	-	-	-	-	-	-	-	-	12,557
Total liabilities	<u>12,557</u>	<u>1,074,499</u>	<u>-</u>	<u>2,050</u>	<u>-</u>	<u>15,867</u>	<u>1,759</u>	<u>2,637</u>	<u>-</u>	<u>6,569</u>	<u>-</u>	<u>1,115,938</u>
Fund balances (deficit):												
Nonspendable	-	20,413	-	-	-	-	-	-	-	-	-	20,413
Restricted	-	-	-	-	-	-	-	-	-	-	3,115,658	3,115,658
Committed	-	920,656	50	28,179	416	17,446	87,735	660,378	3,971	-	-	1,718,831
Unassigned	(12,557)	-	-	-	-	-	-	-	-	(1,517)	-	(14,074)
Total fund balances (deficit)	<u>(12,557)</u>	<u>941,069</u>	<u>50</u>	<u>28,179</u>	<u>416</u>	<u>17,446</u>	<u>87,735</u>	<u>660,378</u>	<u>3,971</u>	<u>(1,517)</u>	<u>3,115,658</u>	<u>4,840,828</u>
Total liabilities and fund balances	<u>\$ -</u>	<u>\$ 2,015,568</u>	<u>\$ 50</u>	<u>\$ 30,229</u>	<u>\$ 416</u>	<u>\$ 33,313</u>	<u>\$ 89,494</u>	<u>\$ 663,015</u>	<u>\$ 3,971</u>	<u>\$ 5,052</u>	<u>\$ 3,115,658</u>	<u>\$ 5,956,766</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, 2014**

	<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>100170</b>	<b>300100</b>	<b>311120</b>	
	<b>Drug Fine Collection</b>	<b>Hospital Trust</b>	<b>Palauan Ed Textbook Development and Sales</b>	<b>Publication and Law Access Unit</b>	<b>Sports Facilities Trust</b>	<b>Operator License</b>	<b>EQPB Mitigation Trust</b>	<b>Road Maintenance</b>	<b>Giant Clam Seed Sustainability Project</b>	<b>Palau Agricultural</b>	<b>Compact Section 211(b) Energy</b>	<b>Total</b>
<b>Revenues:</b>												
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 725,507	\$ -	\$ -	\$ -	\$ 725,507
Fees and charges	6,834	4,801,354	-	18,475	-	44,830	14,542	-	3,971	12,828	-	4,902,834
Licenses and permits	-	36,019	-	-	-	-	-	-	-	-	-	36,019
Net change in the fair value of investments	-	-	-	-	-	-	-	-	-	-	81,046	81,046
<b>Total revenues</b>	<b>6,834</b>	<b>4,837,373</b>	<b>-</b>	<b>18,475</b>	<b>-</b>	<b>44,830</b>	<b>14,542</b>	<b>725,507</b>	<b>3,971</b>	<b>12,828</b>	<b>81,046</b>	<b>5,745,406</b>
<b>Expenditures:</b>												
<b>Current:</b>												
Ministry of State	-	-	-	5,472	-	-	-	-	-	-	-	5,472
Ministry of Justice	3,000	-	-	-	-	27,914	-	-	-	-	-	30,914
Ministry of Health	-	3,896,304	-	-	-	-	-	-	-	-	-	3,896,304
Ministry of Natural Resources, Environment and Tourism	-	-	-	-	-	-	-	-	-	11,846	-	11,846
Ministry of Public Infrastructure, Industry and Commerce	-	-	-	-	-	-	-	142,454	-	-	-	142,454
Independent Agencies	-	-	-	-	-	-	6,502	-	-	-	-	6,502
Investment management fees	-	-	-	-	-	-	-	-	-	-	6,904	6,904
<b>Total expenditures</b>	<b>3,000</b>	<b>3,896,304</b>	<b>-</b>	<b>5,472</b>	<b>-</b>	<b>27,914</b>	<b>6,502</b>	<b>142,454</b>	<b>-</b>	<b>11,846</b>	<b>6,904</b>	<b>4,100,396</b>
<b>Net change in fund balances (deficit)</b>	<b>3,834</b>	<b>941,069</b>	<b>-</b>	<b>13,003</b>	<b>-</b>	<b>16,916</b>	<b>8,040</b>	<b>583,053</b>	<b>3,971</b>	<b>982</b>	<b>74,142</b>	<b>1,645,010</b>
<b>Fund balances (deficit) at beginning of year</b>	<b>(16,391)</b>	<b>-</b>	<b>50</b>	<b>15,176</b>	<b>416</b>	<b>530</b>	<b>79,695</b>	<b>77,325</b>	<b>-</b>	<b>(2,499)</b>	<b>3,041,516</b>	<b>3,195,818</b>
<b>Fund balances (deficit) at end of year</b>	<b>\$ (12,557)</b>	<b>\$ 941,069</b>	<b>\$ 50</b>	<b>\$ 28,179</b>	<b>\$ 416</b>	<b>\$ 17,446</b>	<b>\$ 87,735</b>	<b>\$ 660,378</b>	<b>\$ 3,971</b>	<b>\$ (1,517)</b>	<b>\$ 3,115,658</b>	<b>\$ 4,840,828</b>

See Accompanying Independent Auditors' Report.

**REPUBLIC OF PALAU**

**NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS**

Combining Schedule of Expenditures by Object  
Year Ended September 30, 2014

	<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>100170</b>	<b>300100</b>	<b>311120</b>	
	Drug Fine Collection	Hospital Trust	Palauan Ed Textbook Development and Sales	Publication and Law Access Unit	Sports Facilities Trust	Operator License	EQPB Mitigation Trust	Road Maintenance	Giant Clam Seed Sustainability Project	Palau Agricultural	Compact Section 211(b) Energy	Total
Expenditures:												
Salaries and wages	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 101,807	\$ -	\$ -	\$ -	\$ 101,807
Freight	-	14,113	-	5	-	-	40	-	-	-	-	14,158
Communications and postage	-	-	-	3,349	-	-	87	-	-	-	-	3,436
Medical referrals	-	1,377,150	-	-	-	-	-	-	-	-	-	1,377,150
Supplies and materials	-	86,082	-	1,974	-	12,877	3,304	11,563	-	2,295	-	118,095
Petroleum products	-	-	-	144	-	-	536	29,084	-	8,487	-	38,251
Food stuffs	-	18,075	-	-	-	-	352	-	-	-	-	18,427
Medical supplies	-	878,050	-	-	-	-	-	-	-	-	-	878,050
Medical drugs	-	1,274,842	-	-	-	-	-	-	-	-	-	1,274,842
Travel	-	136,852	-	-	-	-	1,510	-	-	1,064	-	139,426
Equipment	-	1,028	-	-	-	6,165	-	-	-	-	-	7,193
Investment management fees	-	-	-	-	-	-	-	-	-	-	6,904	6,904
Dues, fees and registration	-	419	-	-	-	-	-	-	-	-	-	419
Repairs and maintenance	-	109,500	-	-	-	8,872	87	-	-	-	-	118,459
Bank service fee	-	8	-	-	-	-	-	-	-	-	-	8
Miscellaneous	3,000	185	-	-	-	-	586	-	-	-	-	3,771
<b>Total expenditures</b>	<b>\$ 3,000</b>	<b>\$ 3,896,304</b>	<b>\$ -</b>	<b>\$ 5,472</b>	<b>\$ -</b>	<b>\$ 27,914</b>	<b>\$ 6,502</b>	<b>\$ 142,454</b>	<b>\$ -</b>	<b>\$ 11,846</b>	<b>\$ 6,904</b>	<b>\$ 4,100,396</b>

See Accompanying Independent Auditors' Report.

**REPUBLIC OF PALAU**

**OTHER INFORMATION**

September 30, 2014

A brief discussion of other information presented for additional analysis as of September 30, 2014, 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, 2014

	<u>Special Revenue</u>		<u>Permanent</u>		<u>Total</u>
	<u>General</u>	<u>Grants</u>	<u>Compact Section 211(f)</u>	<u>Other Governmental Funds</u>	
Expenditures:					
Salaries and wages	\$ 32,051,207	\$ 4,789,624	\$ -	\$ 101,807	\$ 36,942,638
Freight	3,468	107,582	-	14,158	125,208
Rentals	590,105	359,223	-	-	949,328
Communications and postage	972,867	141,564	-	3,436	1,117,867
Advertising	56,011	57,762	-	-	113,773
Medical referrals	1,296	-	-	1,377,150	1,378,446
Professional and contractual services	496,356	3,738,874	-	-	4,235,230
Supplies and materials	1,321,602	680,488	-	118,095	2,120,185
Petroleum products	902,795	133,328	-	38,251	1,074,374
Food stuffs	1,061,737	77,312	-	18,427	1,157,476
Books and library materials	99,670	-	-	-	99,670
Medical supplies	749,844	131,541	-	878,050	1,759,435
Medical drugs	-	53,698	-	1,274,842	1,328,540
Travel	888,426	1,298,080	-	139,426	2,325,932
Equipment	353,337	547,959	-	7,193	908,489
Insurance	27,878	504	-	-	28,382
Training	9,669	55,304	-	-	64,973
Donations	412,970	1,540,118	-	-	1,953,088
Payments of allotments/benefits	16,278,844	3,884,910	-	-	20,163,754
Representation and entertainment	19,404	3,053	-	-	22,457
Cleaning service	90,290	-	-	-	90,290
Investment management fees	6,494	-	1,304,981	6,904	1,318,379
Dues, fees and registration	(243,406)	19,215	-	419	(223,772)
Board compensation	132,054	191,577	-	-	323,631
Employee incentive awards	8,025	32,925	-	-	40,950
Allowances	272,560	38,325	-	-	310,885
Repairs and maintenance	507,760	1,763,359	-	118,459	2,389,578
Construction	879,443	6,731,916	-	-	7,611,359
Machinery	-	476,613	-	-	476,613
Building	48,170	-	-	-	48,170
Vehicles	171,766	139,639	-	-	311,405
Furniture and fixtures	4,392	-	-	-	4,392
Computer software	400	1,093,675	-	-	1,094,075
Improvements	542,104	-	-	-	542,104
Utilities	3,871,000	89,901	-	-	3,960,901
Principal retirement	1,883,131	-	-	-	1,883,131
Interest charges	541,943	-	-	-	541,943
Bad debts	(47,943)	-	-	-	(47,943)
Student loans	548,828	-	-	-	548,828
Scholarships	718,713	529,405	-	-	1,248,118
Bank service fee	765,559	293	-	-	765,852
Grants and contributions	1,016,599	-	-	8	1,016,607
Miscellaneous	282,966	518,618	-	3,771	805,355
	<u>\$ 68,298,334</u>	<u>\$ 29,226,385</u>	<u>\$ 1,304,981</u>	<u>\$ 4,100,396</u>	<u>\$ 102,930,096</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

OTHER COUNTRY GRANTS FUND

Schedule of Expenditures of Other Country Grants  
Year Ended September 30, 2014

Fund 440100 Grantor Account Title	Budget Authorizations	Receivable from Grantor (Deferred Revenue) at 10/01/13	Cash Receipts FY2014	Expenditures FY2014	Receivable from Grantor (Deferred Revenue) at 9/30/14
<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)	(21,186)	-	(25,109)
SUB TOTAL	3,415,000	(21,186)	(21,186)	-	-
<u>STATE ECONOMIC STIMULUS PACKAGE 2008</u>					
B80101 AIMELIIK ROAD REPAIR PROJ	25,000	-	-	-	-
B80102 ELECHUI WATER SYS - PH II	150,000	(7,234)	-	-	(7,234)
B80103 AIMELIIK PUBL WORKS BLDG	50,000	(5,000)	-	-	(5,000)
B80202 AIRAI ROAD IMPROVEMENT PR	239,000	-	-	-	-
B80501 KAYANGEL GARBAGE FACILITY	65,000	(38,429)	-	-	(38,429)
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 NGARMAU 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 COMPLX INFO SUPPL	347,000	(154,957)	-	-	(154,957)
F84814 CAPITOL COMPLEX MIS-PH2	1,000,000	(100,400)	(6,222)	-	(94,178)
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	(132)	-	-	(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	(2)	-	-	(2)

**REPUBLIC OF PALAU**

**OTHER COUNTRY GRANTS FUND**

**Schedule of Expenditures of Other Country Grants, Continued  
Year Ended September 30, 2014**

Fund 440100 Grantor Account Title	Budget Authorizations	Receivable from Grantor (Deferred Revenue) at 10/01/13	Cash Receipts FY2014	Expenditures FY2014	Receivable from Grantor (Deferred Revenue) at 9/30/14
<u>STATE ECONOMIC STIMULUS PACKAGE 2010</u>					
B00201 RABIT FISH HATCHERY FY2010	400,000	(2,282)	-	-	(2,282)
B01001 NGARMAU CONCRETE ROAD FY2010	500,000	(25,795)	-	-	(25,795)
B01002 NGARMAU BOTANICAL GARDER FY2010	30,000	-	-	-	-
B01201 TWN EXPERT AQUACULTURE FY2010	150,000	30,096	21,186	-	8,910
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	15,568	-	-	15,568
R04830 AGRI DEV. CENTER FY2010	750,000	78,919	55,200	-	23,719
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>76,388</b>	<b>76,386</b>	<b>-</b>	<b>2</b>
<u>STATE ECONOMIC STIMULUS PACKAGE 2011</u>					
B10101 KOKSAI-NEKKEN RD. FY2011	525,000	(101,007)	100,000	-	(1,007)
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	(280)	-	-	(280)
B10801 NGARARD RD. ULI-ELAB FY11	150,000	98,061	97,961	-	100
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	66	-	-	66
B11001 NGARMAU 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	3,294	-	-	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 FY11	173,000	47,468	17,706	-	29,762
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	(416)	-	-	(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>15,667</b>	<b>215,667</b>	<b>-</b>	<b>-</b>
<u>STATE ECONOMIC STIMULUS PACKAGE 2012</u>					
B20104 KOKS-NEKN RD PH II FY2012	500,000	100,908	(100,000)	(933)	(25)
B20105 AIM CONN. ROAD PHII 2012	150,000	(10,135)	-	-	(10,135)
B20202 RBT FISH FLTING CAGE 2012	60,000	(10,000)	-	-	(10,000)
B20203 AIRAI RD REHAB PH VI 2012	600,000	(18,006)	(17,707)	-	(299)
B20204 OMIKOLL WATER LINE 2012	50,000	(5,748)	-	-	(5,748)
B20205 NGRKIL WTR DIST SYS 2012	300,000	(9,357)	-	-	(9,357)
B20305 ANGAUR BUCKHOE X2 FY2012	100,000	(50,000)	(49,978)	-	(22)
B20501 KAYANGEL SOLAR FY2012	100,000	(37,600)	(37,600)	-	-
B20601 NGERMID RD REHAB P11 2012	320,000	11,401	-	(11,401)	-
B20602 T-DOCK PHASE II 2012	320,000	(5,983)	-	-	(5,983)
B20603 IYEBUKEL ROAD REHAB 2012	400,000	(1,713)	-	-	(1,713)
B20604 NGERBECHED RD REHAB 2012	335,000	(1,925)	-	-	(1,925)
B20605 MALAKAL PRT RD REHAB 2012	120,000	(3,734)	-	-	(3,734)
B20606 YANOS MARKT ACCES RD 2012	55,000	(11,805)	(11,805)	-	-
B20607 DESEKEL RD. REHAB 2012	250,000	(57)	-	-	(57)

**REPUBLIC OF PALAU**

**OTHER COUNTRY GRANTS FUND**

**Schedule of Expenditures of Other Country Grants, Continued  
Year Ended September 30, 2014**

Fund 440100 Grantor Account Title	Budget Authorizations	Receivable from Grantor (Deferred Revenue) at 10/01/13	Cash Receipts FY2014	Expenditures FY2014	Receivable from Grantor (Deferred Revenue) at 9/30/14
B20608 PPUC/MALAKAL RD 2012	100,000	(1,368)	-	-	(1,368)
B20609 POST TO HEADSTART RD 2012	150,000	15,799	-	(15,800)	(1)
B20802 NGARAARD ROAD REHAB 2012	100,000	(97,962)	(97,961)	-	(1)
B20901 NGERCH WATER SYST 2012	350,000	(8,544)	-	-	(8,544)
B21001 NGARDMAU ROAD P IV 2012	100,000	(3,837)	-	-	(3,837)
B21103 NGRML RD REHAB PH II 2012	400,000	1,065	-	(1,092)	(27)
B21401 NGIWAL ROAD REHAB 2012	100,000	(1,263)	-	-	(1,263)
B21502 PELELIU GRADERS X2 FY2012	100,000	50,000	-	-	50,000
E24871 PHS DORM PROJ. FY2012	700,000	(92)	-	-	(92)
R24821 PROJECT EVALUATOR FY2012	25,000	-	-	-	-
R24824 KOKSAI-NGCHSR RD PII FY12	3,500,000	(190,257)	1,000	213,801	22,544
R24830 ANIMAL PRODUCTION 2012	492,400	1,050	-	(7,050)	(6,000)
R24837 GROUPEL PROJECT FY2012	182,600	-	-	-	-
R24840 FISHING AGGR. DEVICE 2012	40,000	32,995	29,156	(6,252)	(2,413)
SUB TOTAL	<u>10,000,000</u>	<u>(256,168)</u>	<u>(284,895)</u>	<u>171,273</u>	<u>(0)</u>
B24996 CERAMIC ARTS PROJ FY2012	86,805	-	-	-	-
J24826 KORDA UDEDEL BELAU	100,000	455	-	-	455
R24901 BUOY REHAB 2012	24,242	(24,242)	(23,787)	-	(455)
SUB TOTAL	<u>211,047</u>	<u>(23,787)</u>	<u>(23,787)</u>	<u>-</u>	<u>-</u>
TOTAL FY2012 STIMULUS GRANTS	<u>10,211,047</u>	<u>(279,955)</u>	<u>(308,682)</u>	<u>171,273</u>	<u>(0)</u>
<b>STATE ECONOMIC STIMULUS PACKAGE 2013</b>					
A34816 POSTAL SERVICE POS & IT S	65,000	9,864	-	107,500	117,364
A34820 PVA OMR SCANNER & SOFTWARE	70,000	-	-	52,880	52,880
B30101 AIMELIHK HEAVY EQUIPMENT	225,000	10,000	272,500	269,848	7,348
B30102 NGCHEMIANGEL RUMP PROJ.	50,000	-	-	20,000	20,000
B30202 NGERIKIIL PUMP STATION	30,000	-	-	-	-
B30301 ANGAUR STATE BOAT	150,000	119,800	127,500	-	(7,700)
B30501 KAYANGEL STATE BOAT	150,000	(22,500)	-	142,300	119,800
B30601 KB BRIDGE KOROR-SIDE	200,000	(15,000)	-	178,304	163,304
B30602 MEYUNS OLD AIRPORT	200,000	(15,000)	-	-	(15,000)
B30606 NGERBECHED RD PAVING PROJ	150,000	-	-	-	-
B30801 NGARAARD RD IMPROVE PROJ	300,000	(45,000)	235,000	295,287	15,287
B30802 NGERCHOKL SITE DEVEL PROJ	150,000	(22,500)	-	2,765	(19,735)
B31001 NGARDMAU ROAD IMPROVE PRO	300,000	(45,000)	217,000	290,291	28,291
B31201 NGATPANG ROAD IMPROVE PRO	500,000	(75,000)	125,000	414,944	214,944
B31203 NGATPANG MILKFISH FARM PR	65,000	65,000	-	-	65,000
B31301 NGCHESAR ROAD IMPROVE PRO	325,000	(29,483)	235,000	258,442	(6,041)
B31401 NGIWAL ROAD IMPROVE PROJ	300,000	4,801	255,000	250,178	(21)
B31405 NGIWAL FORCE ACCT PROJECT	50,000	-	-	424	424
B31501 PELELIU HEAVY EQUIP REPAI	14,000	9,365	-	4,635	14,000
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	-	1,000,000	1,001,223	1,223
F34817 CUSTOMS INFO SYS IMPROVE	1,100,000	(495,302)	600,000	1,100,869	5,567
F34818 INFO & TELECOM SYS & TECH U	400,000	(83,805)	90,000	312,429	138,624
F34847 BBP INSTITUTIONAL STRENGT	100,000	(26,840)	-	74,701	47,861
F3DDDU DRUG DETECTOR DOG UNIT	100,000	34,601	-	53,781	88,382
G3PRO1 PROPERTY REPAIRS & MAINT	100,000	51,224	-	37,355	88,579
G3VEH1 GOVT VEHICLE REPRS & ACQU	-	38,182	-	(38,182)	-
H34855 MOH UPS PURCHASE	150,000	-	-	148,900	148,900
J34921 PSS REMELIHK HALLIFE 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	-	16,136	63,195
P3PRS1 PRES IT IMPROVEMENTS	200,000	95,319	5,090	49,521	139,750
P3PRS2 PRESIDENT'S SUMMIT	25,000	23,839	-	-	23,839
R34809 SOLAR POWER GEN SYST 2013	300,000	-	250,000	268,800	18,800



**REPUBLIC OF PALAU**

**OTHER COUNTRY GRANTS FUND**

**Schedule of Expenditures of Other Country Grants, Continued  
Year Ended September 30, 2014**

Fund 440100 Grantor Account Title	Budget Authorizations	Receivable from Grantor (Deferred Revenue) at 10/01/13	Cash Receipts FY2014	Expenditures FY2014	Receivable from Grantor (Deferred Revenue) at 9/30/14
R34813 MOF PARKING LOT CONCRETIN	75,000	-	-	61,541	61,541
R34816 POSTAL SERV PARKING CONCR	50,000	-	-	58,906	58,906
R34819 A/C CHILLERS & PREVENT	600,000	142,429	400,000	261,308	3,737
R34822 MOLD ERADICATION PKG D	75,000	47,662	106,250	8,584	(50,004)
R34827 STRUCTURAL REPAIR PKG E-I	300,000	-	250,000	709,930	459,930
R34828 ACCESS ROADS & PARKING RE	-	(93,750)	-	-	(93,750)
R34829 ELECMECH & CIV WKS PKGC	100,000	13,472	50,000	66,159	29,631
R34830 ANIMAL HUSBNRDY PROJ 2013	300,000	-	-	-	-
R34837 GROUPER RESTOCKING 2013	500,000	-	-	-	-
R34966 MELEKEOK SEWER SYSTEM IMP	600,000	170,057	480,000	123,552	(186,391)
TOTAL FY2013 STIMULUS GRANTS	<u>12,719,000</u>	<u>(36,006)</u>	<u>4,698,340</u>	<u>6,603,311</u>	<u>1,868,965</u>
<b>STATE ECONOMIC STIMULUS PACKAGE 2014</b>					
B40101 NGERKEAI BAI IMPROVEMENTS	50,000	-	-	50,000	50,000
B41202 AGUACULTURE FISH PRODUCT.	200,000	-	-	200,000	200,000
B41403 BACKHOE/LOADER	100,000	-	-	80,000	80,000
C44945 SOLAR LIGHTING-SWMNG POOL	200,000	-	-	-	-
E44870 SCH. RENOV/FIXTURES EQUI	1,200,000	-	-	902,981	902,981
F4TAX1 TAX INFO SYS UPGRADE PROJ	500,000	-	-	584	584
G4SGS2 BBP INSTITUTIONAL STRENGTH	50,000	-	-	29,738	29,738
G4SGS7 KRAMER WORKS TRANSLATION	35,000	-	-	70,000	70,000
P4PRS2 PAC ISLS FORUM MEDIA	150,000	-	-	138,900	138,900
R44830 ANIMAL HUSBANDRY	192,500	-	-	525,000	525,000
S4HAYN ST HAIYAN HOUSING CONSTR.	1,500,000	-	-	574,612	574,612
	<u>4,177,500</u>	<u>-</u>	<u>-</u>	<u>2,571,815</u>	<u>2,571,815</u>
<b>ROC TAIWAN PROJECT CENTRAL ADMINISTRATIVE COST</b>					
R04999 ROC TWN ADMIN COST	948,975	(23,320)	(10,993)	12,327	-
R14999 ROC TWN ADMIN COST	-	9,463	-	(9,463)	-
P24999 ROC ADMIN COST	85,030	-	85,030	176,142	91,112
R24999 AIRAI NGERIKIIL ROAD	6,469	103,781	-	81,472	185,253
SUB TOTAL	<u>1,040,474</u>	<u>89,924</u>	<u>74,037</u>	<u>260,478</u>	<u>276,365</u>
GRAND TOTAL	<u>\$ 72,274,021</u>	<u>\$ (161,392)</u>	<u>\$ 4,728,340</u>	<u>\$ 9,606,877</u>	<u>\$ 4,717,145</u>
Projects with ROP matching share:					
G4SGS0 OERC MATCHING FUND	\$ 50,000	\$ -	\$ 50,000	\$ -	\$ (50,000)
G4SGS1 PVA HOLIDAY PROJECT	10,000	-	50,000	-	(50,000)
	<u>\$ 60,000</u>	<u>\$ -</u>	<u>\$ 100,000</u>	<u>\$ -</u>	<u>\$ (100,000)</u>

**REPUBLIC OF PALAU**

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

**Schedule of Expenditures of Other Non-U.S. Federal Grants  
Year Ended September 30, 2014**

Fund 360100 Grantor Account Title	Cost Center	Authorization	Receivable from Grantor (Deferred Revenue) at 9/30/13	Cash Receipts FY 2014	Expenditures FY 2014	Receivable from Grantor (Deferred Revenue) at 9/30/14
<u>UNFPA Grant</u>						
MCCA-GENDER POLICY 2013	C33920	\$ 10,000	\$ (10,000)	\$ -	\$ 9,642	\$ (358)
GENDER FHSS FY'12 MOF	F2FHSS	53,159	30,809	-	-	30,809
GENDER FHSS 2013	F3FHSS	195,525	69,694	154,469	10,038	(74,737)
GENDER FHSS 2014	F4FHSS	46,000	-	9,932	12,774	2,842
GENDER FHSS FY'12	H2FHSS	48,665	51,802	-	-	51,802
RHCS FY'12	H2RHCS	15,000	(105)	(4,000)	-	3,895
Total UNFPA Grants		<u>368,349</u>	<u>142,200</u>	<u>160,401</u>	<u>32,454</u>	<u>14,253</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
UNCCD Gran Committee	S03923	22,950	(4,851)	-	-	(4,851)
Total UNCCD		<u>26,950</u>	<u>(4,696)</u>	<u>-</u>	<u>-</u>	<u>(4,696)</u>
<u>UNESCO-PALAU PUBLIC LIBRARY</u>						
Unesco-Pal Public Library	E33924	15,000	(546)	-	-	(546)
Total UNESCO Grants		<u>15,000</u>	<u>(546)</u>	<u>-</u>	<u>-</u>	<u>(546)</u>
<u>WHO APW HEALTH CAREER TRNG</u>						
WHO APW HLTH CAREER TRNG	H43927	-	(958)	-	-	(958)
WHO APW HLTH CAREER TRNG	H43927	-	(830)	-	-	(830)
WHO PHARMACY MIS	H0WHO1	6,790	2,862	2,862	-	-
WHO OTHERS	H0WHO2	28,898	(1,973)	(1,237)	736	-
PHARMACY TECH ONLINE TRNG	H0WHO3	14,929	2,215	1,149	2,113	3,179
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)	-	-
BPHS STRATEGIC PLAN	H9WHO4	24,000	(1,518)	(1,518)	-	-
TOBACCO	H9WHO5	3,000	-	(5,000)	-	5,000
WHO HEALTHY WORK PLACE	H9WHO6	27,000	9,515	18,095	8,580	-
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	7,615	7,615	-	-
STEPS TRAINING FY2011	H1WHO2	5,000	(9,906)	(9,906)	-	-
HLTH COMM TRAINING FY2011	H1WHO3	7,000	(9,893)	(9,893)	-	-
SCHL GARDENING PROG FY11	H1WHO4	20,000	(13,591)	(11,230)	2,361	-
WHO FELLOWSHIP PROG FY11	H1WHO5	45,000	23,104	23,104	-	-
MOH LIBRARY UPGRD POLN	H1WHO6	39,700	(1,510)	(2,210)	-	700
WHO TOBACCO	H1WHO7	34,400	3,735	3,735	-	-

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, Continued  
Year Ended September 30, 2014**

Fund 360100 Grantor Account Title	Cost Center	Authorization	Receivable		Expenditures FY 2014	Receivable	
			from Grantor (Deferred Revenue) at 9/30/13	Cash Receipts FY 2014		from Grantor (Deferred Revenue) at 9/30/14	
CLIMATE CHANGE FY11	H1WHO8	5,000	(1,450)	(1,450)	-	-	-
PW NTAT'L STEPS SURVEY	H1WHO9	84,700	(17,454)	(6,293)	11,161	-	-
WHO IMMUNIZATION TRNG '12	H23927	15,300	(6,324)	(4,151)	2,173	-	-
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	7,770	7,770	-	-	-
2ND PNEC NCD PREVENTION & CONTROL	H2WHO4	9,900	8,201	8,201	-	-	-
ICS MEETING MOH F/UP FY '12	H2WHO5	9,800	9,800	9,800	-	-	-
NCP PREVENTION WORKSHOP MOE FY '12	H2WHO6	23,180	(12,063)	(12,063)	-	-	-
INT'L HEALTH LOGISTIC SUPP	H2WHO7	64,558	(3,383)	34,773	38,156	-	-
INT'L HEALTH STRATEGIC PLAN	H2WHO8	15,450	4,950	4,950	-	-	-
NCD WORKSHOP YOUTH CONF	H2WHO9	-	7,175	4,590	(2,585)	-	-
RETAILER & SALT REDUCTION	H3WHO0	8,500	(8,500)	(7,625)	875	-	-
PEN TRAINING	H3WHO1	9,700	(3,350)	(2,066)	1,284	-	-
WORLD NO TOBACCO DAY 2013	H3WHO2	11,960	(3,275)	(2,795)	480	-	-
PW HALF MARATHON 2013	H3WHO3	9,254	(9,254)	(2,603)	6,651	-	-
PW BLUE RIBBON CAMPGN	H3WHO4	4,000	(13,550)	(9,550)	4,000	-	-
WROKSHOP ON TOBACCO TAX	H3WHO5	9,950	(9,950)	(3,412)	6,538	-	-
PROF DEV ORAL HEALTH WORKFORCE	H3WHO6	5,400	(5,400)	(5,400)	-	-	-
NARCOTICS WORKSHOP	H3WHO7	3,581	(3,581)	(1,468)	2,113	-	-
PW MH ASSESMENT	H3WHO8	9,550	-	7,126	7,126	-	-
NATIONAL STAKEHOLDER MTNG	H4WHO1	5,000	-	5,000	-	(5,000)	-
Total WHO APW health Career Trng		749,400	(47,311)	42,360	91,762	2,091	-
<u>Climate Change (UN) GET</u>							
2ND National Comm. UNFCCC	A63930	-	100,010	-	-	100,010	-
PAC ADAPT TO CLIMATE CHNG	A93930	741,000	(136,329)	-	-	(136,329)	-
PACC MOH - Implementing Partner	H13930	17,000	38,375	-	-	38,375	-
PACC BMR - Implementing Partner	M13930	11,000	54,875	-	-	54,875	-
PACC BOA - Implementing partner	N13930	11,000	53,805	-	-	53,805	-
PACC Palaris - Implementing Partner	R13930	20,000	159,306	-	4,075	163,381	-
PACC EQPB PROJECT	R23930	-	6,174	-	-	6,174	-
Total Climate Change (UN) GET		800,000	276,216	-	4,075	280,291	-
<u>SPREP</u>							
Ozone Depleting Substance	A33936	50,000	8,085	6,688	-	1,397	-
Ozone Depleting Substance	A73936	-	9,037	-	-	9,037	-
Ozone Depleting Substance	A03936	60,000	5,600	-	(5,600)	-	-
Ozone Depleting Substance	A13936	38,688	(18,849)	-	5,600	(13,249)	-
Ozone Depleting Substance	A23936	75,000	(32,058)	27,000	47,852	(11,206)	-
Total SPREP		223,688	(28,185)	33,688	47,852	(14,021)	-
<u>UN Pops Grants</u>							
EQPB- UNEP POP/NIP 2013	R33938	27,000	(12,886)	30,000	5,943	(36,943)	-
Total UN Pops Grants		27,000	(12,886)	30,000	5,943	(36,943)	-
<u>UNICEF</u>							
UNICEF - PCPBR	H33940	22,450	(23,310)	(1,361)	15,889	(6,060)	-
Total UNICEF Grants		22,450	(23,310)	(1,361)	15,889	(6,060)	-

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, Continued  
Year Ended September 30, 2014**

Fund 360100 Grantor Account Title	Cost Center	Authorization	Receivable from Grantor (Deferred Revenue) at 9/30/13	Cash Receipts FY 2014	Expenditures FY 2014	Receivable from Grantor (Deferred Revenue) at 9/30/14
<u>Report on Biodiversity</u>						
NR4 GEF-CBD BTNA Phase II	A03947	15,000	22,818	-	-	22,818
3rd Report on Biodiversity	A63947	16,500	(199)	-	-	(199)
Total Report 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	200,000	(5,408)	15,395	18,402	(2,401)
Total Other Grants to OEK		<u>222,000</u>	<u>(5,689)</u>	<u>15,395</u>	<u>18,402</u>	<u>(2,682)</u>
<u>UNEP / FNR-RIO</u>						
FNR to Rio Convention	A03949	34,567	1,730	-	-	1,730
Total UNEP Grants		<u>34,567</u>	<u>1,730</u>	<u>-</u>	<u>-</u>	<u>1,730</u>
<u>SAICM - EQPB</u>						
QSP Trust Fund - SAICM	R93951	125,000	(14,664)	-	-	(14,664)
Total SAICM Grants		<u>125,000</u>	<u>(14,664)</u>	<u>-</u>	<u>-</u>	<u>(14,664)</u>
<u>TNC GRANTS</u>						
PAN LEGAL FRAMEWORK FY13	M3TNC1	10,000	(5,000)	5,000	1,497	(8,503)
FISHERY DATA COLLECTION	M3TNC2	17,500	(9,400)	7,500	13,856	(3,044)
Total TNC Grants		<u>27,500</u>	<u>(14,400)</u>	<u>12,500</u>	<u>15,353</u>	<u>(11,547)</u>
<u>2ND FRANCE-OCEANIA SUMMIT</u>						
HUMAN RIGHTS ACT FY '12	S23954	40,000	9,287	-	-	9,287
Total France Grants		<u>40,000</u>	<u>9,287</u>	<u>-</u>	<u>-</u>	<u>9,287</u>
<u>SPREP Grants (Fruit Fly)</u>						
National Invasive Species	R33957	50,860	5,505	27,612	33,784	11,677
Total SPREP Grants		<u>50,860</u>	<u>5,505</u>	<u>27,612</u>	<u>33,784</u>	<u>11,677</u>
<u>Canada Funds</u>						
Palau National Youth Policy	C43960	36,500	(8)	-	-	(8)
Total Canada Funds		<u>36,500</u>	<u>(8)</u>	<u>-</u>	<u>-</u>	<u>(8)</u>
<u>Secretariat Pacific Comm</u>						
Water Conservation Incentives	G43961	56,450	-	56,450	56,475	25
MAP Water and Sewer Lines FY14	R43961	6,875	-	6,875	-	(6,875)
GCCA/PSIS OERC 2013	A33961	107,352	(48,405)	51,174	57,376	(42,203)
Total SPC Grants		<u>170,677</u>	<u>(48,405)</u>	<u>114,499</u>	<u>113,851</u>	<u>(49,053)</u>
<u>Pacific Island Forum</u>						
PAC ISLAND FORUM FY14	P43963	750,000	-	750,000	157,937	(592,063)
Total Pacific Island Forum Grants		<u>750,000</u>	<u>-</u>	<u>750,000</u>	<u>157,937</u>	<u>(592,063)</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, Continued  
Year Ended September 30, 2014**

Fund 360100 Grantor Account Title	Cost Center	Authorization	Receivable from Grantor (Deferred Revenue) at 9/30/13	Cash Receipts FY 2014	Expenditures FY 2014	Receivable from Grantor (Deferred Revenue) at 9/30/14
<u>Republic of China Grants</u>						
China Grants - Sport Comm	A83966	56,087	-	-	-	-
HAIYAN- Health Donation	H43966	-	-	89,400	2,513	(86,887)
Ebassy of ROC Donation	N33966	-	(100,000)	-	98,799	(1,201)
Typhoon Haiyan Releif	N43966	-	-	848,377	671,053	(177,324)
PRES UN/PIF MEETING	P33966	50,000	(8,446)	-	8,583	137
KOREA DONATION TO KEC	S43966	-	-	10,000	-	(10,000)
Total Republic of China Grants		<u>106,087</u>	<u>(108,446)</u>	<u>947,777</u>	<u>780,948</u>	<u>(275,275)</u>
<u>Forum Secretariat Grants</u>						
WTR SECT CLIMATE CHANGE VULN	Q33967	333,000	(332,975)	-	332,975	-
PIFS PELELIU DS& PGS 2013	R33967	2,236,500	(45,000)	1,786,500	1,789,701	(41,799)
PIFS/SISDF-TNP Program fy2012	S2SIS1	3,451	-	-	-	-
Total Forum Secretariat Grants		<u>2,572,951</u>	<u>(377,975)</u>	<u>1,786,500</u>	<u>2,122,676</u>	<u>(41,799)</u>
<u>Fisheries Forum Agency</u>						
Vessel Monitoring System	J13971	71,545	(24,442)	16,069	7,806	(32,705)
FFA PROJECTS	M4FFA0	175,040	-	175,040	64,356	(110,684)
AIRAI STATE PROJECT	M4FFA1	25,000	-	25,000	25,000	-
PALAU FISHING ASSOCIATION	M4FFA2	20,000	-	20,000	20,000	-
Palau PDF 15%	R03971	74,774	799	-	195	994
FFA 2013	R33971	25,000	(13,157)	-	8,531	(4,626)
Total Fisheries Forum Agency		<u>391,359</u>	<u>(36,800)</u>	<u>236,109</u>	<u>125,888</u>	<u>(147,021)</u>
<u>Tax Equipment Furniture &amp; Supplies</u>						
GIS/GPS Training	R23973	32,291	(2,860)	-	-	(2,860)
		<u>32,291</u>	<u>(2,860)</u>	<u>-</u>	<u>-</u>	<u>(2,860)</u>
<u>Australian Grants</u>						
MCCA-BPNA Palauan Language & CASP	C1ARC1	10,725	(12,248)	-	-	(12,248)
MCCA-BPNA Survey Analysis	C1ARC2	12,558	2,745	-	4,164	6,909
TESOL TRAINING 2013	E33975	34,800	(23,800)	-	4,840	(18,960)
CAP BLDG HUMAN RIGHTS FY'12	P23975	-	64	(20,000)	-	20,064
ICT LEGIS & SUBM CABLE	R4ICT1	450,000	-	-	-	-
MPIIC REGULATORY CAPACITY	R4ICT2	50,000	-	-	-	-
CO- FINANCE PRJ DIRECTOR	R4ICT3	100,000	-	-	-	-
Total Australian Grants		<u>658,083</u>	<u>(33,239)</u>	<u>(20,000)</u>	<u>9,004</u>	<u>(4,235)</u>
<u>SPREP Grants</u>						
CLEAN PACIFIC	R23979	2,000	(223)	-	-	(223)
Total SPREP Grants		<u>2,000</u>	<u>(223)</u>	<u>-</u>	<u>-</u>	<u>(223)</u>
<u>WildAid-Packard Foundation</u>						
EQPB EBM Project Cycle II	A03980	85,012	15,726	-	5,015	20,741
Total WildAid-Packard Foundation		<u>85,012</u>	<u>15,726</u>	<u>-</u>	<u>5,015</u>	<u>20,741</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, Continued  
Year Ended September 30, 2014**

Fund 360100 Grantor Account Title	Cost Center	Authorization	Receivable from Grantor (Deferred Revenue) at 9/30/13	Cash Receipts FY 2014	Expenditures FY 2014	Receivable from Grantor (Deferred Revenue) at 9/30/14
<u>MOH SMALL GRANTS - OTHERS</u>						
MOH SEOW FY2011	H13991	100,000	(9,187)	-	2,948	(6,239)
MOH SEOW FY2012	H23991	75,000	(1,668)	-	(2,326)	(3,994)
MOH SEOW 2013	H33991	95,000	(30,577)	47,500	69,168	(8,909)
BHSIS 2014	H43991	-	-	-	-	-
BUILD EVAL CAPACITY 2014	H4EDC1	24,000	-	24,000	18,187	(5,813)
Total MOH Small Grants		<u>294,000</u>	<u>(41,432)</u>	<u>71,500</u>	<u>87,977</u>	<u>(24,955)</u>
<u>LSTA State Grants</u>						
LSTA State Grants	E13992	40,377	(801)	-	-	(801)
LSTA State Grants	E93992	-	(1,035)	-	-	(1,035)
PALAU LSTA IMLS GRANT	E23992	42,385	42,385	-	(42,385)	-
IMLS LSTA 2013	E33992	40,720	-	-	40,720	40,720
IMLS LSTA 2014	E43992	58,500	-	-	-	-
Total LSTA State Grants		<u>181,982</u>	<u>40,549</u>	<u>-</u>	<u>(1,665)</u>	<u>38,884</u>
<u>ADMINISTRATIVE COST ACCOUNT</u>						
Other Administrative Cost	F33999	-	48,624	-	-	48,624
<u>UNDP (SEDREA) ENERGY</u>						
Renewable Energy (SEDREA)	P98922	51,870	12,882	-	-	12,882
Total UNDP SEDREA Energy		<u>51,870</u>	<u>12,882</u>	<u>-</u>	<u>-</u>	<u>12,882</u>
<u>UN CEDAW</u>						
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>
<u>UNEP GRANTS</u>						
2ND NAT'L COMM 2013	M38926	50,400	(556)	15,400	2,706	(13,250)
NBSAP/ 5TH CBD RPT	R28926	220,000	(50,000)	-	100,839	50,839
NBSAP/ 5TH RPT CBD	R38926	-	402	-	101	503
Total UNEP Grants		<u>270,400</u>	<u>(50,154)</u>	<u>15,400</u>	<u>103,646</u>	<u>38,092</u>
<u>UOG GRANTS</u>						
MECHESIL BELAU PROJECT 2012	C28950	20,000	(132)	-	-	(132)
SBDC- UOG PISBDCN 2012	P28950	30,000	24,784	-	-	24,784
total UOG Grants		<u>50,000</u>	<u>24,652</u>	<u>-</u>	<u>-</u>	<u>24,652</u>
<u>GENEVA GRANTS AND ASSISTANCE</u>						
GENEVA- GICHD 2012	S38951	34,300	(33)	-	-	(33)
REGIONAL UXO WORKSHOP	S48951	13,943	-	8,500	8,191	(309)
Total Geneva Grants and Assistance		<u>48,243</u>	<u>(33)</u>	<u>8,500</u>	<u>8,191</u>	<u>(342)</u>
<u>Other Foreign Grants</u>						
PIF Expenses	S48952	1,650,000	-	650,000	1,328,301	678,301
Total Other Foreign Grants		<u>1,650,000</u>	<u>-</u>	<u>650,000</u>	<u>1,328,301</u>	<u>678,301</u>

**REPUBLIC OF PALAU**

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

**Schedule of Expenditures of Other Non-U.S. Federal Grants, Continued  
Year Ended September 30, 2014**

Fund 360100 Grantor Account Title	Cost Center	Authorization	Receivable from Grantor (Deferred Revenue) at 9/30/13	Cash Receipts FY 2014	Expenditures FY 2014	Receivable from Grantor (Deferred Revenue) at 9/30/14
<u>HOSPITAL EQUIP - IINDIA GRT</u>						
Ministry of State Equipments	S08968	100,000	(3,570)	-	-	(3,570)
Submarine Cable Feasabilitiy	S18968	100,000	(947)	-	-	(947)
45TH PIF COMMITTEE	S48968	99,000	-	99,000	99,000	-
Total India Grants		299,000	(4,517)	99,000	99,000	(4,517)
<u>HUMANITARIAN ASSISTANCE TO PSB</u>						
Humanitarian Assistance to PSB	F18974	-	111,687	-	-	111,687
Humanitarian Assistance to PSB	F78974	3,355,000	(51,616)	-	-	(51,616)
Total Humanitarian Assistance to PSB		3,355,000	60,071	-	-	60,071
<u>IWRM Project (SOPAC)</u>						
IWRM Project (SOPAC)	A78975	31,300	8,612	-	-	8,612
SOPAC-Ngerikiil Watershed	A98975	478,066	(45,742)	20,000	31,166	(34,576)
IWRM BOA	M98975	48,000	(14,026)	-	11,278	(2,748)
Water Policy Activities	P18975	42,900	6,803	-	-	6,803
IWRM EQPB LAB	R28975	23,500	(22,747)	-	20,685	(2,062)
IWRM Palaris	R98975	30,000	(5,343)	-	-	(5,343)
Total IWRM		653,766	(72,443)	20,000	63,129	(29,314)
<u>MICRONESIAN CHALANGE DONATION</u>						
Micronesian Chalange Donation TRKY	A78978	75,000	-	-	(35)	(35)
Total MC Donations		75,000	-	-	(35)	(35)
<u>ENERGY SECT IN 5 ACP ISLS</u>						
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	-	17,063	43,930
TECH COOP FACILITY (2)	F2TCF2	-	6,042	-	-	6,042
Total Energy Grants		864,820	(29,384)	-	82,450	53,066
<u>Sustainable Land MGMT</u>						
Sustainable Land MGMT	A88983	475,000	(7,542)	-	-	(7,542)
Total SLM Grants		475,000	(7,542)	-	-	(7,542)
<u>Taiwan (ROC) Grants</u>						
Energy Support ASST-OPER	A88984	1,669,000	(231,000)	-	-	(231,000)
Total ROC Grants		1,669,000	(231,000)	-	-	(231,000)
<u>RESEARCH CORP UH-RCUH</u>						
PALAU CANCER REGISTRY	H38985	46,437	(9,414)	31,068	25,521	(14,961)
Total RCUH Grants		46,437	(9,414)	31,068	25,521	(14,961)
<u>Turkey Grants</u>						
Continental Shelf - Ext	R98986	150,000	848	-	-	848
Peleliu Multipurpose Gymnasium	S98686	150,000	-	-	-	-
Total Turkey Grants		300,000	848	-	-	848
<u>STATISTICS</u>						
Socio Economic Assesment	F98987	4,110	-	-	-	-
	H18987	35,000	32,636	-	-	32,636
		39,110	32,636	-	-	32,636

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**REPUBLIC OF PALAU**

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

Schedule of Expenditures of Other Non-U.S. Federal Grants, Continued  
Year Ended September 30, 2014

Fund 360100 Grantor Account Title	Cost Center	Authorization	Receivable from Grantor (Deferred Revenue) at 9/30/13	Cash Receipts FY 2014	Expenditures FY 2014	Receivable from Grantor (Deferred Revenue) at 9/30/14
<u>Continental Shelf 09-00180</u>						
Contintal Shelf	R98988	154,765	(78,076)	-	46,892	(31,184)
Total Continental Shelf		<u>154,765</u>	<u>(78,076)</u>	<u>-</u>	<u>46,892</u>	<u>(31,184)</u>
<u>Palau Conservatio Society Grants</u>						
Capacity Enhancement	R08989	3,250	(3,250)	-	-	(3,250)
Capacity Enhancement	R18989	-	(20,000)	-	-	(20,000)
Total PCS Grants		<u>3,250</u>	<u>(23,250)</u>	<u>-</u>	<u>-</u>	<u>(23,250)</u>
<u>Dubai Grants</u>						
MBD FUNDING- AIRFARES	S38991	-	2,500	-	-	2,500
Total Dubai Grants		<u>-</u>	<u>2,500</u>	<u>-</u>	<u>-</u>	<u>2,500</u>
<u>Kingdom of Thailand</u>						
Kingdom of Thailand Grant	N38992	10,000	(10,000)	-	10,000	-
Total Kingdom of Thailand Grants		<u>10,000</u>	<u>(10,000)</u>	<u>-</u>	<u>10,000</u>	<u>-</u>
<u>SAMHSA</u>						
BHSIS 2014	H48993	42,033	-	42,033	22,503	(19,530)
Total SAMHSA	-	<u>42,033</u>	<u>-</u>	<u>42,033</u>	<u>22,503</u>	<u>(19,530)</u>
<u>Kuwait Human Rights</u>						
Human Rights Project	S48994	50,000	-	50,000	-	(50,000)
Total Kuwait Human Rights		<u>50,000</u>	<u>-</u>	<u>50,000</u>	<u>-</u>	<u>(50,000)</u>
<u>UN Grants</u>						
PALAU BSNR2 2011	A19935	15,000	25,000	-	-	25,000
Total UN Grants		<u>15,000</u>	<u>25,000</u>	<u>-</u>	<u>-</u>	<u>25,000</u>
Total Other Grants		<u>\$ 18,256,150</u>	<u>\$ (607,806)</u>	<u>\$ 5,122,981</u>	<u>\$ 5,456,743</u>	<u>\$ (274,044)</u>

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