

REPUBLIC OF PALAU

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

YEAR ENDED SEPTEMBER 30, 2015

REPUBLIC OF PALAU

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

YEAR ENDED SEPTEMBER 30, 2015

REPUBLIC OF PALAU
FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2015

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Republic of Palau (the Republic) as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the Republic's basic financial statements as set forth in Section III of the foregoing table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the National Development Bank of Palau, the Palau Community College, the Palau National Communications Corporation, and the Palau District Housing Authority, which represent 47%, 15%, and 47%, respectively, of the assets and deferred outflows of resources, net position, and operating revenues of the Republic's discretely presented component units. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the National Development Bank of Palau, the Palau Community College, the Palau National Communications Corporation, and the Palau District Housing Authority, is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Republic of Palau as of September 30, 2015, 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 to the financial statements, the Republic adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, effective October 1, 2014. Our opinion is not modified with respect to this matter.

Uncertainty

As discussed in Note 13H, 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 (and Other Employee Benefit) Trust 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 this matter.

Other Matters

Required Supplementary Information

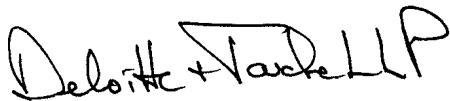
Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 16 as well as the Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund and notes thereto, on pages 77 and 78, the Schedule of Proportionate Share of the Net Pension Liability, on page 79, and the Schedule of Pension Contributions, on page 80, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the 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 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 by us and other auditors. In our opinion, based on our audit, and the procedures performed as described above, the additional information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 15, 2016 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.

July 15, 2016

REPUBLIC OF PALAU

Management's Discussion and Analysis Year Ended September 30, 2015

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, 2015. We encourage readers to consider the information presented here in conjunction with the Republic's basic financial statements, which follow this section. Fiscal year 2014 comparative information has been included, where appropriate.

FINANCIAL HIGHLIGHTS

- Effective October 1, 2014, the Republic implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*. The implementation of these statements has no impact on the Republic's governmental fund financial statements, which continue to report expenditures in the amount statutorily required. However, implementation has resulted in the restatement of the Republic's fiscal year 2014 government-wide financial statements to reflect the reporting of net pension liability for its qualified pension plan and the recognition of pension expense in accordance with the provisions of GASB Statement No. 68. Refer to Note 10 for more information regarding the Republic's pensions.
- The assets of the Republic exceeded its liabilities at the close of the most recent fiscal year by \$203.5 million (net position), decreased by \$18.8 million (or 8.5%) from the restated net position of \$222.3 million, previously reported at \$350.3 million in the prior year. The restated amount was due to the implementation of GASB 68, which required the Republic to record the pension liability of \$130 million. Of this amount, \$145 million represents the Republic's investment in capital assets; \$185.6 million represents amounts restricted for various purposes, with the remaining deficiency of \$127.1 million to be funded from future governmental activities.
- During the current fiscal year, the Republic's expenses for governmental activities were \$128.5 million and were funded in part by \$55.9 million in program revenues and \$63.1 million in taxes and other general revenues. General revenues increased by \$5.9 million (or 10.4%) from \$57.2 million in the prior year to \$63.1 million, which was attributable primarily to the increase in tax and unrestricted grant revenues of \$7.6 million and \$6.6 million, respectively. Expenses increased by \$10 million (or 8.4%) from \$118.5 million in the prior year to \$128.5 million, which was attributable primarily to the increase in general government expenses.
- The Compact Section 211(f) Trust Fund generated net loss of \$10.5 million in the current fiscal year. In addition to this net loss, an appropriation of \$5 million was recorded representing the transfer out to the General Fund as budgetary support, decreasing the Republic's trust fund balance to \$183.6 million from \$199.1 million in the prior year (down 7.8%).
- For the current fiscal year, the General Fund revenues (and other financing sources) of \$86.4 million exceeded General Fund expenditures (and other financing uses) of \$74.3 million. General Fund revenues (and other financing sources) increased \$6.2 million (or 7.8%) from prior year primarily due to increases in taxes, license and permits, and other revenues received in 2015. General Fund appropriations (and other financing uses) also increased \$5.5 million (or 8.1%) from prior year.

REPUBLIC OF PALAU

Management's Discussion and Analysis Year Ended September 30, 2015

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Republic's basic financial statements, which comprise of the following three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains additional required supplementary information in the form of a budgetary schedule, which is prepared on the budgetary basis of accounting, together with required supplementary information associated with pensions, 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, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference between the two reported as net position. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide financial statements report the Republic's net position and how they have changed. Net position, being the difference between the Republic's assets, and deferred outflows of resources less liabilities and deferred inflows of resources, 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.

REPUBLIC OF PALAU

Management's Discussion and Analysis Year Ended September 30, 2015

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

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

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

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 and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$203.5 million at the close of the most recent fiscal year. However, all net position is either restricted as to the purpose they can be used for or are invested in capital assets. The Republic uses these capital assets to provide services to citizens; consequently, these assets is not available for future spending. Although the Republic's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt

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Management's Discussion and Analysis Year Ended September 30, 2015

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 \$39.8 million while its current liabilities were \$20 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.

Net Position As of September 30

	Governmental Activities <u>2015</u>	(As Restated) Governmental Activities <u>2014</u>	Total Percentage Change <u>2015-2014</u>
Current and other assets	\$ 227,895,313	\$ 234,076,135	-2.6%
Capital assets	<u>155,066,612</u>	<u>169,137,210</u>	-8.3%
Total assets	<u>382,961,925</u>	<u>403,213,345</u>	-5.0%
Deferred outflows of resources	<u>13,047,141</u>	<u>3,326,544</u>	292.2%
Long-term debt outstanding	25,237,311	27,446,752	-8.0%
Other liabilities	<u>152,754,510</u>	<u>143,194,998</u>	7.4%
Total liabilities	<u>177,991,821</u>	<u>170,641,750</u>	4.3%
Deferred inflows of resources	<u>14,466,855</u>	<u>13,559,869</u>	6.7%
Net position:			
Net investment in capital assets	145,009,457	157,480,056	-7.9%
Restricted	185,660,054	201,111,405	-7.7%
Unrestricted	<u>(127,119,121)</u>	<u>(136,253,191)</u>	6.7%
Total net position	\$ <u>203,550,390</u>	\$ <u>222,338,270</u>	-8.5%

At the end of the current fiscal year, the Republic's unrestricted net position deficiency was \$127.1 million, a decrease from the prior year amount by \$136.3 million (or 6.7%) as restated. This deficiency is the result of having long-term commitments, including the Republic's proportionate share of the net pension liability, that are greater than currently available resources. Specifically, the Republic did not include in past annual budgets the full amounts needed to finance future liabilities arising from MICB and ADB loans as well as to pay for unused employee annual leave balances. The Republic will include these amounts in future years' budgets as they become due.

Changes in Net Position

As noted earlier, net position of the primary government decreased by \$18.8 million, representing a decrease of 8.5% from the prior year's amount of \$222.3 million. This result indicates that the Republic's financial condition, as a whole, declined 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; however, fiscal year 2014 has not been restated for the effects of adoption of GASB Statement No. 68 and is not comparative to 2015.

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Management's Discussion and Analysis
Year Ended September 30, 2015

Changes in Net Position
For the Year Ended September 30

	Governmental Activities <u>2015</u>	Governmental Activities <u>2014</u>	Total Percentage Change <u>2015-2014</u>
Revenues:			
Program revenues:			
Charges for services	\$ 23,156,386	\$ 17,419,068	32.9%
Operating grants and contributions	25,544,055	28,971,199	(11.8)%
Capital grants and contributions	<u>7,181,195</u>	<u>2,863,681</u>	150.8%
	<u>55,881,636</u>	<u>49,253,948</u>	13.5%
General revenues:			
Taxes	49,472,061	41,947,910	17.9%
Other general revenues	<u>13,649,126</u>	<u>15,222,451</u>	-10.3%
	<u>63,121,187</u>	<u>57,170,361</u>	10.4%
Total revenues	<u>119,002,823</u>	<u>106,424,309</u>	11.8%
Expenses:			
General government	33,839,480	30,173,475	12.1%
Education	17,090,007	15,262,916	12.0%
Health and welfare	19,629,701	18,274,943	7.4%
Public safety	4,995,392	5,128,134	-2.6%
Cultural affairs and recreation	2,897,377	3,166,696	-8.5%
Transportation and commerce	42,287,266	39,565,203	6.9%
State government appropriations	6,240,830	5,624,049	11.0%
Depreciation – unallocated	787,173	787,174	0.0%
Interest	<u>734,298</u>	<u>526,525</u>	39.5%
Total expense	<u>128,501,524</u>	<u>118,509,115</u>	8.4%
Contributions (to) from permanent funds	<u>(9,289,179)</u>	<u>15,827,094</u>	-158.7%
Change in net position	(18,787,880)	3,742,288	-602.0%
Net position at beginning of year	222,338,270	346,600,140	1.1%
Restatement - implementation of GASB Statement No. 68	<u>-</u>	<u>(128,004,158)</u>	-100.0%
Net position at end of year	\$ <u>203,550,390</u>	\$ <u>222,338,270</u>	-8.5%

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

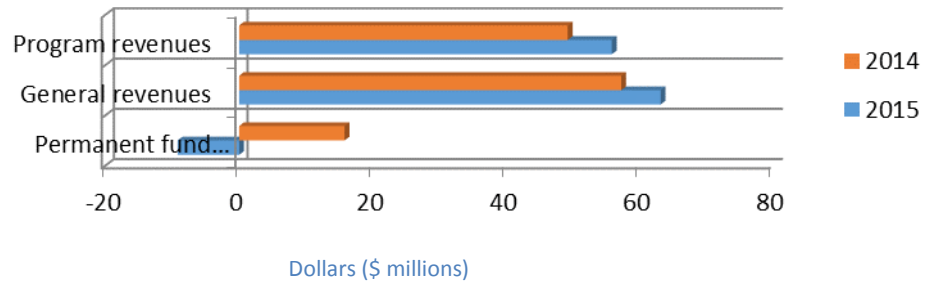
- The Compact Section 211(f) Trust Fund contributions of a loss of \$9.3 million decreased by \$25.1 million (or -158.7%) from prior fiscal year when the trust fund earnings contributed \$15.8 million. Overall revenues increased in the current year by \$12.6 million (or 11.8%). Concurrently total expenses increased by \$10 million (or 8.4%) 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:

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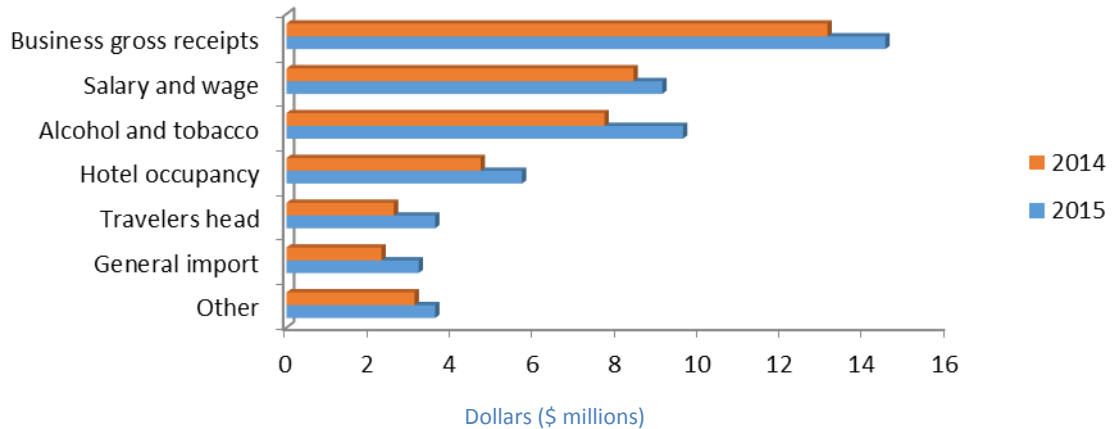
Management's Discussion and Analysis Year Ended September 30, 2015

Graph 1
Revenues
For the Years Ended September 30



A significant portion of the Republic's general revenues involves tax revenue collections. At \$49.5 million in the current year, tax revenues were higher than the \$41.9 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



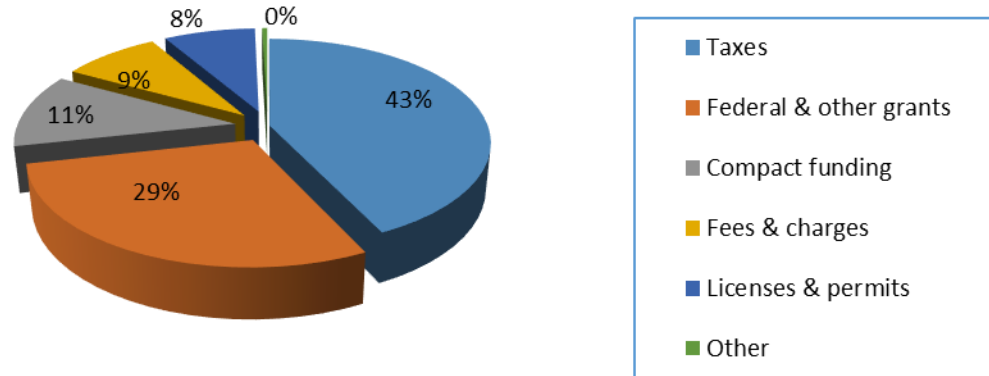
- Cost of governmental activities increased in the current year by \$10 million (up 8.4%) compared with prior year. General government significantly increased by \$3.6 million (up 12.1%) compared with prior year. Cost of Education increased by \$1.8 million (up 12.0%) in the current year as well as the cost of Health by \$1.3 million (up 7.4%) compared with prior year. Cost of Transportation and commerce also increased by \$2.7 million (or 6.9%) from prior. Of the \$10 million increase in expenses for the current year, \$3.4 million was directly attributable to the recordation of pension expense associated with the implementation of GASB 68.

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Management's Discussion and Analysis Year Ended September 30, 2015

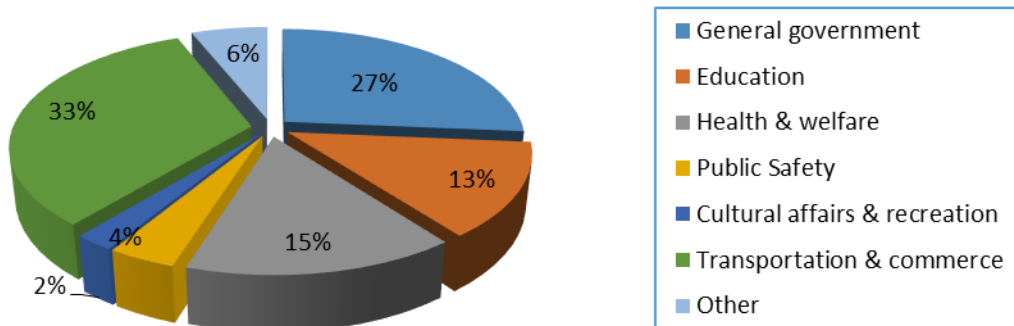
Graphs 3 and 4 below indicate the major component of revenues and cost of governmental activities.

Graph 3
Revenue Sources
For the Year Ended September 30, 2015



Compact funding, local taxes and federal and other grants are the major sources of revenue for the Republic, which comprise over 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, 2015



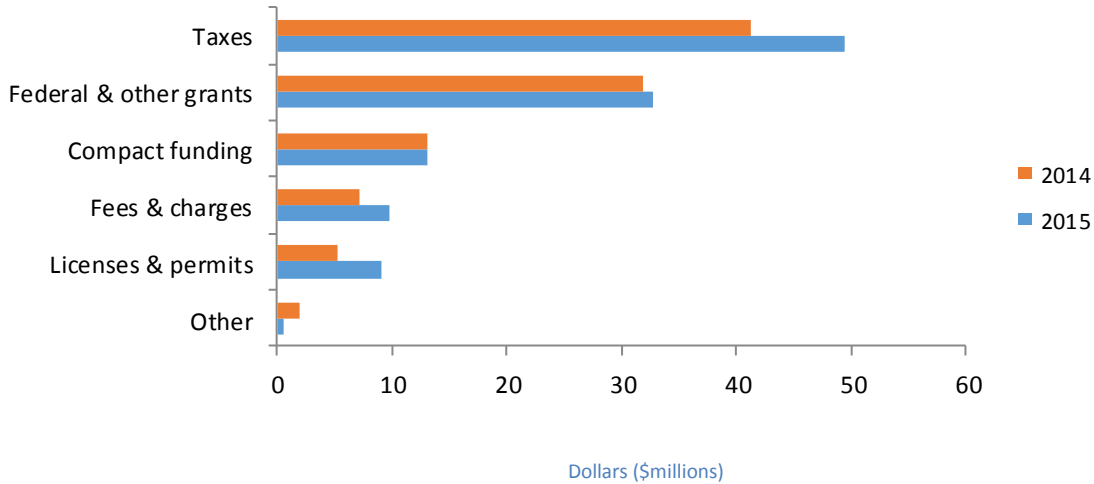
Other expenses that make up a portion of the costs of governmental activities include State government appropriations (\$6.2 million), unallocated depreciation expense (\$0.8 million), and interest expense (\$0.7 million).

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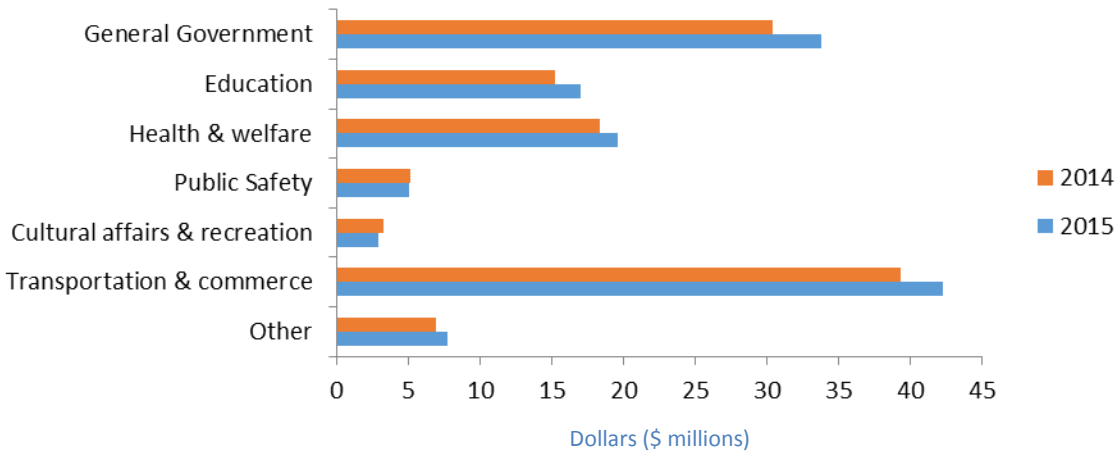
Management's Discussion and Analysis Year Ended September 30, 2015

Graphs 5 and 6 below show a comparison of the major components of revenues and cost of governmental activities for fiscal years 2015 and 2014.

Graph 5
Revenue sources
For the Years Ended September 30



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



Other expenses in the current year include State government appropriations of \$6.2 million, which increased by \$0.6 million from the prior year. Overall cost of governmental activities increased by \$10 million (up 8.4%) compared to prior fiscal year.

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Management's Discussion and Analysis Year Ended September 30, 2015

Analysis of Changes in Net Position

During the current fiscal year, the Republic's total net position decreased by \$18.8 million compared with an increase in the prior fiscal year of \$3.7 million. Contributing factor to the decrease in the prior year was the implementation of GASB 68, reporting of the pension liability of \$130 million. Compact Section 211(f) Trust Fund contributions of a negative \$9.2 million in the current fiscal year, down from \$25.1 million in the prior fiscal year when the trust fund earnings contributed \$15.8 million. The elements of these changes are reflected below:

	Governmental Activities <u>2015</u>	Governmental Activities <u>2014*</u>	Total Percentage Change <u>2015-2014</u>
General revenues:			
Taxes	\$ 49,472,061	\$ 41,947,910	17.9%
Other general revenues	<u>13,649,126</u>	<u>15,222,451</u>	(10.3)%
Total general revenues	<u>63,121,187</u>	<u>57,170,361</u>	10.4%
Expenses, net of program revenues:			
General government	18,247,517	17,749,990	2.8%
Education	13,898,756	11,585,691	20.0%
Health and welfare	10,314,875	8,378,834	23.1%
Public Safety	4,500,202	4,998,933	-10.0%
Cultural affairs and recreation	(2,317,026)	(582,382)	297.9%
Transportation and commerce	20,213,263	20,186,353	0.1%
State government appropriations	6,240,830	5,624,049	11.0%
Depreciation – unallocated	787,173	787,174	0.0%
Interest	<u>734,298</u>	<u>526,525</u>	39.5%
Total expenses	<u>72,619,888</u>	<u>69,255,167</u>	4.9%
Contributions to permanent fund	<u>(9,289,179)</u>	<u>15,827,094</u>	-158.7%
Change in net position	\$ <u>(18,787,880)</u>	\$ <u>3,742,288</u>	-602.0%

*Not restated for the effects of adoption of GASB Statement No. 68

General revenues increased by \$5.9 million (or 10.4%) from the previous fiscal year. The increase was primarily due to increases in taxes of \$7.6 million (or 17.9%) 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 \$212.3 million, which represents a decrease of \$3.3 million (or a decrease of 1.6%) in comparison with the prior year. This decrease is primarily attributable to the decrease in Compact Trust Fund investments. Of this total combined fund balance, \$186.1 million is designated as non spendable and cannot be spent either because it is not in a spendable form or because of legal or contractual

REPUBLIC OF PALAU

Management's Discussion and Analysis Year Ended September 30, 2015

constraints; \$3.1 million is designated as restricted and is constrained for specific purposes which are externally imposed; and \$1.9 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 \$21.2 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 \$21.4 million. Total fund balance was \$23.6 million compared with a total fund balance of \$11.5 million at the end of the prior fiscal year.

The Compact Section 211(f) Trust Fund has a total fund balance of \$183.6 million, all of which is restricted for the funding of future operations of the primary government. The net decrease in fund balance during the current year in the Compact Section 211(f) Trust Fund was \$15.5 million (or down 7.8%), which reflects a transfer of \$5 million to the Republic's General Fund and a net decrease in the value of trust fund investments of \$10.5 million.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the course of the fiscal year, budget revisions of \$3 million were made by management and elected officials of the Republic to the General Fund budget. Revenues collected (including other financing sources) of \$81.5 million were higher than budgeted amounts of \$70.4 million due primarily to an increase in local revenue collections. In addition, charges to appropriations (including other financing uses) of \$68.9 million were lower than budgeted amounts of \$71.1 million due primarily to expenditures associated with the executive branch and debt service of \$57 million and \$2.0 million, respectively, which were lower than budgeted amounts of \$59.3 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, 2015 amounted to \$430.1 million (including \$26.1 million of land and construction in progress), net of accumulated depreciation of \$275 million, leaving a net book value of \$155.1 million. This represents a decrease of \$14.1 million from the amount of \$169.1 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>2015</u>	Governmental Activities <u>2014</u>	Total Percentage Change <u>2015-2014</u>
Buildings and other improvements	\$ 69,624,011	\$ 76,318,576	-8.8%
Machinery and equipment	3,305,542	3,020,812	9.4%
Vehicles	1,189,483	1,324,482	-10.2%
Infrastructure	54,809,532	70,289,948	-22.0%
Land	3,899,403	3,899,403	0.0%
Construction in progress	<u>22,238,641</u>	<u>14,283,989</u>	55.7%
Total	\$ <u>155,066,612</u>	\$ <u>169,137,210</u>	-8.3%

REPUBLIC OF PALAU

Management's Discussion and Analysis
Year Ended September 30, 2015

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>
Koksai-Nekken Road	\$ 0.49
Ngerbeched Road	\$ 0.19
Ngaraard Road	\$ 0.29
Ngarchelong Road	\$ 0.29
Ngardmau State Rd	\$ 0.05
Ngaremlengui Road	\$ 0.34
Ngatpang Road	\$ 0.07
Ngchesar Road	\$ 0.29
Ngiwal Road	\$ 0.29
Peleliu Road	\$ 0.25

- Acquisition of the following machinery and equipment:

<u>Machinery & Equipment</u>	<u>Current Year Additions (\$ millions)</u>
X-Ray Baggage Scanner	\$ 0.16
Small Patrol Craft	\$ 0.80
Inflatable Search & Rescue	\$ 0.20
Inflatable Search & Rescue	\$ 0.16
Excavator, Komatsu	\$ 0.12

- 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	\$ 5.06	\$ 18.50
Palau International Airport Master Plan	\$ 0.00	\$ 0.26
Melekeok Sewer Pump Improvements	\$ 0.11	\$ 0.52
Pablo Ringang Building	\$ 0.51	\$ 0.67
Rehab Apron Phase II	\$ 2.11	\$ 2.11
Melekeok Waterline-Dispensary	\$ 0.14	\$ 0.14

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, 2015

Long-term Debt

The Republic has entered into four separate loans with the Mega International Commercial Bank and the Asian Development bank (ADB) (See table below). Long-term debt obligations decreased by \$2.2 million (or 8%) representing loan repayments in the current fiscal year.

	Outstanding Long-term Debt September 30		Total Percentage Change <u>2015-2014</u>
	Governmental Activities <u>2015</u>	Governmental Activities <u>2014</u>	
Republic of Palau Capitol Building	\$ 5,714,275	\$ 6,857,133	-16.7%
Palau International Airport Repaving	4,342,880	4,800,018	-9.5%
Water Sector Improvement (Loan #2691)	11,707,422	12,316,867	-4.9%
Water Sector Improvement (Loan # 2692)	<u>3,472,734</u>	<u>3,472,734</u>	0.0%
Total	\$ <u>25,237,311</u>	\$ <u>27,446,752</u>	-8.0%

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

In Fiscal Year 2015, Palau's economy grew strongly at 9.4 percent reflecting strong growth in tourism and construction activities. Strong construction activities reflect increased construction and improvements to new and existing hotels and residential units as well as road improvement works. Anticipated financing totaling \$10m for agriculture and aquaculture projects and affordable housing development in Babeldaob will contribute to sustained construction and expanded economic activities. These developments, along with the scheduled increase in the minimum wage and anticipated increase in tourism and related fees, will support continued growth.

Tourist arrivals have increased over the past two years with FY2015 recording the highest number of arrivals at 166,774. Tourist arrivals increased by 33 percent over the previous year with People's Republic of China comprising 54 percent of overall arrivals. Tourism related activities grew at 8 percent in FY2015. The estimated hotel occupancy rate has increased from 55.4 percent in FY2014 to 65.8 percent in FY2015, a 10.4 percent increase. Overall tourism revenues increased but the average revenue per visitor and visitor night decreased by approximately 15 percent in FY2014 and 9 percent in FY2015.

Following a small reduction in FY2013, government revenues rebounded in FY2014 with a 16 percent increase and a 7 percent increase in FY2015. Tax collection posted a 17 percent increase over the last two years fueled by wage increases in government and the private sector. Expenditures increased by 8 percent in FY2014 due to increased salaries. Overall FY2015 expenditures declined slightly because of reduced payments to state owned enterprises. Expenditures on wages and salaries account for 56 percent of the general government operating expenditures.

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Following the passage of the minimum wage bill in FY2013, revenues from wages and salaries increased by 11% in FY2014 and 13% in FY2015. Scheduled increase in the minimum wage and anticipated increases in benefit payments will contribute to sustained growth in consumer spending and tax receipts for the government. In FY2015, fiscal surplus was 5.1 percent of GDP, compared to 3.5 percent in FY2014. This enabled the government to reduce its Accounts Payables and increase its general reserve fund.

Although revenue collection saw an increase in Fiscal 2015 from previous year the government continues to struggle to balance its budget mainly due to increasing maintenance costs. Additionally the government has completed some major infrastructure projects that we now have to maintain. The government continues to seek other revenue sources to meet these anticipated costs. New measures have been introduced to try and raise additional revenue, i.e. tax reforms, eliminating import duty exemptions, moving to CIF (cost, insurance, and freight) valuation, and adopting a value-added tax (VAT); however the proposals have yet to be enacted.

Palau is aware of increasing demands for the limited government resources and despite prioritizing, reallocation of funds and other cost cutting measures these efforts are simply not sufficient bridge between revenue collection and budgetary requirements. The administration again will try to push additional measures, i.e. room tax and visitor's departure tax increases to raise additional revenues.

Looking beyond Fiscal Year 2015, revenue collections will gradually improve going forward. This can be attributed to the improving global economies as well as improved collections processes by the Bureau of Taxation and Bureau of Customs. Wage gains, tourism, and construction that drove growth in FY2015 are expected to continue in FY2016 and FY2017. Scheduled and planned increases in wages and benefit payments will continue to contribute to consumer spending. Expected expansion of room capacity should support sustained tourism growth. Construction is also expected to perform strongly due to continued construction and improvements to new and existing visitor accommodations, housing developments (subdivision) in Babeldaob and road construction. Expanded financing to Agriculture and Aquaculture will further encourage commercial activities and increased incomes. The current account deficit is anticipated to continue to narrow with increased tourist arrivals and stable oil import payments.

SUBSEQUENT EVENTS

On March 7, 2016, the Republic entered into two loan agreements (Loan Numbers 3346-PAL and 3347-PAL(SF)) with the Asian Development Bank in the amount of \$16,470,000 and Special Drawing Rights (SDR) 3,242,000, respectively, for the North Pacific Regional Connectivity Investment project.

On March 31, 2016, the Republic entered into two loan agreements with Mega International Commercial Bank in the aggregate amount of \$10,000,000 for development of agriculture and aquaculture industries to be administered by the National Development Bank of Palau and for financing housing loans to be administered by the Palau District Housing Authority.

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, 2015

	<u>Primary Government</u>	<u>Component Units</u>
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 17,764,257	\$ 23,318,107
Investments	3,866,872	-
Receivables, net of allowance for uncollectibles	15,816,382	10,260,269
Inventories	-	8,689,014
Due from primary government	-	520,880
Due from component units	955,486	-
Other current assets	795,461	307,161
Restricted assets:		
Cash and cash equivalents	602,442	-
Time certificates of deposit	-	454,320
Total current assets	39,800,900	43,549,751
Noncurrent assets:		
Investments	1,185,575	797,190
Receivables	-	18,468,232
Capital assets:		
Nondepreciable capital assets	26,138,044	3,175,323
Capital assets, net of accumulated depreciation	128,928,568	70,422,906
Foreclosed real estate	-	347,199
Other noncurrent assets	-	51,550
Restricted assets:		
Cash and cash equivalents	-	2,088,743
Investments	186,908,838	7,413,336
Total noncurrent assets	343,161,025	102,764,479
Total assets	382,961,925	146,314,230
<u>DEFERRED OUTFLOWS OF RESOURCES</u>		
Deferred outflows from pensions	13,047,141	3,508,985
	\$ 396,009,066	\$ 149,823,215
<u>LIABILITIES</u>		
Current liabilities:		
Note payable	\$ 198,142	\$ -
Current portion of long-term obligations	2,256,812	4,207,487
Current portion of compensated absences payable	1,976,308	-
Accounts payable	7,014,770	6,009,169
Contracts payable	2,574,389	-
Due to State governments	1,275,409	-
Due to primary government	-	135,336
Due to fiduciary fund	-	267,764
Due to component units	131,752	-
Accrued payroll and others	2,656,293	2,915,699
Unearned revenue	369,362	469,279
Other liabilities	563,951	1,486,480
Income tax refunds	997,253	-
Total current liabilities	20,014,441	15,491,214
Noncurrent liabilities:		
Noncurrent portion of long-term obligations	22,980,499	34,650,341
Compensated absences payable, net of current portion	2,039,085	-
Net pension liability	129,957,796	35,425,838
Due to U.S. Government	3,000,000	-
Due to primary government	-	820,150
Due to fiduciary fund	-	3,319,814
Total noncurrent liabilities	157,977,380	74,216,143
Total liabilities	177,991,821	89,707,357
<u>DEFERRED INFLOWS OF RESOURCES</u>		
Loan origination fees	-	428,641
Deferred inflows from pensions	14,466,855	4,993,116
<u>NET POSITION</u>		
Net investment in capital assets	145,009,457	58,931,712
Restricted for:		
Future operations	183,630,440	-
Endowment	-	3,708,813
Debt service	-	13,436,359
Compact related	64,336	-
Other purposes	1,965,278	13,322,482
Unrestricted	(127,119,121)	(34,705,265)
Total net position	203,550,390	54,694,101
	\$ 396,009,066	\$ 149,823,215

See accompanying notes to basic financial statements.

REPUBLIC OF PALAU

Statement of Activities
Year Ended September 30, 2015

Functions/Programs	Program Revenues				Net (Expenses) Revenues and 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	\$ 33,839,480	\$ 13,699,382	\$ 1,892,581	\$ -	\$ (18,247,517)	\$ -
Education	17,090,007	-	3,191,251	-	(13,898,756)	-
Health and welfare	19,629,701	4,091,889	5,222,937	-	(10,314,875)	-
Public safety	4,995,392	81,390	413,800	-	(4,500,202)	-
Cultural affairs and recreation	2,897,377	5,214,403	-	-	2,317,026	-
Transportation and commerce	42,287,266	69,322	14,823,486	7,181,195	(20,213,263)	-
State government appropriations	6,240,830	-	-	-	(6,240,830)	-
Depreciation - unallocated	787,173	-	-	-	(787,173)	-
Interest (unallocated)	734,298	-	-	-	(734,298)	-
Total primary government	\$ 128,501,524	\$ 23,156,386	\$ 25,544,055	\$ 7,181,195	(72,619,888)	-
Component units:						
National Development Bank of Palau	\$ 924,072	\$ 2,205,047	\$ 141,521	\$ -	-	1,422,496
Palau Community College	7,264,622	1,969,938	4,187,180	-	-	(1,107,504)
Palau National Communications Corporation	10,470,401	12,918,358	-	-	-	2,447,957
Palau International Coral Reef Center	1,250,406	540,641	418,312	68,481	-	(222,972)
Palau Visitors Authority	909,914	98,243	-	-	-	(811,671)
Public Utilities Corporation	28,253,839	22,718,908	102,892	123,552	-	(5,308,487)
Palau District Housing Authority	118,220	101,608	-	-	-	(16,612)
Protected Areas Network Fund	1,819,209	-	43,400	-	-	(1,775,809)
Total component units	\$ 51,010,683	\$ 40,552,743	\$ 4,893,305	\$ 192,033	-	(5,372,602)
General revenues:						
Taxes:						
Business gross receipts					14,524,588	-
Salary and wage					9,142,875	-
Alcohol and tobacco					9,640,098	-
Hotel occupancy					5,676,518	-
Travelers head					3,573,152	-
General import					3,268,971	-
Road use					750,668	-
Fuel export					730,140	-
Other					2,165,051	-
Grants and contributions not restricted for specific programs					13,147,000	-
Unrestricted investment earnings					(24,872)	(241,250)
Contributions from primary government					-	9,172,540
Other					526,998	-
Total general revenues					63,121,187	8,931,290
Contributions to permanent funds					(9,289,179)	-
Total general revenues and contributions					53,832,008	8,931,290
Change in net position					(18,787,880)	3,558,688
Net position at beginning of year, as previously reported					350,342,428	87,962,849
Implementation of GASB Statement No. 68					(128,004,158)	(36,827,436)
Net position at beginning of year, as restated					222,338,270	51,135,413
Net position at end of year					\$ 203,550,390	\$ 54,694,101

See accompanying notes to basic financial statements.

REPUBLIC OF PALAU

**Balance Sheet
Governmental Funds
September 30, 2015**

	Special Revenue		Permanent	Other Governmental Funds	Total
	General	Grants	Compact Section 211(f)		
ASSETS					
Cash and cash equivalents	\$ 17,764,257	\$ -	\$ -	\$ -	\$ 17,764,257
Investments	5,052,418	-	-	29	5,052,447
Receivables, net:					
Taxes	5,432,679	-	-	-	5,432,679
General	1,343,362	2,824,460	-	47	4,167,869
Federal agencies	-	6,215,466	-	-	6,215,466
Accrued interest	368	-	-	-	368
Due from component units	955,486	-	-	-	955,486
Due from other funds	4,835,221	582,035	-	3,323,958	8,741,214
Advances	293,722	134,237	-	4,544	432,503
Prepaid items	35,086	272,706	-	55,166	362,958
Restricted assets:					
Cash and cash equivalents	602,442	-	-	-	602,442
Investments	-	-	183,882,725	3,026,113	186,908,838
	<u>\$ 36,315,041</u>	<u>\$ 10,028,904</u>	<u>\$ 183,882,725</u>	<u>\$ 6,409,857</u>	<u>\$ 236,636,527</u>

LIABILITIES AND FUND BALANCES

Liabilities:					
Note payable	\$ 198,142	\$ -	\$ -	\$ -	\$ 198,142
Accounts payable	3,111,932	2,521,799	-	1,381,039	7,014,770
Contracts payable	-	2,574,389	-	-	2,574,389
Due to State governments	1,275,409	-	-	-	1,275,409
Due to component units	131,752	-	-	-	131,752
Due to other funds	3,905,993	4,580,579	252,285	2,357	8,741,214
Accrued payroll and others	2,498,262	-	-	5,390	2,503,652
Other liabilities	415,576	148,375	-	-	563,951
Unearned revenues	180,453	188,909	-	-	369,362
Income tax refunds	997,253	-	-	-	997,253
Total liabilities	<u>12,714,772</u>	<u>10,014,051</u>	<u>252,285</u>	<u>1,388,786</u>	<u>24,369,894</u>
Fund balances:					
Nonspendable	2,176,147	272,706	183,630,440	55,166	186,134,459
Restricted	-	8,483	-	3,064,336	3,072,819
Committed	-	-	-	1,903,926	1,903,926
Unassigned:					
General fund	21,424,122	-	-	-	21,424,122
Special revenue funds	-	(266,336)	-	(2,357)	(268,693)
Total fund balances	<u>23,600,269</u>	<u>14,853</u>	<u>183,630,440</u>	<u>5,021,071</u>	<u>212,266,633</u>
	<u>\$ 36,315,041</u>	<u>\$ 10,028,904</u>	<u>\$ 183,882,725</u>	<u>\$ 6,409,857</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	155,066,612
Long-term liabilities, including loans payable, are not due and payable in the current period and therefore are not reported in the funds. The liabilities include:	
Long-term obligations	(25,237,311)
Compensated absences	(4,015,393)
Accrued interest payable	(152,641)
Net pension liability	(129,957,796)
Due to U.S. Government	<u>(3,000,000)</u>
	(162,363,141)
Deferred outflows of resources are charged to future periods and are not reported in the funds. Those deferred outflows consist of deferred outflows on the net pension liability	13,047,141
Deferred inflows of resources benefit future periods and are not reported in the funds. Those deferred inflows consist of deferred inflows on the net pension liability	<u>(14,466,855)</u>
Net position of governmental activities	<u>\$ 203,550,390</u>

See accompanying notes to basic financial statements.

REPUBLIC OF PALAU

Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended September 30, 2015

	Special Revenue		Permanent		Other Governmental Funds	Total
	General	Grants	Compact Section 211(f)	-		
Revenues:						
Taxes	\$ 48,721,393	\$ -	\$ -	\$ 750,668	\$ -	\$ 49,472,061
Federal and other grants	-	25,544,055	-	-	-	25,544,055
Compact funding	13,147,000	-	-	-	-	13,147,000
Net change in the fair value of investments	3,722	-	(9,289,179)	(28,594)	-	(9,314,051)
Fees and charges	9,727,448	-	-	4,279,165	-	14,006,613
Licenses and permits	9,100,134	-	-	49,639	-	9,149,773
Other	526,998	-	-	-	-	526,998
Total revenues	81,226,695	25,544,055	(9,289,179)	5,050,878	-	102,532,449
Expenditures:						
Current:						
Judicial Branch	2,413,353	-	-	-	-	2,413,353
Legislative Branch	4,880,971	-	-	-	-	4,880,971
Office of the President	1,129,705	709,851	-	-	-	1,839,556
Office of the Vice-President	376,382	-	-	-	-	376,382
Ministry of Finance	4,052,326	519,232	-	-	-	4,571,558
Ministry of State	2,925,726	238,482	-	5,564	-	3,169,772
Ministry of Community and Cultural Affairs	1,059,696	6,775	-	-	-	1,066,471
Ministry of Education	7,956,606	3,191,251	-	-	-	11,147,857
Ministry of Public Infrastructure, Industry and Commerce	5,638,964	730,944	-	343,255	-	6,713,163
Ministry of Justice	4,783,221	413,800	-	34,387	-	5,231,408
Ministry of Health	8,375,748	5,222,937	-	4,364,924	-	17,963,609
Ministry of Natural Resources, Environment and Tourism	1,301,371	155,248	-	43,715	-	1,500,334
Boards, Commissions, and Authorities	748,909	-	-	-	-	748,909
State Block Grants	6,240,830	-	-	-	-	6,240,830
Independent Agencies	4,373,643	-	-	11,813	-	4,385,456
Other Agencies and Activities	3,154,683	-	-	-	-	3,154,683
Education assistance	5,110,694	-	-	-	-	5,110,694
Water and Sewer Operation	3,919,000	-	-	-	-	3,919,000
Financial and Compliance Audit	-	561,439	-	-	-	561,439
Compact Review Office	198,266	-	-	-	-	198,266
Investment management fees	-	-	1,250,515	22,728	-	1,273,243
Other	589,658	-	-	-	-	589,658
Capital projects	1,213,933	14,669,786	-	-	-	15,883,719
Debt service:						
Principal retirement	2,209,441	-	-	-	-	2,209,441
Interest	748,299	-	-	-	-	748,299
Total expenditures	73,401,425	26,419,745	1,250,515	4,826,386	-	105,898,071
Excess (deficiency) of revenues over (under) expenditures	7,825,270	(875,690)	(10,539,694)	224,492	-	(3,365,622)
Other financing sources (uses):						
Operating transfers in	5,123,447	875,785	-	-	-	5,999,232
Operating transfers out	(875,785)	(79,198)	(5,000,000)	(44,249)	-	(5,999,232)
Total other financing sources (uses), net	4,247,662	796,587	(5,000,000)	(44,249)	-	-
Net change in fund balances	12,072,932	(79,103)	(15,539,694)	180,243	-	(3,365,622)
Fund balances at beginning of year	11,527,337	93,956	199,170,134	4,840,828	-	215,632,255
Fund balances at end of year	\$ 23,600,269	\$ 14,853	\$ 183,630,440	\$ 5,021,071	\$ -	\$ 212,266,633

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, 2015

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 \$ (3,365,622)

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	\$ 12,551,128	
Depreciation expense, net	<u>(26,621,726)</u>	
		(14,070,598)

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	<u>609,443</u>	
		2,209,441

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 pension costs, 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	\$ (201,750)	
Change in accrued interest payable	14,001	
Net pension activity	<u>(3,373,352)</u>	
		<u>(3,561,101)</u>

Change in net position of governmental activities. \$ (18,787,880)

See accompanying notes to basic financial statements.

REPUBLIC OF PALAU

Statement of Fiduciary Net Position Fiduciary Funds September 30, 2015

	<u>Private Purpose Trust</u>	<u>Pension (and Other Employee Benefit) Trust</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 4,613,622	\$ 539,349	\$ 5,152,971
Receivables, net:			
Contributions	3,201,597	184,474	3,386,071
Accrued interest and dividends	262,958	-	262,958
Other	456,068	208	456,276
Investments	90,783,938	28,165,269	118,949,207
Due from component units	3,587,578	-	3,587,578
Prepaid items	124,580	-	124,580
Capital assets, net	81,117	23,011	104,128
	<u>103,111,458</u>	<u>28,912,311</u>	<u>132,023,769</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			
Deferred outflows from pensions	<u>218,492</u>	<u>157,090</u>	<u>375,582</u>
	<u>\$ 103,329,950</u>	<u>\$ 29,069,401</u>	<u>\$ 132,399,351</u>
<u>LIABILITIES</u>			
Benefits payable	\$ 1,525,366	\$ -	\$ 1,525,366
Other liabilities and accruals	100,233	23,559	123,792
Net pension liability	<u>2,432,377</u>	<u>779,129</u>	<u>3,211,506</u>
	<u>4,057,976</u>	<u>802,688</u>	<u>4,860,664</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Deferred inflows from pensions	<u>242,822</u>	<u>151,573</u>	<u>394,395</u>
<u>NET POSITION</u>			
Held in trust for:			
Social security benefits	99,029,152	-	99,029,152
Pension benefits	-	28,115,140	28,115,140
	<u>99,029,152</u>	<u>28,115,140</u>	<u>127,144,292</u>
	<u>\$ 103,329,950</u>	<u>\$ 29,069,401</u>	<u>\$ 132,399,351</u>

See accompanying notes to basic financial statements.

REPUBLIC OF PALAU

Statement of Changes in Fiduciary Net Position
Fiduciary Funds
Year Ended September 30, 2015

	Private Purpose Trust	Pension (and Other Employee Benefit) Trust	Total
Additions:			
Contributions:			
Government employees	\$ 8,575,182	\$ -	\$ 8,575,182
Private employees	9,545,477	-	9,545,477
Employer contributions	-	2,909,824	2,909,824
Plan member contributions	182,562	2,920,101	3,102,663
Penalties and interest	781,271	-	781,271
Other	-	-	-
	19,084,492	5,829,925	24,914,417
Allowance for doubtful accounts	(171,662)	-	(171,662)
Total contributions	18,912,830	5,829,925	24,742,755
Investment loss:			
Net change in the fair value of investments	(2,765,926)	(2,007,645)	(4,773,571)
Interest and dividends	1,380,876	993,324	2,374,200
Total investment loss	(1,385,050)	(1,014,321)	(2,399,371)
Less investment expense	187,201	187,411	374,612
Net investment loss	(1,572,251)	(1,201,732)	(2,773,983)
Other	161,981	727,170	889,151
Total additions	17,502,560	5,355,363	22,857,923
Deductions:			
Benefits	20,226,505	9,403,007	29,629,512
General and administrative	1,388,378	381,902	1,770,280
Total deductions	21,614,883	9,784,909	31,399,792
Change in net position held in trust for:			
Social security benefits	(4,112,323)	-	(4,112,323)
Pension benefits	-	(4,429,546)	(4,429,546)
	(4,112,323)	(4,429,546)	(8,541,869)
Net position at beginning of year, as previously reported	105,531,785	33,289,323	138,821,108
Implementation of GASB Statement No. 68	(2,390,310)	(744,637)	(3,134,947)
Net position at beginning of year, as restated	103,141,475	32,544,686	135,686,161
Net position at end of year	\$ 99,029,152	\$ 28,115,140	\$ 127,144,292

See accompanying notes to basic financial statements.

REPUBLIC OF PALAU

**Combining Statement of Net Position
Component Units
September 30, 2015**

	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
Assets									
Current assets:									
Cash and cash equivalents	\$ 8,561,793	\$ 371,792	\$ 1,223,089	\$ 949,226	\$ 77,275	\$ 8,419,916	\$ 650,117	\$ 3,064,899	\$ 23,318,107
Restricted time certificates of deposit	454,320	-	-	-	-	-	-	-	454,320
Receivables, net	2,304,893	3,448,434	807,718	207,615	34,809	3,278,630	178,170	-	10,260,269
Inventories	222,703	365,218	170,310	69,308	-	7,861,475	-	-	8,689,014
Due from primary government	-	20,001	-	-	134,094	366,785	-	-	520,880
Prepaid expenses and other	30,708	-	12,534	20,268	4,093	235,128	-	4,430	307,161
Total current assets	11,574,417	4,205,445	2,213,651	1,246,417	250,271	20,161,934	828,287	3,069,329	43,549,751
Noncurrent assets:									
Investments	-	-	602,737	194,453	-	-	-	-	797,190
Receivables	16,096,355	-	-	-	-	263,442	2,108,435	-	18,468,232
Capital assets:									
Nondepreciable capital assets	-	-	185,731	-	-	2,989,592	-	-	3,175,323
Capital assets, net of accumulated depreciation	631,916	1,447,764	18,854,792	2,155,965	76,981	47,224,386	14,363	16,739	70,422,906
Foreclosed real estate	347,199	-	-	-	-	-	-	-	347,199
Other noncurrent assets	-	-	51,550	-	-	-	-	-	51,550
Restricted assets:									
Cash and cash equivalents	748,651	1,340,092	-	-	-	-	-	-	2,088,743
Investments	-	3,597,000	3,816,336	-	-	-	-	-	7,413,336
Total noncurrent assets	17,824,121	6,384,856	23,511,146	2,350,418	76,981	50,477,420	2,122,798	16,739	102,764,479
Total assets	29,398,538	10,590,301	25,724,797	3,596,835	327,252	70,639,354	2,951,085	3,086,068	146,314,230
Deferred Outflows of Resources									
Deferred outflows from pensions	153,041	871,401	570,684	178,517	60,024	1,645,408	29,910	-	3,508,985
	\$ 29,551,579	\$ 11,461,702	\$ 26,295,481	\$ 3,775,352	\$ 387,276	\$ 72,284,762	\$ 2,980,995	\$ 3,086,068	\$ 149,823,215
Liabilities									
Current liabilities:									
Current portion of long-term debt	\$ 636,013	\$ -	\$ 3,012,288	\$ -	\$ -	\$ 559,186	\$ -	\$ -	\$ 4,207,487
Accounts payable	568,198	963,484	42,814	12,205	11,906	4,195,423	-	215,139	6,009,169
Due to primary government	135,336	-	-	-	-	-	-	-	135,336
Due to fiduciary funds	267,764	-	-	-	-	-	-	-	267,764
Accrued payroll and others	250,497	559,123	493,259	78,539	52,382	1,468,787	6,751	6,361	2,915,699
Unearned revenues	-	361,658	107,621	-	-	-	-	-	469,279
Other liabilities	-	-	600,464	-	24,410	763,429	-	98,177	1,486,480
Total current liabilities	1,857,808	1,884,265	4,256,446	90,744	88,698	6,986,825	6,751	319,677	15,491,214
Noncurrent liabilities:									
Long-term debt, net of current portion	4,299,137	-	22,930,446	-	-	7,420,758	-	-	34,650,341
Net pension liability	1,566,224	10,680,027	7,163,121	1,783,171	774,226	13,135,896	323,173	-	35,425,838
Due to primary government	820,150	-	-	-	-	-	-	-	820,150
Due to fiduciary funds	3,319,814	-	-	-	-	-	-	-	3,319,814
Total noncurrent liabilities	10,005,325	10,680,027	30,093,567	1,783,171	774,226	20,556,654	323,173	-	74,216,143
Total liabilities	11,863,133	12,564,292	34,350,013	1,873,915	862,924	27,543,479	329,924	319,677	89,707,357
Deferred Inflows of Resources									
Loan origination fees	428,641	-	-	-	-	-	-	-	428,641
Deferred inflows from pensions	209,731	1,395,230	1,049,965	107,539	177,593	2,017,283	35,775	-	4,993,116
Net Position									
Net investment in capital assets	631,916	1,447,764	9,961,947	2,155,965	76,981	44,626,037	14,363	16,739	58,931,712
Restricted:									
Endowment	-	3,708,813	-	-	-	-	-	-	3,708,813
Debt service	9,560,023	-	3,876,336	-	-	-	-	-	13,436,359
Other purposes	6,858,135	1,306,529	-	132,236	-	-	2,275,930	2,749,652	13,322,482
Unrestricted	-	(8,960,926)	(22,942,780)	(494,303)	(730,222)	(1,902,037)	325,003	-	(34,705,265)
Total net position	17,050,074	(2,497,820)	(9,104,497)	1,793,898	(653,241)	42,724,000	2,615,296	2,766,391	54,694,101
	\$ 29,551,579	\$ 11,461,702	\$ 26,295,481	\$ 3,775,352	\$ 387,276	\$ 72,284,762	\$ 2,980,995	\$ 3,086,068	\$ 149,823,215

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, 2015

	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
Operating revenues:									
Charges for services	\$ 1,793,155	\$ 1,184,189	\$ 12,778,666	\$ 534,389	\$ -	\$ 21,791,267	\$ 80,844	\$ -	\$ 38,162,510
Grants and contributions	-	4,187,180	-	418,312	-	-	-	-	4,605,492
Other	411,892	785,749	139,692	6,252	98,243	927,641	20,764	-	2,390,233
Total operating revenues	2,205,047	6,157,118	12,918,358	958,953	98,243	22,718,908	101,608	-	45,158,235
Operating expenses:									
Cost of services	-	5,104,285	6,007,301	-	-	22,183,980	-	1,477,347	34,772,913
Depreciation	42,122	316,103	2,437,603	253,499	19,735	4,384,591	2,865	5,442	7,461,960
Administration costs	712,039	1,844,234	1,171,082	996,907	890,179	1,492,469	115,355	338,647	7,560,912
Total operating expenses	754,161	7,264,622	9,615,986	1,250,406	909,914	28,061,040	118,220	1,821,436	49,795,785
Operating income (loss)	1,450,886	(1,107,504)	3,302,372	(291,453)	(811,671)	(5,342,132)	(16,612)	(1,821,436)	(4,637,550)
Nonoperating revenues (expenses):									
Contributions from primary government	-	2,411,000	-	400,000	864,995	3,419,045	70,000	2,007,500	9,172,540
Net change in the fair value of investments	-	(248,507)	(1,091)	(5,951)	-	-	-	-	(255,549)
Interest income	8,625	-	288	-	-	4,555	831	-	14,299
Grant revenues	141,521	-	-	-	-	102,892	-	43,400	287,813
Interest expense	(421,068)	-	(867,300)	-	-	(412,927)	-	-	(1,701,295)
Other, net	251,157	-	12,885	-	-	220,128	-	2,227	486,397
Total nonoperating revenues (expenses), net	(19,765)	2,162,493	(855,218)	394,049	864,995	3,333,693	70,831	2,053,127	8,004,205
Capital contributions	-	-	-	68,481	-	123,552	-	-	192,033
Change in net position	1,431,121	1,054,989	2,447,154	171,077	53,324	(1,884,887)	54,219	231,691	3,558,688
Net position at beginning of year, as previously reported	17,263,235	7,839,773	(3,796,437)	3,262,833	186,327	57,778,206	2,894,212	2,534,700	87,962,849
Implementation of GASB Statement No. 68	(1,644,282)	(11,392,582)	(7,755,214)	(1,640,012)	(892,892)	(13,169,319)	(333,135)	-	(36,827,436)
Net position at beginning of year, as restated	15,618,953	(3,552,809)	(11,551,651)	1,622,821	(706,565)	44,608,887	2,561,077	2,534,700	51,135,413
Net position at end of year	\$17,050,074	\$ (2,497,820)	\$ (9,104,497)	\$ 1,793,898	\$ (653,241)	\$42,724,000	\$ 2,615,296	\$ 2,766,391	\$ 54,694,101

See accompanying notes to basic financial statements.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2015

(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, 2015

(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, 2015

(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, 2015

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

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

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

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

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

B. Government-Wide Financial Statements

The Statement of Net 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, 2015

(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, deferred outflows of resources, liabilities, and deferred inflows of resources 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 \$185,660,054 of restricted net position, of which \$1,965,278 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, 2015

(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, 2015

(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.

Fund Accounting:

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, 2015

(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 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, 2015

(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, 2015.

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.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2015

(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. Pensions

Pensions are required to be recognized and disclosed using the accrual basis of accounting. The Republic recognizes a net pension liability for the pension plan in which it participates, which represents the Republic's proportional share of excess total pension liability over the pension plan assets – actuarially calculated – of a cost-sharing multiple-employer defined benefit plan, measured as of the fiscal year-end. Changes in the net pension liability during the period are recorded as pension expense, or as deferred inflows of resources or deferred outflows of resources depending on the nature of the change, in the period incurred. Those changes in net pension liability that are recorded as deferred inflows of resources or deferred outflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience are amortized over the weighted average remaining service life of all participants in the qualified pension plan and recorded as a component of pension expense beginning with the period in which they are incurred. Projected earnings on qualified pension plan investments are recognized as a component of pension expense. Differences between projected and actual investment earnings are reported as deferred inflows of resources or deferred outflows of resources and amortized as a component of pension expense on a closed basis over a five-year period beginning with the period in which the difference occurred.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2015

(1) Summary of Significant Accounting Policies, Continued

R. 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.

S. Fund Equity

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

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

REPUBLIC OF PALAU

Notes to Financial Statements September 30, 2015

(1) Summary of Significant Accounting Policies, Continued

T. 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.

U. New Accounting Standards

During fiscal year 2015, the Republic implemented the following pronouncements:

- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, which revise and establish new financial reporting requirements for most governments that provide their employees with pension benefits. The implementation of these statements has no impact on the Republic's governmental fund financial statements, which continue to report expenditures in the amount statutorily required. However, implementation has resulted in the restatement of the Republic's fiscal year 2014 government-wide financial statements to reflect the reporting of net pension liabilities and deferred inflows of resources and deferred outflows of resources for its qualified pension plan and the recognition of pension expense in accordance with the provisions of GASB Statement No. 68. Net position as of October 1, 2014 for governmental activities, fiduciary component units and discretely presented component units decreased by \$128,004,158, \$3,134,947 and \$36,827,436, respectively, as a result of the implementation of GASB Statement No. 68. Refer to Note 10 for more information regarding the Republic's pensions.
- GASB 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 implementation of this statement did not have a material effect on the accompanying financial statements.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2015

(1) Summary of Significant Accounting Policies, Continued

U. New Accounting Standards, Continued

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*, which addresses accounting and financial reporting issues related to fair value measurements and requires entities to expand their fair value disclosures by determining major categories of debt and equity securities within the fair value hierarchy on the basis of the nature and risk of the investment. The provisions in Statement 72 are effective for fiscal years beginning after June 15, 2015. Management believes that the implementation of this statement only requires additional disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques and will not have a material effect on the financial statements of the Republic.

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements 67 and 68 with the reporting requirements in Statement 68. The provisions in Statement No. 73 are effective for fiscal years beginning after June 15, 2015, with the exception of the provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Republic.

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and addresses financial reporting requirements for governments whose employees are provided with postemployment benefits other than pensions (other postemployment benefits or OPEB). The provisions in Statement No. 74 are effective for fiscal years beginning after June 15, 2016. Management believes that the implementation of this statement will have a material effect on the financial statements of the Republic.

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. The provisions in Statement No. 75 are effective for fiscal years beginning after June 15, 2017. Management believes that the implementation of this statement will have a material effect on the financial statements of the Republic.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2015

(1) Summary of Significant Accounting Policies, Continued

U. New Accounting Standards, Continued

In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which eliminates two of the four categories of authoritative GAAP that exist under the existing hierarchy prescribed by Statement 55. The two categories that will remain under the new standard are (1) GASB Statements and (2) GASB technical bulletins and implementation guides in addition to AICPA guidance that the GASB clears. The provisions in Statement No. 76 are effective for fiscal years beginning after June 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Republic.

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements. The provisions in Statement No. 77 are effective for fiscal years beginning after December 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Republic.

V. Encumbrances

The Republic utilizes encumbrance accounting to identify fund obligations. Encumbrances represent commitments related to unperformed contracts for goods. At September 30, 2015, 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>1,586,018</u>	\$ <u>7,664,267</u>	\$ <u>-</u>	\$ <u>474,750</u>	\$ <u>9,725,035</u>

W. Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources 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.

X. 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, 2014 from which summarized information was derived.

REPUBLIC OF PALAU

Notes to Financial Statements September 30, 2015

(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.

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:

REPUBLIC OF PALAU

Notes to Financial Statements September 30, 2015

(2) Deposits and Investments, Continued

Asset class	<u>Lower limit</u>	<u>Strategic Allocation</u>	<u>Upper 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.

As of September 30, 2015, the carrying amount of the primary government's total cash and cash equivalents was \$18,366,699 and the corresponding bank balances were \$19,884,206. Of the bank balances, \$19,638,821 is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2015, bank deposits in the amount of \$500,000 were FDIC insured. The remaining bank deposits of \$245,385 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.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2015

(2) Deposits and Investments, Continued

A. Deposits, Continued

As of September 30, 2015, the carrying amount of the fiduciary fund's total cash and cash equivalents was \$5,152,971 and the corresponding bank balances were \$4,903,165, which are maintained in financial institutions subject to FDIC insurance. As of September 30, 2015, 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, 2015, the carrying amount in the aggregate of the discretely presented component units' total cash and cash equivalents and time certificates of deposit was \$25,861,170 and the corresponding bank balances were \$26,795,154, which are 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, 2015, bank deposits in the amount of \$14,505,169 were FDIC or SIPC insured. 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, 2015, investments of the primary government recorded at fair value are as follows:

General Fund:

Fixed income	\$ 701,438
Equities	2,635,604
Money market funds	<u>529,801</u>

3,866,843

Compact Section 211(f) Trust Fund:

Fixed income	47,494,812
Equities	113,566,378
Alternative	19,178,328
Money market funds	<u>3,643,207</u>

183,882,725

Nonmajor Governmental Funds:

Fixed income	661,211
Equities	2,325,344
Money market funds	<u>39,587</u>

3,026,142

\$ 190,775,710

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2015

(2) Deposits and Investments, Continued

B. Investments, Continued

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, 2015.

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, 2015, there were no investments in any one issuer that exceeded 5% of total investments.

As of September 30, 2015, investments in debt securities for the General 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	\$ 260,068	\$ 120,075	\$ -	\$ 116,518	\$ 23,475	AAA
Federal Agencies	120,142	-	120,142	-	-	AA+
Corporate Bonds	41,188	-	21,079	20,109	-	A+
Corporate Bonds	66,650	-	11,251	31,875	23,524	A
Corporate Bonds	29,856	-	-	19,323	10,533	AA-
Corporate Bonds	73,977	-	11,158	62,819	-	A-
Corporate Bonds	19,753	-	-	19,753	-	BBB+
Corporate Bonds	60,352	-	-	50,366	9,986	BBB
Corporate Bonds	<u>29,452</u>	<u>-</u>	<u>-</u>	<u>19,818</u>	<u>9,634</u>	BBB-
	<u>\$701,438</u>	<u>\$ 120,075</u>	<u>\$ 163,630</u>	<u>\$ 340,581</u>	<u>\$ 77,152</u>	

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2015

(2) Deposits and Investments, Continued

B. Investments, Continued

As of September 30, 2015, investments in debt securities for the nonmajor governmental funds 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>Rating</u>
Treasury Securities	\$ 229,855	\$ 105,060	\$ -	\$ 101,320	\$ 23,475	AAA
Federal Agencies	110,128	-	110,128	-	-	AA+
Corporate Bonds	41,189	-	21,080	20,109	-	A+
Corporate Bonds	66,618	-	11,251	31,875	23,492	A
Corporate Bonds	29,856	-	-	19,323	10,533	AA-
Corporate Bonds	74,008	-	11,157	62,851	-	A-
Corporate Bonds	19,753	-	-	19,753	-	BBB+
Corporate Bonds	60,352	-	-	50,366	9,986	BBB
Corporate Bonds	<u>29,452</u>	<u>-</u>	<u>-</u>	<u>19,818</u>	<u>9,634</u>	BBB-
	\$ 661,211	\$ 105,060	\$ 153,616	\$ 325,415	\$ 77,120	

As of September 30, 2015, investments in debt 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	\$ 14,467,167	\$ -	\$ -	\$11,921,680	\$ 505,026	None
Municipal Bonds	394,270	-	-	394,270	-	AAA
Municipal Bonds	686,982	-	-	247,699	186,614	AA+
Municipal Bonds	292,658	-	-	-	-	A+
Municipal Bonds	450,442	-	-	450,442	-	None
Federal Agencies	4,165,807	-	-	1,056,162	136,969	AA+
Federal Agencies	569,186	-	-	-	-	AA-
Federal Agencies	5,211,258	-	-	1,385,873	3,781,966	Not Rated
Sovereign Securities	103,452	-	-	-	-	AA+
Sovereign Securities	427,188	-	-	100,031	-	Not Rated
Corporate Bonds	500,930	85,007	319,337	104,144	308,779	AAA
Corporate Bonds	1,043,575	-	-	724,238	-	AA+
Corporate Bonds	811,053	-	-	309,190	425,437	AA
Corporate Bonds	1,573,910	-	-	666,094	173,637	AA-
Corporate Bonds	1,026,508	211,007	-	580,686	-	A+
Corporate Bonds	791,626	-	-	511,106	220,412	A
Corporate Bonds	1,477,341	-	-	1,153,642	142,935	A-
Corporate Bonds	1,003,495	137,042	-	571,720	233,057	BBB+
Corporate Bonds	156,986	-	-	156,986	-	BBB
Corporate Bonds	260,024	-	-	-	-	BBB-
Corporate Bonds	1,270,730	-	-	695,224	-	BB+
Corporate Bonds	1,501,363	-	-	1,052,855	-	BB
Corporate Bonds	1,512,748	-	-	811,972	-	BB-
Corporate Bonds	736,120	-	-	418,813	-	B+
Corporate Bonds	475,990	-	-	315,703	-	B
Corporate Bonds	56,412	-	-	-	-	B-
Corporate Bonds	381,510	-	-	159,675	-	None
Corporate Bonds	205,225	-	-	205,225	-	Not Rated
Other Fixed Income	418,028	322,153	-	-	-	None
International	<u>5,522,828</u>	<u>5,522,828</u>	<u>-</u>	<u>-</u>	<u>-</u>	None rated
	\$ 47,494,812	\$ 6,597,374	\$ 10,786,176	\$ 23,996,430	\$ 6,114,832	

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2015

(2) Deposits and Investments, Continued

B. Investments, Continued

As of September 30, 2015, investments of the Republic of Palau Social Security Retirement Fund recorded at fair value are as follows:

Equities	\$ 13,610,317
Fixed income	28,791,105
Mutual funds	47,458,777
Money market funds	<u>923,739</u>
	<u>\$ 90,783,938</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, 2015

(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, 2015, investments in debt securities for the Republic of Palau Social Security Retirement Fund were as follows:

Investment Type	Fair Value	Investment Maturities (In Years)				Credit Rating
		Less Than 1	1 - 5	6 - 10	More Than 10	
U.S. Treasury notes	\$ 5,122,590	\$ 605,430	\$ 3,071,158	\$ 1,446,002	\$ -	TSY
U.S. Treasury bond	1,581,798	-	-	-	1,584,798	TSY
Other U.S. government obligations	100,000	-	-	100,000	-	TSY
Other U.S. government obligations	7,516,791	180,000	3,149,547	1,958,922	2,228,322	AGY
Other U.S. government Obligations	236,318	-	236,318	-	-	Aaa
State and local government	684,514	-	-	494,782	189,,732	Aaa
State and local government	476,658	-	327,260	27,354	122,044	Aa2
Corporate bonds	184,166	-	-	184,166	-	AGY
Corporate bonds	3,200,099	402,452	1,488,660	583,199	725,788	Aaa
Corporate bonds	1,651,145	-	901,800	749,345	-	Aa1
Corporate bonds	1,047,848	-	314,764	404,859	328,225	Aa2
Corporate bonds	986,667	-	503,720	482,947	-	Aa3
Corporate bonds	1,138,026	94,963	325,157	436,233	281,673	A1
Corporate bonds	1,417,715	-	589,522	503,338	324,855	A2
Corporate bonds	1,083,633	-	489,274	498,817	95,942	A3
Corporate bonds	2,056,903	225,590	382,556	995,882	452,875	Baa1
Corporate bonds	107,346	-	107,346	-	-	Baa2
Corporate bonds	195,888	-	-	-	195,888	Unrated
	<u>\$ 28,791,105</u>	<u>\$ 1,508,435</u>	<u>\$ 11,887,082</u>	<u>\$ 8,865,846</u>	<u>\$ 6,529,742</u>	

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2015

(2) Deposits and Investments, Continued

B. Investments, Continued

As of September 30, 2015, investments of the Republic of Palau Civil Service Pension Trust Fund recorded at fair value are as follows:

Equities	\$ 14,214,305
Fixed income	10,142,278
Mutual Funds	2,907,495
Money market funds	<u>901,191</u>
	<u>\$ 28,165,269</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, 2015

(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, 2015

(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, 2015, investments in debt 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	\$ 4,445,971	\$ -	\$ 3,086,773	\$ 1,181,604	\$ 177,594	AAA
Mortgage and asset backed securities	610,327	610,327	-	-	-	A2
Government bonds	3,617,799	-	838,951	-	2,778,848	AAA
Corporate bonds	310,385	-	-	310,385	-	AA1
Corporate bonds	593,800	-	-	593,800	-	AA3
Corporate bonds	182,814	-	-	182,814	-	AA1
Corporate bonds	108,923	-	-	108,923	-	AA2
Corporate bonds	139,765	-	-	139,765	-	AA3
Corporate bonds	132,494	-	-	132,494	-	BAA3
	<u>\$ 10,142,278</u>	<u>\$ 610,327</u>	<u>\$ 3,925,724</u>	<u>\$ 2,649,785</u>	<u>\$ 2,956,442</u>	

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2015

(2) Deposits and Investments, Continued

B. Investments, Continued

As of September 30, 2015, investments of the discretely presented component units are as follows:

Palau Community College (PCC):

	<u>Fair Value</u>
Fixed income	\$ 946,080
Domestic equities	2,022,511
Cash and cash equivalents	109,868
Non-U.S. equities	<u>518,541</u>
	<u>\$ 3,597,000</u>

Maturities of investments in fixed income securities for PCC are as follows:

Investment Type	Fair Value	Investment Maturities (In Years)				Ratings	
		Less Than 1	1 - 5	6 - 10	More than 10	Moody	Standard & Poor's
Corporate	\$ 11,184	\$ -	\$ 11,184	\$ -	\$ -	A3	A-
Government securities	123,064	-	123,064	-	-	- AAA	No rating
Government securities	91,991	-	91,991	-	-	AAA	No rating
Government securities	320,518	-	320,518	-	-	- AAA	No rating
Corporate bonds	10,092	-	-	10,092	-	BAA2	BBB+
Corporate bonds	11,104	-	-	11,104	-	BAA3	BBB
Corporate bonds	9,333	-	-	9,333	-	AA1	AA+
Corporate bonds	8,712	-	-	8,712	-	BAA1	BBB+
Corporate bonds	9,127	-	-	-	9,127	BAA2	BBB(-)
Corporate bonds	9,337	-	-	-	9,337	A1	AA+
Corporate bonds	8,748	-	-	-	8,748	BAA3	BBB-
Corporate bonds	9,260	-	-	-	9,260	BAA2	BBB+
Corporate bonds	5,743	-	-	-	5,743	BA1	BBB+
Government securities	24,767	-	-	-	24,767	AAA	No rating
Government securities	67,810	-	-	-	67,810	AAA	No rating
Corporate bonds	8,441	-	-	-	8,441	BAA1	BBB+
Corporate bonds	9,679	-	-	-	9,679	BAA2	BBB
Corporate bonds	9,512	-	-	-	9,512	BAA3	BBB-
Corporate bonds	9,116	-	-	-	9,116	BAA3	BBB+
Corporate bonds	10,273	-	-	-	10,273	A3	A
Corporate bonds	9,372	-	-	-	9,372	No rating	A
Corporate bonds	9,602	-	-	-	9,602	A1	AA-
Corporate bonds	8,642	-	-	-	8,642	A3	BBB+
Corporate bonds	8,426	-	-	-	8,426	A3	A-
Corporate bonds	8,289	-	-	-	8,289	BAA1	BBB+
Corporate bonds	8,753	-	-	-	8,753	BAA3	BBB-
Corporate bonds	4,228	-	-	-	4,228	BAA1	A-
Corporate bonds	9,909	-	-	-	9,909	BAA1	BBB
Government securities	66,215	-	-	-	66,215	AAA	No rating
Corporate bonds	9,479	-	-	-	9,479	BAA3	BBB-
Corporate bonds	8,421	-	-	-	8,421	BAA2	BBB
Corporate bonds	8,861	-	-	-	8,861	A3	BBB+
Corporate bonds	8,716	-	-	-	8,716	A3	A-
Corporate bonds	<u>9,356</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,356</u>	BAA1	BBB+
	<u>\$ 946,080</u>	<u>\$ -</u>	<u>\$ 546,757</u>	<u>\$ 39,241</u>	<u>\$ 360,082</u>		

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2015

(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	8%	10%	\$ 49,565
Fixed income	24%	30%	142,559
Domestic equities	58%	50%	348,255
Non-U.S. equities	10%	10%	<u>62,358</u>
			<u>\$ 602,737</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 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More than 10</u>	<u>Moody</u>	<u>Standard & Poor</u>
Corporate bonds	\$ 4,084	\$ -	\$ -	4,084	\$ -	BAA1	BBB+
Corporate bonds	2,874	-	-	2,874	-	BAA3	BBB
Corporate bonds	3,926	-	-	3,926	-	A2	A
Corporate bonds	3,801	-	-	3,801	-	A3	A-
Corporate bonds	4,774	-	-	4,774	-	BAA3	BBB
Corporate bonds	3,480	-	-	3,480	-	BAA3	BBB-
Corporate bonds	4,894	-	-	-	4,894	A1	AA+
Corporate bonds	4,097	-	-	4,097	-	A3	A-
Corporate bonds	4,423	-	-	4,423	-	A3	BBB+
Corporate bonds	3,995	-	3,995	-	-	A3	A-
Corporate bonds	4,767	-	-	4,767	-	A3	BBB+
Corporate bonds	3,972	-	-	3,972	-	A3	A-
Corporate bonds	4,059	-	-	-	4,059	A2	A
Corporate bonds	2,998	-	-	2,998	-	BA1	BB+
Corporate bonds	4,121	-	-	4,121	-	A2	A
Corporate bonds	3,006	-	-	3,006	-	A2	A
Federal agencies	25,125	-	25,125	-	-	AAA	AA+
U.S. Treasury	13,628	-	-	-	13,628	AAA	No rating
U.S. Treasury	15,692	-	-	15,692	-	AAA	No rating
U.S. Treasury	<u>24,843</u>	<u>-</u>	<u>-</u>	<u>24,843</u>	<u>-</u>	AAA	No rating
	<u>\$142,559</u>	<u>\$ -</u>	<u>\$29,120</u>	<u>\$90,858</u>	<u>\$22,581</u>		

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2015

(2) Deposits and Investments, Continued

B. Investments, Continued

Palau National Communications Corporation (PNCC), Continued:

As of September 30, 2015, PNCC maintained investments in short-term money market mutual funds of \$3,816,336 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	\$ 9,128
Common stocks	108,150
Mutual funds	31,820
Fixed income	<u>45,355</u>
	\$ <u>194,453</u>

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

(3) Receivables

Primary Government

Receivables as of September 30, 2015, 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	\$ 5,432,679	\$ -	\$ -	\$ -	\$ -	\$ 5,432,679
General	2,603,419	2,824,460	-	6,832,445	6,214,602	18,474,926
Federal agencies	-	6,215,466	-	-	-	6,215,466
Accrued interest	368	-	-	-	262,958	263,326
Other	-	-	-	-	<u>505,896</u>	<u>505,896</u>
	8,036,466	9,039,926	-	6,832,445	6,983,456	30,892,293
Less: allowance for uncollectibles	<u>(1,260,057)</u>	-	-	<u>(6,832,398)</u>	<u>(2,828,531)</u>	<u>(10,920,986)</u>
Net receivables	\$ <u>6,776,409</u>	\$ <u>9,039,926</u>	\$ -	\$ <u>47</u>	\$ <u>4,154,925</u>	\$ <u>19,971,307</u>

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2015

(3) Receivables, Continued

Discretely Presented Component Units

Receivables as of September 30, 2015, 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	\$ -	\$ 2,830,927	\$ 3,201,504	\$ -	\$ -	\$ 3,913,851	\$ -	\$ -	\$ 9,946,282
Federal agencies	-	2,108,353	-	181,738	-	-	-	-	2,290,091
Loans	20,030,772	-	-	-	-	-	2,363,924	-	22,394,696
Accrued interest	69,509	-	-	-	-	-	9,593	-	79,102
Other	<u>82,231</u>	<u>262,986</u>	<u>148,426</u>	<u>73,088</u>	<u>36,724</u>	<u>418,840</u>	<u>1,082</u>	-	<u>1,023,377</u>
	20,182,512	5,202,266	3,349,930	254,826	36,724	4,332,691	2,374,599	-	35,733,548
Less allowance for uncollectible	<u>(1,781,264)</u>	<u>(1,753,832)</u>	<u>(2,542,212)</u>	<u>(47,211)</u>	<u>(1,915)</u>	<u>(790,619)</u>	<u>(87,994)</u>	-	<u>(7,005,047)</u>
	\$ <u>18,401,248</u>	\$ <u>3,448,434</u>	\$ <u>807,718</u>	\$ <u>207,615</u>	\$ <u>34,809</u>	\$ <u>3,542,072</u>	\$ <u>2,286,605</u>	\$ -	\$ <u>28,728,501</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, 2015, are summarized as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Grants	\$ 4,580,579
General	Nonmajor governmental funds	2,357
General	Compact Section 211(f)	252,285
Grants	General	582,035
Nonmajor governmental funds	General	<u>3,323,958</u>
		\$ <u>8,741,214</u>

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2015

(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, 2015, are summarized as follows:

	<u>Due From</u>	<u>Due To</u>
General Fund:		
National Development Bank of Palau	\$ 955,486	\$ -
Palau Community College	-	<u>131,752</u>
	<u>955,486</u>	<u>131,752</u>
Republic of Palau Social Security Retirement Fund:		
National Development Bank of Palau	<u>3,587,578</u>	-
	<u>\$ 4,543,064</u>	<u>\$ 131,752</u>

The amount recorded as due from component units by the General Fund of \$955,486 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 \$3,587,578 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, 2015

(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>
2016	\$ 267,764	\$ 165,631	\$ 433,395
2017	287,158	146,237	433,395
2018	300,226	133,169	433,395
2019	313,889	119,506	433,395
2020	327,894	105,501	433,395
2021 - 2025	<u>2,090,647</u>	<u>76,328</u>	<u>2,166,975</u>
	<u>\$ 3,587,578</u>	<u>\$ 746,372</u>	<u>\$ 4,333,950</u>

The amount recorded as due to component units of the primary government of \$131,752 does not equal the corresponding due from primary government of the discretely presented component units of \$520,880 due to the recording of due from primary government by the Public Utilities Corporation (PUC) of \$366,785 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 \$20,001 and \$2,342, respectively.

Discretely Presented Component Units

Receivables and payables between funds reflected as due to/from primary government at September 30, 2015, are summarized as follows:

	<u>Due From</u>	<u>Due To</u>
National Development Bank of Palau	\$ -	\$ 955,486
Republic of Palau Social Security Retirement Fund	-	3,587,578
Public Utilities Corporation	366,785	-
Palau Visitors Authority	134,094	-
Palau Community College	<u>20,001</u>	<u>-</u>
	<u>\$ 520,880</u>	<u>\$ 4,543,064</u>

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2015

(5) Capital Assets

Capital asset activities for the year ended September 30, 2015, are as follows:

Primary Government

	Balance at October <u>1, 2014</u>	<u>Additions</u>	Deletions and <u>Transfers</u>	Balance at September <u>30, 2015</u>
Depreciable capital assets:				
Buildings and other improvements	\$ 144,975,630	\$ -	\$ -	\$ 144,975,630
Machinery and equipment	24,810,284	1,451,681	(846,058)	25,415,907
Vehicles	7,240,344	598,313	(523,598)	7,315,059
Infrastructure	<u>223,750,472</u>	<u>2,557,839</u>	<u>-</u>	<u>226,308,311</u>
Total capital assets being depreciated	<u>400,776,730</u>	<u>4,607,833</u>	<u>(1,369,656)</u>	<u>404,014,907</u>
Accumulated depreciation:				
Buildings and other improvements	(68,657,054)	(6,694,565)	-	(75,351,619)
Machinery and equipment	(21,789,472)	(1,166,951)	846,058	(22,110,365)
Vehicles	(5,915,862)	(721,956)	512,242	(6,125,576)
Infrastructure	<u>(153,460,524)</u>	<u>(18,038,255)</u>	<u>-</u>	<u>(171,498,779)</u>
Total accumulated depreciation	<u>(249,822,912)</u>	<u>(26,621,727)</u>	<u>1,358,300</u>	<u>(275,086,339)</u>
Total depreciable capital assets, net	<u>150,953,818</u>	<u>(22,013,894)</u>	<u>(11,356)</u>	<u>128,928,568</u>
Non-depreciable capital assets:				
Land	3,899,403	-	-	3,899,403
Construction in progress	<u>14,283,989</u>	<u>7,954,652</u>	<u>-</u>	<u>22,238,641</u>
Total non-depreciable capital assets	<u>18,183,392</u>	<u>7,954,652</u>	<u>-</u>	<u>26,138,044</u>
Capital assets, net	<u>\$ 169,137,210</u>	<u>\$ (14,059,242)</u>	<u>\$ (11,356)</u>	<u>\$ 155,066,612</u>

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

General government	\$ 610,356
Education	381,965
Health and welfare	1,006,353
Public safety	596,083
Cultural affairs and recreation	185,601
Transportation and commerce	23,054,196
Unallocated	<u>787,173</u>
Total depreciation expense	<u>\$ 26,621,727</u>

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2015

(5) Capital Assets, Continued

Fiduciary Funds

	Estimated Useful <u>Lives</u>	Balance at October <u>1, 2014</u>	<u>Additions</u>	<u>Deletions</u>	Balance at September <u>30, 2015</u>
Depreciable capital assets:					
Office equipment and furniture	4 - 13 yrs	\$ 486,693	\$ 43,000	\$ (3,550)	\$ 526,143
Building and improvements	30 yrs	136,413	-	-	136,413
Vehicles	5 yrs	<u>113,344</u>	<u>25,000</u>	<u>-</u>	<u>138,344</u>
		736,450	68,000	(3,550)	800,900
Less accumulated depreciation		<u>(643,308)</u>	<u>(57,014)</u>	<u>3,550</u>	<u>(696,772)</u>
Total depreciable capital assets, net		93,142	10,986	-	104,128
Non-depreciable capital assets:					
Land		<u>207,018</u>	<u>-</u>	<u>(207,018)</u>	<u>-</u>
		<u>\$ 300,160</u>	<u>\$ 10,986</u>	<u>\$ (207,018)</u>	<u>\$ 104,128</u>

Discretely Presented Component Units

	Estimated Useful <u>Lives</u>	Balance October <u>1, 2014</u>	<u>Additions</u>	<u>Retirements</u>	Balance September <u>30, 2015</u>
Depreciable capital assets:					
Buildings	3 - 30 yrs	\$ 21,021,841	\$ 181,462	\$ -	\$ 21,203,303
Utility plant	2 - 30 yrs	163,859,403	1,657,521	1,539,204	167,056,128
Machinery and equipment	2 - 20 yrs	3,807,165	452,650	(269,590)	3,990,225
Infrastructure	2 - 15 yrs	<u>3,492,271</u>	<u>96,589</u>	<u>-</u>	<u>3,588,860</u>
		192,180,680	2,388,222	1,269,614	195,838,516
Less accumulated depreciation		<u>(120,317,762)</u>	<u>(7,451,444)</u>	<u>2,353,596</u>	<u>(125,415,610)</u>
Total depreciable capital assets, net		71,862,918	(5,063,222)	3,623,210	70,422,906
Nondepreciable capital assets:					
Construction in progress		<u>5,409,093</u>	<u>2,809,543</u>	<u>(5,043,313)</u>	<u>3,175,323</u>
		<u>\$ 77,272,011</u>	<u>\$ (2,253,679)</u>	<u>\$ (1,420,103)</u>	<u>\$ 73,598,229</u>

(6) Note 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, 2015. 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, 2015

(7) Long-Term Obligations

Primary Government

As of September 30, 2015, 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. \$ 5,714,275

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. 4,342,880

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, 2015), 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 commenced May 1, 2014 with graduated increases of 5% through November 1, 2025. 11,707,422

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

\$ 25,237,311

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2015

(7) Long-Term Obligations, 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>
2016	\$ 2,256,812	\$ 440,933	\$ 2,697,745
2017	2,324,136	381,892	2,706,028
2018	2,398,360	322,539	2,720,899
2019	2,588,715	280,207	2,868,922
2020	2,787,442	218,504	3,005,946
2021 - 2025	9,706,726	526,344	10,233,070
2026 - 2030	2,198,414	128,490	2,326,904
2031 - 2035	<u>976,706</u>	<u>40,696</u>	<u>1,017,402</u>
	\$ <u>25,237,311</u>	\$ <u>2,339,605</u>	\$ <u>27,576,916</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, 2015 and therefore has restricted assets of \$3,026,113 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, 2015

(7) Long-Term Obligations, Continued

Changes in long-term liabilities of the primary government for the year ended September 30, 2015, are as follows:

	Balance October <u>1, 2014</u>	<u>Additions</u>	<u>Reductions</u>	Balance September <u>30, 2015</u>	Due Within <u>One Year</u>
Loans payable:					
MICB loans	\$ 11,657,151	\$ -	\$ (1,599,996)	\$ 10,057,155	\$ 1,599,998
ADB loans	<u>15,789,601</u>	-	<u>(609,445)</u>	<u>15,180,156</u>	<u>656,814</u>
	27,446,752	-	(2,209,441)	25,237,311	2,256,812
Other:					
Compensated absences	3,813,643	7,578,147	(7,376,397)	4,015,393	1,976,308
Net pension liability	117,770,833	12,186,963	-	129,957,796	-
Due to U.S. Government	<u>3,000,000</u>	-	-	<u>3,000,000</u>	-
	<u>\$ 152,031,228</u>	<u>\$ 19,765,110</u>	<u>\$ (9,585,838)</u>	<u>\$ 162,210,500</u>	<u>\$ 4,233,120</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.

\$ 2,571,414

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.

2,363,736

\$ 4,935,150

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>
2016	\$ 580,252	\$ 236,518	\$ 816,770
2017	576,998	213,775	790,773
2018	607,857	182,917	790,774
2019	639,989	150,785	790,774
2020	1,694,322	162,974	1,857,296
2021 - 2025	135,516	193,706	329,222
2026 - 2029	<u>700,216</u>	<u>30,445</u>	<u>730,661</u>
	<u>\$ 4,935,150</u>	<u>\$ 1,171,120</u>	<u>\$ 6,106,270</u>

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2015

(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.

\$ 22,841,700

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>
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	1,531,732	774,439	2,306,172
2021 - 2025	6,681,503	2,088,783	8,770,286
2026 - 2029	<u>9,157,397</u>	<u>971,561</u>	<u>10,128,958</u>
	<u>\$ 22,841,700</u>	<u>\$ 7,588,403</u>	<u>\$ 30,430,103</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, 2015, 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>
2016	\$ 387,187	\$ 21,857	\$ 409,044
2017	<u>275,094</u>	<u>3,849</u>	<u>278,943</u>
	<u>\$ 662,281</u>	<u>\$ 25,706</u>	<u>\$ 687,987</u>

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.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2015

(7) Long-Term Obligations, Continued

Discretely Presented Component Units, Continued

Palau National Communications Corporation (PNCC), Continued

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, 2015, 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	\$ 150,042	\$ 9,858	\$ 159,900
2017	<u>143,511</u>	<u>2,651</u>	<u>146,162</u>
	<u>\$ 293,553</u>	<u>\$ 12,509</u>	<u>\$ 306,062</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.

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>
2016	\$ 1,199,800	\$ 71,506	\$ 1,271,306
2017	<u>945,400</u>	<u>19,136</u>	<u>964,536</u>
	<u>\$ 2,145,200</u>	<u>\$ 90,642</u>	<u>\$ 2,235,842</u>

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2015

(7) Long-Term Obligations, Continued

Discretely Presented Component Units, Continued

Public Utilities Corporation (PUC):

Loan payable to MICB in the amount of \$7,000,000, due December 11, 2026 with interest at 3.5% per annum, principal payable in semi-annual installments of \$200,000 plus interest. This loan was used to finance the purchase of portable generators, crankshaft assembly and other necessary equipment to facilitate the overhaul of aging generators and is guaranteed by the Republic. \$ 4,600,000

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. 2,393,046

On March 28, 2014, PUC entered into two loans with the Republic to finance sanitation projects in the Koror and Airai areas. The first loan is for \$26,900,000 for twenty years with grace period and bears interest equal to the sum of LIBOR plus 0.60% and a maturity premium of 0.10%. Principal is to be repaid semi-annually beginning April 1, 2018 at 2.5% of the total principal amount outstanding on each payment date. The second loan is for 1,258,000 Special Drawing Rights for twenty years with grace period and bears interest at 1% per annum during the period prior to the first principal payment date and 1.5% per annum thereafter. Principal is to be repaid semi-annually beginning April 1, 2018 in installments of \$26,208. 986,898
\$ 7,979,944

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>
2016	\$ 559,186	\$ 338,269	\$ 897,455
2017	572,043	313,077	885,120
2018	598,871	285,526	884,397
2019	626,735	256,726	883,461
2020	641,900	227,382	869,282
2021 - 2025	3,927,436	639,409	4,566,845
2026 - 2030	851,422	31,237	882,659
2031 - 2035	134,712	7,443	142,155
2036 - 2038	<u>67,639</u>	<u>1,065</u>	<u>68,704</u>
	\$ <u>7,979,944</u>	\$ <u>2,100,134</u>	\$ <u>10,080,078</u>

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2015

(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, 2015, are as follows:

	Balance October <u>1, 2014</u>	<u>Additions</u>	<u>Reductions</u>	Balance September <u>30, 2015</u>	Due Within <u>One Year</u>
Loans payable:					
NDBP	\$ 5,561,726	\$ -	\$ (626,576)	\$ 4,935,150	\$ 636,013
PNCC	29,598,737	-	(3,656,003)	25,942,734	3,012,288
PUC	7,541,129	986,898	(548,083)	7,979,944	559,186
Other liabilities:					
Net pension liability	34,112,933	1,312,905	-	35,425,838	-
Due to primary government	1,000,000	-	(44,514)	955,486	135,336
Due to fiduciary funds	<u>4,934,525</u>	-	<u>(1,346,947)</u>	<u>3,587,578</u>	<u>267,764</u>
	<u>\$ 82,749,050</u>	<u>\$ 2,299,803</u>	<u>\$ (2,566,120)</u>	<u>\$ 78,826,730</u>	<u>\$ 4,610,587</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 and membership terms with the IMF. \$ 602,442

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. \$ 183,882,725

Investments held in a trust fund for the purpose of funding a liability to the United States government. 3,026,113

\$ 186,908,838

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. \$ 454,320

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. 50,209

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2015

(8) Restricted Assets, Continued

Discretely Presented Component Units, Continued

Deposit account collateralizing loans funded by Rural Housing Service.	538,559
Deposit account established for cash received from grantor agencies.	159,883
Palau Community College:	
Deposit accounts established for library fund and endowment fund.	<u>1,340,092</u>
	<u>\$ 2,543,063</u>

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

Palau Community College:

Investments held for endowment purposes.	\$ 3,597,000
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Palau National Communications Corporation:

Investment account established in accordance with Rural Utilities Service loan agreement for the purposes of a reserve account.	<u>3,816,336</u>
	<u>\$ 7,413,336</u>

(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, 2015, the Republic made no payments under this agreement. Please refer to Note 7 for matters involving potential release of this liability.

(10) Pension Plan

A. General Information About the Pension Plan:

Plan Description: The Republic contributes to the Republic of Palau Civil Service Pension Trust Fund (the Plan), a cost-sharing multiple-employer defined benefit plan providing retirement, security and other benefits to employees, their spouses and dependents, of the Republic, State Governments and component units, funds and public corporations. The Plan was established pursuant to Republic of Palau Public Law (RPPL) No. 2-26 passed into law on April 3, 1987, and began operations on October 1, 1987. Portions of RPPL No. 2-26 were revised by RPPL 3-21, RPPL 4-40, RPPL 4-49, RPPL 5-30, RPPL 6-37, RPPL 7-56, RPPL 8-10 and RPPL 9-2.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2015

(10) Pension Plan, Continued

A. General Information About the Pension Plan, Continued:

A single actuarial valuation report is performed annually covering all plan members and the same contribution rate applies to each employer. The Plan issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit plan. That report may be obtained by writing to the Plan's Administrator at the Republic of Palau Civil Service Pension Trust Fund, P.O. Box 1767, Koror, Republic of Palau 96940, or e-mail cspp@palaunet.com or call (680) 488-2523.

Plan Membership: As of September 30, 2014, the date of the most recent valuation, plan membership consisted of the following:

Inactive members currently receiving benefits	1,356
Inactive members entitled to benefits but not yet receiving them	206
Active members	<u>3,107</u>
	<u>4,669</u>

Benefits Provided: Retirement benefits are paid to members who are required, with certain exceptions, to retire no later than their sixtieth birthday or after thirty years of service. A member may retire after his or her fifty-fifth birthday at a reduced pension amount if the member has completed at least twenty years of government employment. A married member of a former member receiving a distribution of benefits under the Plan receives reduced benefit amounts to provide survivors' benefits to his or her spouse. An unmarried member or former member may elect to receive a reduced benefit amount during his or her lifetime with an annuity payable to his or her designated beneficiary. Disability benefits are paid to qualified members for the duration of the disability. Effective May 17, 1996, through RPPL 4-49, members, who have twenty-five years or more of total service, are eligible for retirement regardless of their age and, upon such retirement, are eligible to receive pension benefits at a level established by the Board of Trustees. Effective July 1, 1999, pursuant to RPPL 4-49 and RPPL 5-30, retirement is mandatory for all members who have thirty years or more of total service and all employees who are sixty years of age or older with certain exceptions. Beginning October 1, 2003, pursuant to RPPL 6-37, mandatory retirement may be delayed for up to five years, by specific exemption by the Board of Trustees. In December 2008, RPPL 7-56 eliminated early retirement and thirty year mandatory service provisions. These provisions were restored through RPPL 8-10 in October, 2009. On April 30, 2013, RPPL 9-2 eliminated the mandatory service retirement after thirty years of service. After December 31, 2013, no employee shall be entitled to pension benefits until reaching the age of sixty.

In accordance with the directives of RPPL 5-7, the Board of Trustees adopted a resolution which provides that "no person who retires after October 1, 1997, may receive benefits under the Plan unless he or she has contributed to the Plan for at least five years or has made an actuarially equivalent lump sum contribution". In accordance with RPPL 9-2, members who retire after April 30, 2013 must not receive benefits greater than thirty thousand dollars per year. Further, the amount of benefits that a member receives should not be recalculated if the member is re-employed after the member begins receiving benefits under the Plan. Additionally, a member should not receive benefits during the time the member is re-employed subsequent to retirement.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2015

(10) Pension Plan, Continued

A. General Information About the Pension Plan, Continued:

Currently, normal benefits are paid monthly and are two percent of each member's average monthly salary for each year of credited total service up to a maximum of thirty years total service. The average annual salary is the average of the highest three consecutive fiscal years of compensation received by a member during his or her most recent ten full fiscal years of service. For members who have not completed three consecutive fiscal years of employment during his or her most recent ten full fiscal years of service, the average annual salary is the average monthly salary during the term of the member's service multiplied by twelve. The benefit amount that married members or unmarried members receive, who have elected to designate a beneficiary, is based on the normal benefit amount reduced by the following factors:

<u>Factor</u>	<u>If the Spouse or Beneficiary is:</u>
1.00	21 or more years older than the member
0.95	16 to 20 years older than the member
0.90	11 to 15 years older than the member
0.85	6 to 10 years older than the member
0.80	0 to 5 years younger than the member or 0 to 5 years older than the member
0.75	6 to 10 years younger than the member
0.70	11 to 15 years younger than the member
0.65	16 or more years younger than the member

Surviving beneficiaries of an employee may only receive benefits up to the total present value of the employee's accrued benefit pursuant to RPPL 9-2.

A member that meets the requirements for early retirement and elects to retire on an early retirement date is entitled to receive payment of an early retirement benefit equal to the member's normal retirement benefit reduced according to the following schedule based on the age at which early retirement benefit payments begin:

- 1/12th per year for the first 3 years before age 60;
- plus an additional 1/18th per year for the next 3 years;
- plus an additional 1/24th per year for the next 5 years; and
- plus an additional 1/50th per year for each year in excess of 11 years.

Upon the death of a member or former member with eligible survivors before commencement of the members' normal, early, or late retirement benefits or disability retirement benefits the following shall be payable:

- If the former member is not an employee at his date of death and a spouse or beneficiary survives, the total death benefits payable shall be the actuarial equivalent of the member's present value of accrued benefit.

REPUBLIC OF PALAU

Notes to Financial Statements September 30, 2015

(10) Pension Plan, Continued

A. General Information About the Pension Plan, Continued:

- If the member is an employee at his date of death and a spouse or beneficiary survives, the total death benefit payable shall be the actuarial equivalent of the greater of 3 times the member's average annual salary or the member's present value of accrued benefits.

Upon the death of a member or former member before commencement of his normal, early, or late retirement benefit or disability retirement benefit leaving no persons eligible for survivor benefits, the following shall be payable:

- If the former member is not an employee at the date of death, a refund of the total amount of contributions made by the member.
- If the member was an employee at the date of death and had completed one year of total service, the estate of the member shall be entitled to a death benefit equal to the greater of three times the member's annual salary or the present value of the member's accrued benefit payable in the form of a single lump sum payment.

Any member who is not otherwise eligible to receive normal, early or late retirement benefits, who shall become totally and permanently disabled for service regardless of how or where the disability occurred, shall be entitled to a disability retirement annuity, provided that he or she is not receiving disability payments from the United States Government or its agencies for substantially the same ailment, and further provided that to be eligible for a disability retirement annuity from a cause unrelated to service, the member shall have had at least ten (10) years of total service credited. The amount of disability retirement annuity shall be an amount equal to the actuarial equivalent at the attained age of the member's present value of accrued benefit and shall be paid in the same form as a normal retirement benefit. Any special compensation allowance received or payable to any member because of disability resulting from accidental causes while in the performance of a specific act or acts of duty shall be deducted from the disability annuity payable by the Plan on account of the same disability.

Contributions and Funding Policy: Member contribution rates are established by RPPL No. 2-26 at six percent of total payroll and are deducted from the member's salary and remitted by participating employers. Upon complete separation from service, a member with less than fifteen years membership service may elect to receive a refund of all of his or her contributions. Subsequent changes in the percentage contributed by members may be made through an amendment of the Trust Fund Operation Plan subject to the requirements of Title 6 of the Palau National Code. RPPL 9-2 requires each employee of the National Government and all State Governments, without regard to whether the employee is employed part-time or on a temporary basis, seasonal or an impermanent basis, to contribute to the Plan through payroll deduction.

The Republic's contribution to the Plan for the years ending September 30, 2015, 2014 and 2013 were \$1,858,478, \$1,785,089 and \$1,666,717, respectively, which were equal to the required contributions for the respective years then ended.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2015

(10) Pension Plan, Continued

A. General Information About the Pension Plan, Continued:

Actuarial Assumptions: Actuarially determined contribution rates are calculated as of September 30, two years prior to the end of the fiscal year in which contributions are reported. The methods and assumptions used to determine contribution rates are as follows:

Valuation Date:	September 30, 2014
Actuarial Cost Method:	Entry age normal
Expected Rate of Return:	7.50%
Expenses:	\$300,000 each year.
Salary Increases:	3.00%
Mortality:	RP-2000 healthy mortality table set forward by 4 years for males. Mortality for disabled lives is the PBGC mortality table for disabled persons receiving Social Security.
Retirement age:	Age 60 and contributed for at least 5 years.
Pre-retirement Beneficiary Benefit 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.
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 U.S. 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.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2015

(10) Pension Plan, Continued

A. General Information About the Pension Plan, Continued:

Workers included in the valuation: Workers indicated in the census as Active or Inactive with a vested benefit.

Discount Rate: The total pension liability is calculated using a discount rate of 4.22% that is a blend of the expected investment rate of return and a high quality bond index rate. There was no change in the discount rate since the previous year. The expected investment rate of return applies for as long as the plan assets (including future contributions) are projected to be sufficient to make the projected benefit payments. If plan assets are projected to be depleted at some point in the future, the rate of return of a high quality bond index is used for the period after the depletion date.

Discount Rate Sensitivity Analysis: The following schedule shows the impact of the Net Pension Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (4.22%) in measuring the 2014 Net Pension Liability.

	1% Decrease in Discount Rate <u>3.22%</u>	Current Discount Rate <u>4.22%</u>	1% Increase in Discount Rate <u>5.22%</u>
Net Pension Liability	<u>\$ 146,047,945</u>	<u>\$ 129,957,796</u>	<u>\$ 107,290,199</u>

B. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension Liability: At September 30, 2015, the Republic reported a liability of \$129,957,796 for its proportionate share of the net pension liability. The Republic's proportion of the net pension liability was based on projection of the Republic's long-term share of contributions to the pension plan relative to the projected contributions of the Republic and the Republic's component units, actuarially determined. At September 30, 2015, the Republic's proportion was 63.6171%.

Pension Expense: For the year ended September 30, 2015, the Republic recognized pension expense of \$5,240,645.

Deferred Outflows and Inflows of Resources: At September 30, 2015, the Republic reported total deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 8,306,998	\$ 7,487,177
Net difference between projected and actual earnings on pension plan investments	-	350,225
Contributions subsequent to the measurement date	1,858,478	-

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2015

(10) Pension Plan, Continued

B. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions, Continued

Changes in proportion and difference between Republic contributions and proportionate share of contributions	<u>2,881,665</u>	<u>6,629,453</u>
	<u>\$ 13,047,141</u>	<u>\$ 14,466,855</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions at September 30, 2015 will be recognized in pension expense as follows:

<u>Year Ended September 30</u>	
2016	\$ 943,826
2017	\$ (914,652)
2018	\$ (914,652)
2019	\$ (909,881)
Thereafter	\$ 375,645

(11) 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, 2015, are as follows:

	<u>Transfer Out</u>	<u>Transfer In</u>
General Fund:		
Grants Fund	\$ 875,785	\$ 79,198
Other Governmental Funds	-	44,249
Compact Section 211(f) Fund	<u>-</u>	<u>5,000,000</u>
	<u>875,785</u>	<u>5,123,447</u>
Grants Fund:		
General Fund	<u>79,198</u>	<u>875,785</u>
Compact Section 211(f) Fund:		
General Fund	<u>5,000,000</u>	<u>-</u>
Other governmental funds:		
General Fund	<u>44,249</u>	<u>-</u>
	<u>\$ 5,999,232</u>	<u>\$ 5,999,232</u>

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2015

(11) Transfers In/Out, Continued

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.

(12) 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	955,486	-	-	-	955,486
Prepayments	35,086	272,706	-	55,166	362,958
Permanent fund principal	-	-	183,630,440	-	183,630,440
	<u>2,176,147</u>	<u>272,706</u>	<u>183,630,440</u>	<u>55,166</u>	<u>186,134,459</u>
Restricted:					
Capital projects	-	8,483	-	-	8,483
Compact Section 211(b) Energy	-	-	-	3,064,336	3,064,336
	<u>-</u>	<u>8,483</u>	<u>-</u>	<u>3,064,336</u>	<u>3,072,819</u>
Committed:					
Environmental protection	-	-	-	140,870	140,870
Hospital	-	-	-	613,918	613,918
Road maintenance	-	-	-	1,067,791	1,067,791
Publication law access unit	-	-	-	42,920	42,920
Other	-	-	-	37,427	37,427
	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,903,926</u>	<u>1,903,926</u>
Unassigned	<u>21,424,122</u>	<u>(266,336)</u>	<u>-</u>	<u>(2,357)</u>	<u>21,155,429</u>
	<u>\$ 23,600,269</u>	<u>\$ 14,853</u>	<u>\$ 183,630,440</u>	<u>\$ 5,021,071</u>	<u>\$ 212,266,633</u>

(13) 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, 2015, amounted to \$8,059,185.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2015

(13) Commitments and Contingencies, Continued

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, 2015, 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, 2015. The ultimate disposition of these questioned costs can be determined only by final action of the respective grantor agencies. Therefore, no provision for any liability that may result upon resolution of this matter has been made in the accompanying financial statements.

D. Insurance Coverage

The Republic does not maintain insurance coverage for a significant amount of fixed assets. 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 \$142,452,000 as of October 1, 2014. 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, 2015 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.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2015

(13) Commitments and Contingencies, Continued

G. Debt Commitments

Significant commitments of the primary government as of September 30, 2015, are as follows:

- a) Guaranteed bank debt of the National Development Bank of Palau (NDBP) with letters of guarantee. At September 30, 2015, NDBP had guaranteed debt totaling \$4,935,150.
- 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, 2015, NDBP had guaranteed debt associated with this loan totaling \$3,587,578
- 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, 2015, PNCC had guaranteed debt totaling \$22,841,700.
- d) Guaranteed bank debt of the Public Utilities Corporation (PUC) with a letter of guarantee. At September 30, 2015, PUC had guaranteed debt totaling \$4,600,000.
- e) Guaranteed a debt of PUC in respect of a loan from NDBP with a letter of guarantee. At September 30, 2015, PUC had guaranteed debt associated with this loan totaling \$2,393,046.

H. Civil Service Pension Trust Fund

As of September 30, 2015, 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, 2015, 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, 2015. 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, 2015, to correct this potential funding deficiency.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2015

(13) Commitments and Contingencies, Continued

I. Budgetary Compliance

For the year ended September 30, 2015, significant over-expenditures exceeding appropriations within the General Fund were as follows:

Bank fees	\$411,891
Other Country Grants Fund	\$388,037
U.S. Federal Grants Fund	\$173,829
Other Non U.S. Grants Fund	\$439,074

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, 2015, will not have a material impact on the accompanying financial statements.

K. Asian Development Bank (ADB) Loans

On March 28, 2014, the Republic entered into two loan agreements (Loan Number 3060-PAL and Loan Number 3061-PAL (SF)) with the Asian Development Bank in the combined amount of approximately \$28,800,000 for the Koror-Airai Sanitation Project. The proceeds are to be on lent to the Palau Public Utilities Corporation under a separate Financing Agreement for the purpose of financing sanitation infrastructure improvements identified in the Koror-Airai Sanitation Master Plan. As of September 30, 2015, the Republic had not yet drawn down against these loans. A substantial portion of the ADB loans are subject to currency exchange adjustments that can ultimately impact the carrying values of the debt.

(14) Subsequent Events

On March 7, 2016, the Republic entered into two loan agreements (Loan Numbers 3346-PAL and 3347-PAL (SF)) with the Asian Development Bank in the amount of \$16,470,000 and Special Drawing Rights (SDR) 3,242,000, respectively, for the North Pacific Regional Connectivity Investment project.

On March 31, 2016, the Republic entered into two loan agreements with Mega International Commercial Bank in the aggregate amount of \$10,000,000 for development of agriculture and aquaculture industries to be administered by the National Development Bank of Palau and for financing housing loans to be administered by the Palau District Housing Authority.

REPUBLIC OF PALAU

**REQUIRED SUPPLEMENTARY INFORMATION
- BUDGETARY REPORTING**

YEAR ENDED SEPTEMBER 30, 2015

REPUBLIC OF PALAU

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
General Fund (Fund 100100)
Year Ended September 30, 2015

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual - Budgetary Basis (see note 1)</u>	<u>Variance</u>
Revenues:				
Local revenue	\$ 46,248,600	\$ 47,980,040	\$ 60,911,917	\$ 12,931,877
Compact funding - Section 211(a)	6,000,000	6,000,000	6,000,000	-
Compact funding - Section 215 inflation adjustment	4,000,000	5,147,000	5,147,000	-
Net change in the fair value of investments	-	-	34,959	34,959
Other	-	184,297	67,797	(116,500)
Total revenues	<u>56,248,600</u>	<u>59,311,337</u>	<u>72,161,673</u>	<u>12,850,336</u>
Expenditures - budgetary basis:				
Office of the President	1,179,427	1,322,411	1,230,248	92,163
Office of the Vice-President	382,995	422,995	382,697	40,298
Ministry of Finance	2,972,177	3,138,490	3,117,003	21,487
Ministry of State	2,659,635	3,127,635	3,035,740	91,895
Ministry of Community and Cultural Affairs	1,118,508	1,178,508	1,065,004	113,504
Ministry of Education	8,413,827	8,513,827	8,197,325	316,502
Ministry of Public Infrastructure, Industry and Commerce	6,125,929	6,245,929	5,709,594	536,335
Ministry of Justice	4,861,664	4,901,664	4,674,032	227,632
Ministry of Health	9,348,523	9,403,523	8,743,381	660,142
Ministry of Natural Resources, Environment and Tourism	1,231,951	1,321,951	1,304,071	17,880
Boards, Commissions and Authorities	712,647	712,647	597,039	115,608
Judicial Branch	2,593,000	2,593,000	2,453,653	139,347
Legislative Branch	4,968,136	5,068,136	4,966,860	101,276
State Block Grants	6,183,600	6,263,151	6,240,830	22,321
Independent Agencies	2,379,160	2,558,160	2,423,596	134,564
Other Agencies and Activities	1,558,025	1,777,125	2,120,549	(343,424)
Education Assistance	3,293,000	3,293,000	3,292,996	4
Other Appropriations	3,933,891	4,701,680	4,213,406	488,274
Total expenditures	<u>63,916,095</u>	<u>66,543,832</u>	<u>63,768,024</u>	<u>2,775,808</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(7,667,495)</u>	<u>(7,232,495)</u>	<u>8,393,649</u>	<u>15,626,144</u>
Other financing sources (uses):				
Loan proceeds	2,263,000	2,263,000	-	(2,263,000)
Operating transfers in	8,879,000	8,879,000	9,513,441	634,441
Operating transfers out	(4,133,000)	(4,568,000)	(4,845,940)	(277,940)
Total other financing sources (uses), net	<u>7,009,000</u>	<u>6,574,000</u>	<u>4,667,501</u>	<u>(1,906,499)</u>
	(658,495)	(658,495)	13,061,150	13,719,645
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	<u>658,495</u>	<u>658,495</u>	<u>1,391,181</u>	<u>732,686</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,452,331</u>	<u>\$ 14,452,331</u>

See Accompanying Notes to Required Supplementary Information - Budgetary Reporting.

REPUBLIC OF PALAU

Notes to Required Supplementary Information - Budgetary Reporting
September 30, 2015

(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>14,452,331</u>	\$ <u>1,391,182</u>
GASB 54 Funds included within the General Fund:		
Financial Institutions Commission Fund (Fund 100116)	(17,209)	4,093
Scholarship Fund (Fund 100150)	450,707	3,520
Non-Lapsing Fund (Fund 100200)	(405,920)	156,644
Receivable Fund (Fund 100900)	25,016	23,860
Servmart (Fund 750100)	(91,406)	-
Compact Section 211(e) Fund (Fund 311500)	(8,977)	-
Compact Section 213 Fund (Fund 313000)	(55,284)	-
Compact Section 212 Fund (Fund 500100)	(858)	-
Local CIP Fund (Fund 410100)	(953,933)	6,719
Debt Service Fund (Fund 600000)	5,019,278	-
ADB Loan Proceeds Fund (Fund 700100)	<u>(6,340,813)</u>	<u>-</u>
	<u>(2,379,399)</u>	<u>194,836</u>
	\$ <u><u>12,072,932</u></u>	\$ <u><u>1,586,018</u></u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

Schedule of the Proportionate Share of the Net Pension Liability
Last Ten Fiscal Years * (Unaudited)

	<u>2015</u>	<u>2014</u>
Pension Fund total net pension liability	\$ 204,281,232	\$ 182,080,330
The Republic's proportionate share of the net pension liability	\$ 129,957,796	\$ 117,770,883
The Republic's proportion of the net pension liability	63.62%	64.68%
The Republic's covered employee payroll**	\$ 23,572,912	\$ 23,967,024
The Republic's proportionate share of the net pension liability as a percentage of its covered employee payroll	551.30%	491.39%
Pension Fund fiduciary net position as a percentage of the total pension liability	14.01%	15.84%

*This data is presented for those years for which information is available.

**Covered-employee payroll data from the actuarial valuation

REPUBLIC OF PALAU

Schedule of Pension Contributions Last Ten Fiscal Years * (Unaudited)

	<u>2015</u>	<u>2014</u>
Statutorily required contribution	\$ 1,761,120	\$ 1,627,361
Contribution in relation to the contractually required contribution	<u>1,785,089</u>	<u>1,666,717</u>
Contribution excess	<u>\$ (23,969)</u>	<u>\$ (39,356)</u>
The Republic's covered-employee payroll**	<u>\$ 23,572,912</u>	<u>\$ 23,967,024</u>
Contribution as a percentage of covered-employee payroll	7.57%	6.95%

*This data is presented for those years for which information is available.

**Covered-employee payroll data from the actuarial valuation date with one-year lag.

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

OTHER SUPPLEMENTARY INFORMATION

YEAR ENDED SEPTEMBER 30, 2015

REPUBLIC OF PALAU

GENERAL FUND

September 30, 2015

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, 2015

	100150	311300	311400	311500	313000	321000	
	General	Scholarship	Compact Section 211 (c)	Compact Section 211 (d)	Compact Section 211 (e)	Compact Section 213	Compact Section 221 (b)
ASSETS							
Cash and cash equivalents	\$ 17,764,257	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Investments	1,193,148	-	-	-	433,465	3,372,694	-
Receivables, net:							
Taxes	5,432,679	-	-	-	-	-	-
General	1,343,362	-	-	-	-	-	-
Accrued interest	-	-	-	-	-	368	-
Due from component units	955,486	-	-	-	-	-	-
Due from other funds	82,152,531	-	102,889	48,136	-	-	-
Advances	288,273	-	-	-	-	-	-
Prepaid items	35,086	-	-	-	-	-	-
Restricted assets:							
Cash and cash equivalents	602,442	-	-	-	-	-	-
Total assets	<u>\$ 109,767,264</u>	<u>\$ -</u>	<u>\$ 102,889</u>	<u>\$ 48,136</u>	<u>\$ 433,465</u>	<u>\$ 3,373,062</u>	<u>\$ -</u>
LIABILITIES AND FUND BALANCES (DEFICIT)							
Liabilities:							
Note payable	\$ 198,142	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Accounts payable	3,102,805	4,302	-	-	-	-	-
Due to State governments	1,275,409	-	-	-	-	-	-
Due to component units	131,752	-	-	-	-	-	-
Due to other funds	82,429,107	310,467	-	-	-	-	-
Accrued payroll and others	2,260,480	1,958	-	-	-	-	-
Other liabilities and accruals	415,576	-	-	-	-	-	-
Unearned revenue	-	-	-	-	-	-	-
Income tax refunds	997,253	-	-	-	-	-	-
Total liabilities	<u>90,810,524</u>	<u>316,727</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances (deficit):							
Nonspendable	2,176,147	-	-	-	-	-	-
Unassigned	16,780,593	(316,727)	102,889	48,136	433,465	3,373,062	-
Total fund balances (deficit)	<u>18,956,740</u>	<u>(316,727)</u>	<u>102,889</u>	<u>48,136</u>	<u>433,465</u>	<u>3,373,062</u>	<u>-</u>
Total liabilities and fund balances (deficit)	<u>\$ 109,767,264</u>	<u>\$ -</u>	<u>\$ 102,889</u>	<u>\$ 48,136</u>	<u>\$ 433,465</u>	<u>\$ 3,373,062</u>	<u>\$ -</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

GENERAL FUND

Combining Schedule of Balance Sheet, Continued
September 30, 2015

	410100	430100	500100	600000	700100		
	Local CIP	DOI CIP	Compact Section 212 (b)	Debt Service	ADB Loan Proceeds	Elimination	Total
ASSETS							
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 17,764,257
Investments	10,200	-	42,911	-	-	-	5,052,418
Receivables, net:							
Taxes	-	-	-	-	-	-	5,432,679
General	-	-	-	-	-	-	1,343,362
Accrued interest	-	-	-	-	-	-	368
Due from component units	-	-	-	-	-	-	955,486
Due from other funds	-	82,636	72,302	2,397,450	-	(80,020,723)	4,835,221
Advances	4,946	503	-	-	-	-	293,722
Prepaid items	-	-	-	-	-	-	35,086
Restricted assets:							
Cash and cash equivalents	-	-	-	-	-	-	602,442
Total assets	<u>\$ 15,146</u>	<u>\$ 83,139</u>	<u>\$ 115,213</u>	<u>\$ 2,397,450</u>	<u>\$ -</u>	<u>\$ (80,020,723)</u>	<u>\$ 36,315,041</u>
LIABILITIES AND FUND BALANCES (DEFICIT)							
Liabilities:							
Note payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 198,142
Accounts payable	4,746	-	-	79	-	-	3,111,932
Due to State governments	-	-	-	-	-	-	1,275,409
Due to component units	-	-	-	-	-	-	131,752
Due to other funds	1,187,142	-	-	-	-	(80,020,723)	3,905,993
Accrued payroll and others	-	-	-	235,824	-	-	2,498,262
Other liabilities and accruals	-	-	-	-	-	-	415,576
Unearned revenue	-	180,453	-	-	-	-	180,453
Income tax refunds	-	-	-	-	-	-	997,253
Total liabilities	<u>1,191,888</u>	<u>180,453</u>	<u>-</u>	<u>235,903</u>	<u>-</u>	<u>(80,020,723)</u>	<u>12,714,772</u>
Fund balances (deficit):							
Nonspendable	-	-	-	-	-	-	2,176,147
Unassigned	(1,176,742)	(97,314)	115,213	2,161,547	-	-	21,424,122
Total fund balances (deficit)	<u>(1,176,742)</u>	<u>(97,314)</u>	<u>115,213</u>	<u>2,161,547</u>	<u>-</u>	<u>-</u>	<u>23,600,269</u>
Total liabilities and fund balances (deficit)	<u>\$ 15,146</u>	<u>\$ 83,139</u>	<u>\$ 115,213</u>	<u>\$ 2,397,450</u>	<u>\$ -</u>	<u>\$ (80,020,723)</u>	<u>\$ 36,315,041</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, 2015**

	100150	311300	311400	311500	313000	321000	
	General	Scholarship	Compact Section 211 (c)	Compact Section 211 (d)	Compact Section 211 (e)	Compact Section 213	Compact Section 221 (b)
Revenues:							
Taxes	\$ 48,721,393	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Compact funding	11,147,000	-	-	-	-	-	2,000,000
Net change in the fair value of investments	34,959	-	-	149	-	(31,401)	-
Fees and charges	9,727,448	-	-	-	-	-	-
Licenses and permits	8,308,067	792,067	-	-	-	-	-
Other	495,660	31,338	-	-	-	-	-
Total revenues	78,434,527	823,405	-	-	149	(31,401)	2,000,000
Expenditures:							
Current:							
Judicial Branch	2,413,353	-	-	-	-	-	-
Legislative Branch	4,880,971	-	-	-	-	-	-
Office of the President	1,129,705	-	-	-	-	-	-
Office of the Vice-President	376,382	-	-	-	-	-	-
Ministry of Finance	4,052,326	-	-	-	-	-	-
Ministry of State	2,925,726	-	-	-	-	-	-
Ministry of Community and Cultural Affairs	1,059,696	-	-	-	-	-	-
Ministry of Education	7,956,606	-	-	-	-	-	-
Ministry of Public Infrastructure, Industry and Commerce	5,638,964	-	-	-	-	-	-
Ministry of Justice	4,783,221	-	-	-	-	-	-
Ministry of Health	8,375,748	-	-	-	-	-	-
Ministry of Natural Resources, Environment and Tourism	1,301,371	-	-	-	-	-	-
Boards, Commissions, and Authorities	748,909	-	-	-	-	-	-
State Block Grants	6,240,830	-	-	-	-	-	-
Independent Agencies	4,373,643	-	-	-	-	-	-
Other Agencies and Activities	3,059,006	-	-	-	9,126	23,883	-
Education assistance	3,302,996	1,807,698	-	-	-	-	-
PPUC Water & Sewer Operations	3,919,000	-	-	-	-	-	-
Compact Review Office	198,266	-	-	-	-	-	-
Health care fund contributions	304,000	-	-	-	-	-	-
Uighur Detainees Settlement Assistance	10,658	-	-	-	-	-	-
Fifteenth Pacific Games	175,000	-	-	-	-	-	-
Typhoon emergency assistance	100,000	-	-	-	-	-	-
Capital projects	-	-	-	-	-	-	-
Debt service:							
Principal retirement	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-
Total expenditures	67,326,377	1,807,698	-	-	9,126	23,883	-
Excess (deficiency) of revenues over (under) expenditures	11,108,150	(984,293)	-	-	(8,977)	(55,284)	2,000,000
Other financing sources (uses):							
Operating transfers in	9,675,226	1,435,000	-	-	-	-	-
Operating transfers out	(6,820,564)	-	-	-	-	-	(2,000,000)
Total other financing sources (uses), net	2,854,662	1,435,000	-	-	-	-	(2,000,000)
Net change in fund balances (deficit)	13,962,812	450,707	-	-	(8,977)	(55,284)	-
Fund balances (deficit) at beginning of year	5,210,236	(767,434)	102,889	48,136	442,442	3,428,346	-
Fund balances (deficit) at end of year	\$ 19,173,048	\$ (316,727)	\$ 102,889	\$ 48,136	\$ 433,465	\$ 3,373,062	\$ -

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, 2015**

	410100	430100	500100	600000	700100		
	Local CIP	DOI CIP	Compact Section 212 (b)	Debt Service	ADB Loan Proceeds	Elimination	Total
Revenues:							
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 48,721,393
Compact funding	-	-	-	-	-	-	13,147,000
Net change in the fair value of investments	-	-	15	-	-	-	3,722
Fees and charges	-	-	-	-	-	-	9,727,448
Licenses and permits	-	-	-	-	-	-	9,100,134
Other	-	-	-	-	-	-	526,998
Total revenues	-	-	15	-	-	-	81,226,695
Expenditures:							
Current:							
Judicial Branch	-	-	-	-	-	-	2,413,353
Legislative Branch	-	-	-	-	-	-	4,880,971
Office of the President	-	-	-	-	-	-	1,129,705
Office of the Vice-President	-	-	-	-	-	-	376,382
Ministry of Finance	-	-	-	-	-	-	4,052,326
Ministry of State	-	-	-	-	-	-	2,925,726
Ministry of Community and Cultural Affairs	-	-	-	-	-	-	1,059,696
Ministry of Education	-	-	-	-	-	-	7,956,606
Ministry of Public Infrastructure, Industry and Commerce	-	-	-	-	-	-	5,638,964
Ministry of Justice	-	-	-	-	-	-	4,783,221
Ministry of Health	-	-	-	-	-	-	8,375,748
Ministry of Natural Resources, Environment and Tourism	-	-	-	-	-	-	1,301,371
Boards, Commissions, and Authorities	-	-	-	-	-	-	748,909
State Block Grants	-	-	-	-	-	-	6,240,830
Independent Agencies	-	-	-	-	-	-	4,373,643
Other Agencies and Activities	-	-	873	61,795	-	-	3,154,683
Education assistance	-	-	-	-	-	-	5,110,694
PPUC Water & Sewer Operations	-	-	-	-	-	-	3,919,000
Compact Review Office	-	-	-	-	-	-	198,266
Health care fund contributions	-	-	-	-	-	-	304,000
Uighur Detainees Settlement Assistance	-	-	-	-	-	-	10,658
Fifteenth Pacific Games	-	-	-	-	-	-	175,000
Typhoon emergency assistance	-	-	-	-	-	-	100,000
Capital projects	1,213,933	-	-	-	-	-	1,213,933
Debt service:							
Principal retirement	-	-	-	2,209,441	-	-	2,209,441
Interest	-	-	-	748,299	-	-	748,299
Total expenditures	1,213,933	-	873	3,019,535	-	-	73,401,425
Excess (deficiency) of revenues over (under) expenditures	(1,213,933)	-	(858)	(3,019,535)	-	-	7,825,270
Other financing sources (uses):							
Operating transfers in	260,000	-	-	8,038,813	-	(14,285,592)	5,123,447
Operating transfers out	-	-	-	-	(6,340,813)	14,285,592	(875,785)
Total other financing sources (uses), net	260,000	-	-	8,038,813	(6,340,813)	-	4,247,662
Net change in fund balances (deficit) of year	(953,933)	-	(858)	5,019,278	(6,340,813)	-	12,072,932
	(439,117)	(97,314)	116,071	(2,857,731)	6,340,813	-	11,527,337
Fund balances (deficit) at end of year	\$ (1,393,050)	\$ (97,314)	\$ 115,213	\$ 2,161,547	\$ -	\$ -	\$ 23,600,269

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

GENERAL FUND

Combining Schedule of Expenditures By Object
Year Ended September 30, 2015

	100150	311300	311400	311500	313000	321000	
	General	Scholarship	Compact Section 211 (c)	Compact Section 211 (d)	Compact Section 211 (e)	Compact Section 213	Compact Section 221 (b)
Expenditures:							
Salaries and wages	\$ 33,154,097	\$ 60,236	\$ -	\$ -	\$ -	\$ -	\$ -
Freight	29,167	-	-	-	-	-	-
Rentals	706,804	20	-	-	-	-	-
Communications and postage	958,864	1,382	-	-	-	-	-
Advertising	48,245	-	-	-	-	-	-
Medical referrals	29,736	-	-	-	-	-	-
Professional and contractual services	648,450	-	-	-	-	-	-
Supplies and materials	1,523,866	6,827	-	-	-	-	-
Petroleum products	801,450	566	-	-	-	-	-
Food stuffs	1,187,597	72	-	-	-	-	-
Books and library materials	263,547	-	-	-	-	-	-
Medical drugs and supplies	499,659	-	-	-	-	-	-
Travel	1,078,934	21,019	-	-	-	-	-
Machinery	167,874	-	-	-	-	-	-
Equipment	541,790	3,760	-	-	-	-	-
Insurance	57,150	-	-	-	-	-	-
Training	37,989	-	-	-	-	-	-
Donations	538,293	-	-	-	-	-	-
Payments of allotments/benefits	19,821,712	-	-	-	-	-	-
Representation and entertainment	26,471	-	-	-	-	-	-
Cleaning service	127,145	-	-	-	-	-	-
Investment management fees	-	-	-	-	9,126	23,883	-
Dues, fees and registration	395,166	2,000	-	-	-	-	-
Board compensation	79,041	34,835	-	-	-	-	-
Employee incentive awards	8,275	-	-	-	-	-	-
Allowances	208,622	-	-	-	-	-	-
Repairs and maintenance	670,728	1,015	-	-	-	-	-
Construction	129,325	-	-	-	-	-	-
Vehicles	229,511	-	-	-	-	-	-
Furniture and fixtures	33,448	-	-	-	-	-	-
Computer software	29,154	-	-	-	-	-	-
Utilities	2,892,484	3,600	-	-	-	-	-
Principal retirement	-	-	-	-	-	-	-
Interest charges	-	-	-	-	-	-	-
Student loans	-	788,830	-	-	-	-	-
Scholarships	-	155,427	-	-	-	-	-
Grants	-	728,109	-	-	-	-	-
Bank service fee	425,698	-	-	-	-	-	-
Miscellaneous	(23,915)	-	-	-	-	-	-
Total expenditures	<u>\$ 67,326,377</u>	<u>\$ 1,807,698</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,126</u>	<u>\$ 23,883</u>	<u>\$ -</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

GENERAL FUND

Combining Schedule of Expenditures By Object, Continued
Year Ended September 30, 2015

	410100	430100	500100	600000	700100	
	Local CIP	DOI CIP	Compact Section 212 (b)	Debt Service	ADB Loan Proceeds	Total
Expenditures:						
Salaries and wages	\$ 35	\$ -	\$ -	\$ -	\$ -	\$ 33,214,368
Freight	-	-	-	-	-	29,167
Rentals	-	-	-	-	-	706,824
Communications and postage	-	-	-	-	-	960,246
Advertising	-	-	-	-	-	48,245
Medical referrals	-	-	-	-	-	29,736
Professional and contractual services	-	-	-	-	-	648,450
Supplies and materials	7,733	-	-	-	-	1,538,426
Petroleum products	-	-	-	-	-	802,016
Food stuffs	-	-	-	-	-	1,187,669
Books and library materials	-	-	-	-	-	263,547
Medical supplies	-	-	-	-	-	499,659
Travel	1,431	-	-	-	-	1,101,384
Machinery	-	-	-	-	-	167,874
Equipment	8,723	-	-	-	-	554,273
Insurance	-	-	-	-	-	57,150
Training	-	-	-	-	-	37,989
Donations	-	-	-	-	-	538,293
Payments of allotments/benefits	-	-	-	42,340	-	19,864,052
Representation and entertainment	-	-	-	-	-	26,471
Cleaning service	-	-	-	-	-	127,145
Investment management fees	-	-	873	-	-	33,882
Dues, fees and registration	-	-	-	-	-	397,166
Board compensation	-	-	-	-	-	113,876
Employee incentive awards	-	-	-	-	-	8,275
Allowances	-	-	-	-	-	208,622
Repairs and maintenance	-	-	-	-	-	671,743
Construction	1,196,011	-	-	-	-	1,325,336
Vehicles	-	-	-	-	-	229,511
Furniture and fixtures	-	-	-	-	-	33,448
Computer software	-	-	-	-	-	29,154
Utilities	-	-	-	-	-	2,896,084
Principal retirement	-	-	-	2,209,441	-	2,209,441
Interest charges	-	-	-	748,299	-	748,299
Student loans	-	-	-	-	-	788,830
Scholarships	-	-	-	-	-	155,427
Grants	-	-	-	-	-	728,109
Bank service fee	-	-	-	-	-	425,698
Miscellaneous	-	-	-	19,455	-	(4,460)
Total expenditures	\$ 1,213,933	\$ -	\$ 873	\$ 3,019,535	\$ -	\$ 73,401,425

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

GENERAL FUND

Schedule of Revenues
Year Ended September 30, 2015
(With comparative totals for the year ended September 30, 2014)

	<u>2015</u>	<u>2014</u>
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	<u>13,147,000</u>	<u>13,147,000</u>
Taxes:		
Gross receipts	14,524,588	13,019,842
Salary and wage	9,142,875	8,150,739
Alcohol and tobacco	9,640,098	7,411,982
Hotel occupancy	5,676,518	4,793,813
Travelers head	3,573,152	2,643,270
General import	3,268,971	2,771,582
Penalties, interest and delinquencies	764,613	535,328
Fuel excise	730,140	402,968
Beverage container tax	493,278	454,711
Fish export	293,034	514,004
Vessel cabin and foreign water vessel	206,412	177,956
Other	407,714	346,208
Total taxes	<u>48,721,393</u>	<u>41,222,403</u>
Licenses and permits:		
Fishing days fees	5,996,925	2,867,463
Foreign labor permits	1,387,067	1,146,859
Business licenses	299,961	363,354
Foreign investment permits and fees	292,700	219,034
Fishing rights fees	247,655	283,611
Court fines and fees	132,122	99,675
Corporate filing fees	41,777	37,006
Other licenses and permits	333,909	245,299
Total licenses and fees	<u>8,732,116</u>	<u>5,262,301</u>
Fees and charges:		
Green fees	5,212,078	3,749,078
Airport fees and rentals	3,575,460	2,768,167
Postal service	401,313	385,584
Ship registry	324,388	37,193
Palau passport fees	196,030	88,228
Banking fees	134,765	132,750
Seaport fees	27,763	33,925
Belau Mariculture Demonstration Center sales	-	6,462
Water utility charges	-	5
Other	332,151	53,715
Total fees and charges	<u>10,203,948</u>	<u>7,255,107</u>
Net change in the fair value of investments	<u>3,722</u>	<u>811,393</u>
Other:		
Indirect cost recoveries	144,278	184,246
Other	274,238	961,573
Total other	<u>418,516</u>	<u>1,145,819</u>
Total revenues	<u>\$ 81,226,695</u>	<u>\$ 68,844,023</u>

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, 2015

	Budgeted Amounts		Actual	Variance
	Original	Final		
Revenues:				
Local revenue	\$ 46,248,600	\$ 47,980,040	\$ 60,911,917	12,931,877
Compact funding - Section 211(a)	6,000,000	6,000,000	6,000,000	-
Compact funding - Section 215 inflation adjustment	4,000,000	5,147,000	5,147,000	-
Net change in the fair value of investments	-	-	34,959	34,959
Other	-	184,297	67,797	(116,500)
Total revenues	<u>56,248,600</u>	<u>59,311,337</u>	<u>72,161,673</u>	<u>12,850,336</u>
Expenditures - budgetary basis:				
Office of the President:				
President's Office	871,364	871,364	807,250	64,114
Official Expenses	31,903	31,903	28,909	2,994
Indirect Cost Recoveries	23	118,452	118,452	-
Administrative Overhead	287	24,842	24,842	-
Grants Coordinator Office	80,850	80,850	72,021	8,829
Council of Chiefs	150,000	150,000	133,774	16,226
Presidential Stipend	45,000	45,000	45,000	-
Total Office of the President	<u>1,179,427</u>	<u>1,322,411</u>	<u>1,230,248</u>	<u>92,163</u>
Office of the Vice-President:				
Vice-President's Office	256,126	296,126	263,064	33,062
National Emergency Management Office	126,869	126,869	119,633	7,236
Total Office of the Vice-President	<u>382,995</u>	<u>422,995</u>	<u>382,697</u>	<u>40,298</u>
Ministry of Finance:				
Office of the Minister	58,000	58,000	57,448	552
Administrative Overhead	1,563	42,876	42,876	-
Workmen's Compensation	37,000	37,000	35,545	1,455
Information System Support Service	239,360	239,360	235,905	3,455
Bureau of National Treasury	761,703	761,703	757,654	4,049
Bureau of Budget and Planning	242,000	242,000	241,099	901
Bureau of Public Service System	133,500	153,500	153,459	41
Bureau of Revenue, Customs and Taxation	1,499,051	1,604,051	1,593,017	11,034
Total Ministry of Finance	<u>2,972,177</u>	<u>3,138,490</u>	<u>3,117,003</u>	<u>21,487</u>
Ministry of State:				
Office of the Minister	58,000	58,000	57,880	120
Consulate Office in Guam	87,000	107,000	104,026	2,974
Consulate Office in Saipan	50,000	50,000	35,948	14,052
Embassy in Washington D.C.	272,200	272,200	269,897	2,303
Embassy in Japan	350,255	350,255	350,000	255
Embassy in Taipei, Taiwan	148,000	148,000	143,570	4,430
Embassy in Manila, Philippines	100,000	145,000	139,784	5,216
United Nations Representative Office	305,000	305,000	301,154	3,846
Office of the Public Defender	255,123	250,123	246,954	3,169
Bureau of Trade and Foreign Affairs	408,166	500,166	459,206	40,960
Bureau of Domestic Affairs	281,321	281,321	270,966	10,355
Passport Office	54,570	129,570	126,037	3,533
International Organizations Obligations	250,000	250,000	250,000	-
ROP Embassy for European Union	-	185,000	184,318	682
Southwest Islands Field Trips	40,000	96,000	96,000	-
Total Ministry of State	<u>2,659,635</u>	<u>3,127,635</u>	<u>3,035,740</u>	<u>91,895</u>
Ministry of Community and Cultural Affairs:				
Office of the Minister	58,000	58,000	55,670	2,330
Bureau of National Archives	77,500	77,500	75,276	2,224
Bureau of Youth, Sports and Recreation	191,000	251,000	187,299	63,701
Bureau of Aging and Gender	290,957	290,957	275,614	15,343
Sports Facilities Maintenance and Utilities	90,000	90,000	79,870	10,130
Bureau of Arts and Culture	140,174	140,174	121,828	18,346
Olchotel Belau Fair	20,000	20,000	20,000	-
Ngarachamayong Cultural Center	25,000	25,000	25,000	-
Palau Severely Disabled Assistance Fund	225,877	225,877	224,447	1,430
Total Ministry of Community and Cultural Affairs	<u>1,118,508</u>	<u>1,178,508</u>	<u>1,065,004</u>	<u>113,504</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, 2015

	Budgeted Amounts		Actual	Variance
	Original	Final		
Ministry of Education:				
Office of the Minister	58,000	58,000	55,670	2,330
School Books, Supplies and Instructional Equipment	434,699	434,699	298,761	135,938
Bureau of Curriculum and Instruction	495,000	495,000	485,043	9,957
Bureau of School Administration	6,687,603	6,687,603	6,550,103	137,500
Food Services Program	738,525	838,525	807,748	30,777
Total Ministry of Education	<u>8,413,827</u>	<u>8,513,827</u>	<u>8,197,325</u>	<u>316,502</u>
Ministry of Public Infrastructure, Industry and Commerce:				
Office of the Minister	58,000	58,000	55,670	2,330
PALARIS	130,684	144,684	135,061	9,623
Bureau of Commercial Development	248,170	313,170	304,796	8,374
Palau Small Business Development Center (UOG)	45,000	45,000	45,000	-
Bureau of Aviation	1,641,661	1,654,661	1,572,029	82,632
Bureau of Lands and Survey	850,342	843,342	831,857	11,485
Bureau of Public Works	1,276,867	1,339,867	1,268,570	71,297
Ngatpang State Waterline		150,000	-	150,000
Melkeok State Waterline		10,000	-	10,000
Airai and Aimeliik States Waterline		150,000	-	150,000
Landfill Operations	39,797	39,797	32,579	7,218
National Capitol Electricity/Maintenance	1,302,294	1,339,294	1,309,765	29,529
Capital Improvement Office	118,114	118,114	114,267	3,847
OMIP and Other Grant Match	415,000	40,000	40,000	-
Total Ministry of Public Infrastructure, Industry and Commerce	<u>6,125,929</u>	<u>6,245,929</u>	<u>5,709,594</u>	<u>536,335</u>
Ministry of Justice:				
Office of the Attorney General	580,342	605,342	604,872	470
Bureau of Immigration	428,946	423,946	405,099	18,847
Bureau of Public Safety	2,883,603	2,928,603	2,781,325	147,278
Bureau of Marine Law Enforcement	662,164	657,164	618,723	38,441
Bureau of Labor & Human Resources	306,609	286,609	264,013	22,596
Total Ministry of Justice	<u>4,861,664</u>	<u>4,901,664</u>	<u>4,674,032</u>	<u>227,632</u>
Ministry of Health:				
Office of the Minister	58,000	58,000	55,670	2,330
Bureau of Public Health	1,079,419	1,073,419	1,038,021	35,398
Health Administration	2,697,916	2,708,916	2,669,693	39,223
Manila Medical Referral Office	110,000	110,000	109,510	490
Hawaii Medical Referral Office	125,000	135,000	129,354	5,646
Taipei Medical Referral	100,170	100,170	99,201	969
Medical Supplies and Drugs	392,035	437,035	343,430	93,605
Hemodialysis	559,983	514,983	316,473	198,510
Hyperbaric Chamber	36,000	36,000	24,854	11,146
Bureau of Clinical Service	1,975,000	1,975,000	1,949,509	25,491
Bureau of Nursing	2,025,000	2,075,000	1,976,578	98,422
Medical Referrals for Uninsured	190,000	180,000	31,088	148,912
Total Ministry of Health	<u>9,348,523</u>	<u>9,403,523</u>	<u>8,743,381</u>	<u>660,142</u>
Ministry of Natural Resources, Environment and Tourism:				
Office of the Minister	58,000	58,000	57,670	330
Bureau of Marine Resources	550,208	546,208	538,220	7,988
Bureau of Agriculture	491,343	513,343	512,085	1,258
Bureau of Tourism	132,400	204,400	196,096	8,304
Total Ministry of Natural Resources, Environment and Tourism	<u>1,231,951</u>	<u>1,321,951</u>	<u>1,304,071</u>	<u>17,880</u>
Total Executive Branch	<u>38,294,636</u>	<u>39,576,933</u>	<u>37,459,095</u>	<u>2,117,838</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, 2015

	Budgeted Amounts		Actual	Variance
	Original	Final		
Boards, Commissions and Authorities:				
Foreign Investment Board	101,393	93,393	85,765	7,628
Palau Election Commission	174,771	174,771	123,003	51,768
Palau National Code Commission	34,000	34,000	22,568	11,432
Palau Public Lands Authority	75,000	75,000	63,446	11,554
Parole Board	31,169	31,169	22,159	9,010
Palau Housing Authority	70,000	70,000	70,000	-
Ethics Commission	50,000	50,000	35,255	14,745
Financial Investigations Unit	50,000	55,000	54,398	602
Financial Institutions Commission	39,270	42,270	37,300	4,970
Ngardmau Free Trade Zone Authority	25,000	25,000	25,000	-
COFA Board of Trustees	25,044	25,044	22,600	2,444
Language Commission	37,000	37,000	35,545	1,455
Total Boards, Commissions and Authorities	712,647	712,647	597,039	115,608
Judicial Branch:				
Judiciary	2,593,000	2,593,000	2,453,653	139,347
Total Judicial Branch	2,593,000	2,593,000	2,453,653	139,347
Olbiil Era Kelulau:				
Senate	1,820,519	1,870,519	1,856,050	14,469
Senate Legal Counsel Office	211,303	211,303	202,862	8,441
House of Delegates	2,337,281	2,382,281	2,342,455	39,826
Delegates Legal Counsel Office	209,500	206,500	206,488	12
State Visits	19,000	19,000	18,970	30
Joint Staff	275,533	283,533	282,448	1,085
Association of Pacific Island Legislatures	15,000	15,000	11,392	3,608
Asian-Pacific Parliamentarians' Union	15,000	15,000	13,285	1,715
Palau Japan Parliamentary Friendship League	35,000	31,500	-	31,500
Electricity for the Koror Olbiil Era Kelulau Building	30,000	33,500	32,910	590
Total Legislative Branch	4,968,136	5,068,136	4,966,860	101,276
State Block Grants	6,183,600	6,263,151	6,240,830	22,321
Independent Agencies:				
Office of the Public Auditor	426,110	535,110	476,972	58,138
Office of the Special Prosecutor	223,468	223,468	164,302	59,166
Palau Environmental Quality Protection Board	410,582	410,582	395,722	14,860
National Postal Service	359,000	389,000	386,871	2,129
Palau Visitors Authority	800,000	840,000	840,000	-
National Aviation Administration	160,000	160,000	159,729	271
Total Independent Agencies	2,379,160	2,558,160	2,423,596	134,564
Other Agencies and Activities:				
Bank fees	-	-	411,891	(411,891)
Palau National Museum	200,000	200,000	171,931	28,069
Micronesian Legal Services	125,000	125,000	125,000	-
Palau Community Action Agency	175,000	275,000	274,997	3
Head Start Program	93,000	113,000	113,000	-
Palau Red Cross	10,000	10,000	-	10,000
WIA Grant Contribution	108,000	108,000	108,000	-
Civic Action Team Share	250,000	250,000	250,000	-
Peace Corps Contribution	25	70,025	66,097	3,928
PNOC and Sports Organizations	177,000	177,000	169,733	7,267
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	-
Low-income household	-	29,100	9,900	19,200
Junior Statesmen of America	10,000	10,000	10,000	-
Total Other Agencies and Activities	1,558,025	1,777,125	2,120,549	(343,424)

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, 2015

	Budgeted Amounts		Actual	Variance
	Original	Final		
Education Assistance:				
Palau Community College Operations	2,338,000	2,338,000	2,338,000	-
PCC Board of Trustees	38,000	38,000	38,000	-
PCC CRE Program	35,000	35,000	35,000	-
COM Board of Regents	25,000	25,000	25,000	-
Aid to Non-Public Schools	857,000	857,000	856,996	4
Total Education Assistance	<u>3,293,000</u>	<u>3,293,000</u>	<u>3,292,996</u>	<u>4</u>
Other Appropriations:				
Compact Review Office	202,151	254,940	204,748	50,192
Health Care Fund Contributions	304,000	304,000	304,000	-
PPUC Water and Sewer Operations	3,419,000	3,419,000	3,419,000	-
Civil Service Pension Plan Accrued Interest Charges	-	400,000	-	400,000
Uighur Detainees Temporary Settlement Assistance	-	15,000	10,658	4,342
Ongedechuul Youth Organization	-	20,000	-	20,000
Peleliu State - Emperor Visit	-	5,000	-	5,000
Typhoon Maysak/Cyclone Pam	8,740	108,740	100,000	8,740
15th Pacific Games	-	175,000	175,000	-
Total Other Appropriations	<u>3,933,891</u>	<u>4,701,680</u>	<u>4,213,406</u>	<u>488,274</u>
Total expenditures	<u>63,916,095</u>	<u>66,543,832</u>	<u>63,768,024</u>	<u>2,775,808</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(7,667,495)</u>	<u>(7,232,495)</u>	<u>8,393,649</u>	<u>15,626,144</u>
Other financing sources (uses):				
Loan proceeds	2,263,000	2,263,000	-	(2,263,000)
Operating transfers in:				
Non-Lapsing Fund	1,879,000	1,879,000	1,156,000	(723,000)
ServMart Fund	-	-	91,406	91,406
ADB Loan Proceeds Fund	-	-	1,000,000	1,000,000
OTIA Direct Grants Fund	-	-	154,198	154,198
Operator License Fund	-	-	44,249	44,249
Other Grants Fund	-	-	67,588	67,588
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>11,142,000</u>	<u>11,142,000</u>	<u>9,513,441</u>	<u>(1,628,559)</u>
Operating transfers out:				
Debt Service Fund	(2,698,000)	(2,698,000)	(1,975,000)	723,000
Other Country Grants Fund	-	(175,000)	(563,037)	(388,037)
U.S. Federal Grants Fund	-	-	(173,829)	(173,829)
Other Non U.S. Grants Fund	-	-	(439,074)	(439,074)
Local CIP Fund	-	(260,000)	(260,000)	-
National Scholarship Fund	(1,435,000)	(1,435,000)	(1,435,000)	-
Total other financing uses	<u>(4,133,000)</u>	<u>(4,568,000)</u>	<u>(4,845,940)</u>	<u>(277,940)</u>
Total other financing sources (uses), net	<u>7,009,000</u>	<u>6,574,000</u>	<u>4,667,501</u>	<u>(1,906,499)</u>
	(658,495)	(658,495)	13,061,150	13,719,645
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	658,495	658,495	1,391,181	732,686
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,452,331</u>	<u>\$ 14,452,331</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

GRANTS FUND

September 30, 2015

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, 2015

	350100	350200	360100	420100	440100	
	U.S. Federal Grants	OTIA Direct Grants	Other Non U.S. Federal Grants	Non-DOI Capital Projects	Other Country Grants	Total
<u>ASSETS</u>						
Receivables, net:						
General	\$ 1,277	\$ -	\$ -	\$ -	\$ 2,823,183	\$ 2,824,460
Federal agencies	2,769,246	1,127,027	-	2,319,193	-	6,215,466
Due from other funds	-	-	325,732	256,303	-	582,035
Advances	91,907	1,732	8,843	-	31,755	134,237
Prepaid items	154,526	30	96,657	-	21,493	272,706
Total assets	<u>\$ 3,016,956</u>	<u>\$ 1,128,789</u>	<u>\$ 431,232</u>	<u>\$ 2,575,496</u>	<u>\$ 2,876,431</u>	<u>\$ 10,028,904</u>
<u>LIABILITIES AND FUND BALANCES</u>						
Liabilities:						
Accounts payable	\$ 528,034	\$ 61,042	\$ 233,939	\$ -	\$ 1,698,784	\$ 2,521,799
Contracts payable	-	-	-	2,574,389	-	2,574,389
Unearned revenues	-	-	188,909	-	-	188,909
Other liabilities and accruals	121,016	5,429	8,384	1,107	12,439	148,375
Due to other funds	2,361,566	1,053,805	-	-	1,165,208	4,580,579
Total liabilities	<u>3,010,616</u>	<u>1,120,276</u>	<u>431,232</u>	<u>2,575,496</u>	<u>2,876,431</u>	<u>10,014,051</u>
Fund balances:						
Nonspendable	154,526	30	96,657	-	21,493	272,706
Restricted	-	8,483	-	-	-	8,483
Unassigned	(148,186)	-	(96,657)	-	(21,493)	(266,336)
Total fund balances	<u>6,340</u>	<u>8,513</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>14,853</u>
Total liabilities and fund balances	<u>\$ 3,016,956</u>	<u>\$ 1,128,789</u>	<u>\$ 431,232</u>	<u>\$ 2,575,496</u>	<u>\$ 2,876,431</u>	<u>\$ 10,028,904</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, 2015**

	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
Revenues:						
Federal contributions	\$ 8,914,309	\$ 1,307,813	\$ -	\$ 6,721,087	\$ -	\$ 16,943,209
Other grants	-	-	1,244,207	-	7,356,639	8,600,846
Total revenues	<u>8,914,309</u>	<u>1,307,813</u>	<u>1,244,207</u>	<u>6,721,087</u>	<u>7,356,639</u>	<u>25,544,055</u>
Expenditures:						
Current:						
Office of the President	253,256	-	456,595	-	-	709,851
Ministry of Finance	-	445,752	73,480	-	-	519,232
Ministry of State	-	-	238,482	-	-	238,482
Ministry of Education	3,132,751	-	58,500	-	-	3,191,251
Ministry of Public Infrastructure						
Industries & Commerce	465,219	-	265,725	-	-	730,944
Ministry of Justice	133,741	268,952	11,107	-	-	413,800
Ministry of Health	5,022,414	-	200,523	-	-	5,222,937
Ministry of Natural Resources,						
Environment and Tourism	5,757	31,670	117,821	-	-	155,248
Ministry of Community and Cultural Affairs	-	-	6,775	-	-	6,775
Financial and Compliance Audit	-	561,439	-	-	-	561,439
Capital projects	-	-	-	6,720,992	7,948,794	14,669,786
Total expenditures	<u>9,013,138</u>	<u>1,307,813</u>	<u>1,429,008</u>	<u>6,720,992</u>	<u>7,948,794</u>	<u>26,419,745</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(98,829)</u>	<u>-</u>	<u>(184,801)</u>	<u>95</u>	<u>(592,155)</u>	<u>(875,690)</u>
Other financing sources (uses):						
Operating transfers in	98,829	-	184,801	-	592,155	875,785
Operating transfers out	-	(79,103)	-	(95)	-	(79,198)
Total other financing sources (uses), net	<u>98,829</u>	<u>(79,103)</u>	<u>184,801</u>	<u>(95)</u>	<u>592,155</u>	<u>796,587</u>
Net change in fund balances	-	(79,103)	-	-	-	(79,103)
Fund balances at beginning of year	6,340	87,616	-	-	-	93,956
Fund balances at end of year	<u>\$ 6,340</u>	<u>\$ 8,513</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,853</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

GRANTS FUND

Combining Schedule of Expenditures By Object
Year Ended September 30, 2015

	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	\$ 3,897,164	\$ 73,229	\$ 349,162	\$ 29,222	\$ 546,096	\$ 4,894,873
Freight	16,761	-	428	-	-	17,189
Rentals	215,818	1,800	31,301	-	7,270	256,189
Communications and postage	119,012	493	21,395	-	28,703	169,603
Advertising	24,333	2,914	307	1,600	12,522	41,676
Professional and contractual services	1,625,048	786,696	312,669	-	1,350,650	4,075,063
Supplies and materials	474,873	76,105	59,310	-	173,421	783,709
Petroleum products	77,556	5,460	25,350	-	48,494	156,860
Food stuffs	21,404	3,926	26,087	-	91,115	142,532
Medical supplies	154,986	-	-	-	-	154,986
Medical drugs	11,586	-	-	-	-	11,586
Travel	1,102,496	8,299	134,468	-	297,404	1,542,667
Equipment	428,424	48,433	84,002	-	13,188	574,047
Insurance	504	-	-	-	-	504
Training	79,489	-	4,681	-	-	84,170
Donations	-	-	3,539	-	107,699	111,238
Payments of allotments/benefits	253,256	-	35,000	-	90,000	378,256
Representation and entertainment	-	32	-	-	-	32
Dues, fees and registration	28,962	3,350	3,609	-	1,573	37,494
Board compensation	198,371	-	4,240	-	-	202,611
Employee incentive awards	11,250	-	400	-	-	11,650
Allowances	-	237,172	-	-	1,990	239,162
Repairs and maintenance	85,246	-	4,736	-	831,572	921,554
Construction	-	-	5,000	6,690,170	3,469,142	10,164,312
Machinery	-	-	-	-	40,000	40,000
Vehicles	27,635	17,585	21,487	-	19,080	85,787
Computer software	-	11,703	-	-	-	11,703
Furniture and fixture	-	-	2,325	-	-	2,325
Utilities	64,028	-	500	-	62,573	127,101
Bank service fee	-	-	100	-	-	100
Cleaning services	-	-	-	-	100	100
Grants and contributions	-	-	216,462	-	756,202	972,664
Miscellaneous	94,936	30,616	82,450	-	-	208,002
Total expenditures	\$ 9,013,138	\$ 1,307,813	\$ 1,429,008	\$ 6,720,992	\$ 7,948,794	\$ 26,419,745

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS

September 30, 2015

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, 2015

	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	
ASSETS												
Investments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 29	\$ 29
Receivables, net:												
General	-	47	-	-	-	-	-	-	-	-	-	47
Due from other funds	-	1,908,936	-	44,348	416	31,376	142,115	1,121,822	22,415	12,157	40,373	3,323,958
Prepaid items	-	54,116	-	-	-	-	-	-	-	1,050	-	55,166
Advances	-	4,544	-	-	-	-	-	-	-	-	-	4,544
Restricted assets:												
Investments	-	-	-	-	-	-	-	-	-	-	3,026,113	3,026,113
Total assets	\$ -	\$ 1,967,643	\$ -	\$ 44,348	\$ 416	\$ 31,376	\$ 142,115	\$ 1,121,822	\$ 22,415	\$ 13,207	\$ 3,066,515	\$ 6,409,857
LIABILITIES AND FUND BALANCES												
(DEFICIT)												
Liabilities:												
Accounts payable	\$ -	\$ 1,299,609	\$ -	\$ 428	\$ -	\$ 21,376	\$ 1,245	\$ 50,820	\$ 4,967	\$ 2,594	\$ -	\$ 1,381,039
Accrued payroll and others	-	-	-	-	-	-	-	3,211	-	-	2,179	5,390
Due to other funds	2,357	-	-	-	-	-	-	-	-	-	-	2,357
Total liabilities	2,357	1,299,609	-	428	-	21,376	1,245	54,031	4,967	2,594	2,179	1,388,786
Fund balances (deficit):												
Nonspendable	-	54,116	-	-	-	-	-	-	-	1,050	-	55,166
Restricted	-	-	-	-	-	-	-	-	-	-	3,064,336	3,064,336
Committed	-	613,918	-	43,920	416	10,000	140,870	1,067,791	17,448	9,563	-	1,903,926
Unassigned	(2,357)	-	-	-	-	-	-	-	-	-	-	(2,357)
Total fund balances (deficit)	(2,357)	668,034	-	43,920	416	10,000	140,870	1,067,791	17,448	10,613	3,064,336	5,021,071
Total liabilities and fund balances	\$ -	\$ 1,967,643	\$ -	\$ 44,348	\$ 416	\$ 31,376	\$ 142,115	\$ 1,121,822	\$ 22,415	\$ 13,207	\$ 3,066,515	\$ 6,409,857

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, 2015

	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	Total
Revenues:												
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 750,668	\$ -	\$ -	\$ -	\$ 750,668
Fees and charges	10,200	4,042,250	(50)	21,305	-	71,190	64,948	-	37,435	31,887	-	4,279,165
Licenses and permits	-	49,639	-	-	-	-	-	-	-	-	-	49,639
Net change in the fair value of investments	-	-	-	-	-	-	-	-	-	-	(28,594)	(28,594)
Total revenues	10,200	4,091,889	(50)	21,305	-	71,190	64,948	750,668	37,435	31,887	(28,594)	5,050,878
Expenditures:												
Current:												
Ministry of State	-	-	-	5,564	-	-	-	-	-	-	-	5,564
Ministry of Justice	-	-	-	-	-	34,387	-	-	-	-	-	34,387
Ministry of Health	-	4,364,924	-	-	-	-	-	-	-	-	-	4,364,924
Ministry of Natural Resources, Environment and Tourism	-	-	-	-	-	-	-	-	23,958	19,757	-	43,715
Ministry of Public Infrastructure, Industry and Commerce	-	-	-	-	-	-	-	343,255	-	-	-	343,255
Independent Agencies	-	-	-	-	-	-	11,813	-	-	-	-	11,813
Investment management fees	-	-	-	-	-	-	-	-	-	-	22,728	22,728
Total expenditures	-	4,364,924	-	5,564	-	34,387	11,813	343,255	23,958	19,757	22,728	4,826,386
Excess (deficiency) of revenues over (under) expenditures	10,200	(273,035)	(50)	15,741	-	36,803	53,135	407,413	13,477	12,130	(51,322)	224,492
Other financing uses:												
Operating transfers out	-	-	-	-	-	(44,249)	-	-	-	-	-	(44,249)
Net change in fund balances	10,200	(273,035)	(50)	15,741	-	(7,446)	53,135	407,413	13,477	12,130	(51,322)	180,243
Fund balances (deficit) at beginning of year	(12,557)	941,069	50	28,179	416	17,446	87,735	660,378	3,971	(1,517)	3,115,658	4,840,828
Fund balances (deficit) at end of year	\$ (2,357)	\$ 668,034	\$ -	\$ 43,920	\$ 416	\$ 10,000	\$ 140,870	\$ 1,067,791	\$ 17,448	\$ 10,613	\$ 3,064,336	\$ 5,021,071

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS

Combining Schedule of Expenditures by Object
Year Ended September 30, 2015

	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	
Expenditures:												
Salaries and wages	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,508	\$ 98,352	\$ -	\$ -	\$ -	\$ 102,860
Freight	-	5,455	-	-	-	-	-	-	-	-	-	5,455
Rental	-	150	-	-	-	-	-	24,504	-	-	-	24,654
Communications and postage	-	-	-	3,004	-	-	87	-	-	-	-	3,091
Medical referrals	-	2,083,126	-	-	-	-	-	-	-	-	-	2,083,126
Supplies and materials	-	6,063	-	2,200	-	20,900	6,388	14,610	14,440	8,850	-	73,451
Petroleum products	-	9,998	-	166	-	-	273	13,299	2,312	6,320	-	32,368
Food stuffs	-	17,021	-	-	-	-	502	-	-	-	-	17,523
Medical supplies	-	976,636	-	-	-	-	-	-	-	-	-	976,636
Medical drugs	-	868,928	-	-	-	-	-	-	-	-	-	868,928
Travel	-	125,987	-	-	-	-	-	-	-	-	-	125,987
Equipment	-	111,765	-	-	-	4,380	-	-	45	-	-	116,190
Construction	-	-	-	-	-	-	-	183,120	-	-	-	183,120
Vehicles	-	-	-	-	-	-	-	8,995	-	-	-	8,995
Advertising	-	-	-	-	-	-	-	375	-	-	-	375
Investment management fees	-	-	-	-	-	-	-	-	-	-	22,728	22,728
Dues, fees and registration	-	125	-	-	-	-	-	-	-	150	-	275
Repairs and maintenance	-	158,740	-	194	-	9,107	-	-	7,161	4,437	-	179,639
Bank service fee	-	-	-	-	-	-	5	-	-	-	-	5
Employee incentive award	-	500	-	-	-	-	-	-	-	-	-	500
Allowances	-	-	-	-	-	-	50	-	-	-	-	50
Cleaning services	-	185	-	-	-	-	-	-	-	-	-	185
Miscellaneous	-	245	-	-	-	-	-	-	-	-	-	245
Total expenditures	\$ -	\$ 4,364,924	\$ -	\$ 5,564	\$ -	\$ 34,387	\$ 11,813	\$ 343,255	\$ 23,958	\$ 19,757	\$ 22,728	\$ 4,826,386

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

OTHER INFORMATION

September 30, 2015

A brief discussion of other information presented for additional analysis as of September 30, 2015, 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, 2015

	General	Special Revenue	Permanent	Other Governmental Funds	Total
		Grants	Compact Section 211(f)		
Expenditures:					
Salaries and wages	\$ 33,214,368	\$ 4,894,873	\$ -	\$ 102,860	\$ 38,212,101
Freight	29,167	17,189	-	5,455	51,811
Rentals	706,824	256,189	-	24,654	987,667
Communications and postage	960,246	169,603	-	3,091	1,132,940
Advertising	48,245	41,676	-	375	90,296
Medical referrals	29,736	-	-	2,083,126	2,112,862
Professional and contractual services	648,450	4,075,063	-	-	4,723,513
Supplies and materials	1,538,426	783,709	-	73,451	2,395,586
Petroleum products	802,016	156,860	-	32,368	991,244
Food stuffs	1,187,669	142,532	-	17,523	1,347,724
Books and library materials	263,547	-	-	-	263,547
Medical supplies	499,659	154,986	-	976,636	1,631,281
Medical drugs	-	11,586	-	868,928	880,514
Travel	1,101,384	1,542,667	-	125,987	2,770,038
Equipment	554,273	574,047	-	116,190	1,244,510
Insurance	57,150	504	-	-	57,654
Training	37,989	84,170	-	-	122,159
Donations	538,293	111,238	-	-	649,531
Payments of allotments/benefits	19,864,052	378,256	-	-	20,242,308
Representation and entertainment	26,471	32	-	-	26,503
Cleaning service	127,145	100	-	185	127,430
Investment management fees	33,882	-	1,250,515	22,728	1,307,125
Dues, fees and registration	397,166	37,494	-	275	434,935
Board compensation	113,876	202,611	-	-	316,487
Employee incentive awards	8,275	11,650	-	500	20,425
Allowances	208,622	239,162	-	50	447,834
Repairs and maintenance	671,743	921,554	-	179,639	1,772,936
Construction	1,325,336	10,164,312	-	183,120	11,672,768
Machinery	167,874	40,000	-	-	207,874
Vehicles	229,511	85,787	-	8,995	324,293
Furniture and fixtures	33,448	2,325	-	-	35,773
Computer software	29,154	11,703	-	-	40,857
Utilities	2,896,084	127,101	-	-	3,023,185
Principal retirement	2,209,441	-	-	-	2,209,441
Interest charges	748,299	-	-	-	748,299
Student loans	788,830	-	-	-	788,830
Scholarships	155,427	-	-	-	155,427
Grants	728,109	-	-	-	728,109
Bank service fee	425,698	100	-	-	425,798
Grants and contributions	-	972,664	-	5	972,669
Miscellaneous	(4,460)	208,002	-	245	203,787
	<u>\$ 73,401,425</u>	<u>\$ 26,419,745</u>	<u>\$ 1,250,515</u>	<u>\$ 4,826,386</u>	<u>\$ 105,898,071</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

OTHER COUNTRY GRANTS FUND

Schedule of Expenditures of Other Country Grants
Year Ended September 30, 2015

Fund 440100 Grantor Account Title	Budget Authorizations	Receivable from Grantor (Deferred Revenue) at 9/30/14	Cash Receipts FY2015	Expenditures FY2015	Receivable from Grantor (Deferred Revenue) at 9/30/15
STATE ECONOMIC STIMULUS PACKAGE 2013					
A34816 POSTAL SERVICE POS & IT S	\$ 140,000	\$ 117,364	\$ 80,000	\$ 8,234	\$ 45,598
A34820 PVA OMR SCANNER & SOFTWARE	60,000	52,880	-	-	52,880
B30101 AIMELIK HEAVY EQUIPMENT	225,000	7,348	52,000	-	(44,652)
B30102 NGCHEMIANGEL RUMP PROJ.	50,000	20,000	20,000	-	-
B30301 ANGAUR STATE BOAT	150,000	(7,700)	-	-	(7,700)
B30501 KAYANGEL STATE BOAT	150,000	119,800	15,400	-	104,400
B30601 KB BRIDGE KOROR-SIDE	200,000	163,304	100,000	19,000	82,304
B30602 MEYUNS OLD AIRPORT	200,000	(15,000)	-	-	(15,000)
B30801 NGARAARD RD IMPROVE PROJ	300,000	15,287	130,000	-	(114,713)
B30802 NGERCHOKL SITE DEVEL PROJ	150,000	(19,735)	-	-	(19,735)
B31001 NGARDMAU ROAD IMPROVE PRO	300,000	28,291	-	8,901	37,192
B31201 NGATPANG ROAD IMPROVE PRO	500,000	214,944	300,000	76,382	(8,674)
B31203 NGATPANG MILKFISH FARM PR	65,000	65,000	65,000	-	-
B31301 NGCHESAR ROAD IMPROVE PRO	325,000	(6,041)	-	535	(5,506)
B31401 NGIWAL ROAD IMPROVE PROJ	300,000	(21)	-	-	(21)
B31405 NGIWAL FORCE ACCT PROJECT	50,000	424	-	(424)	-
B31501 PELELIU HEAVY EQUIP REPAI	14,000	14,000	15,760	-	(1,760)
B31601 TELECOMMUNICATION UPGRADE	75,000	-	-	-	-
C34943 BELAU GAMES	16,000	15,500	15,300	-	200
E34874 JUNIOR STATESMEN CONTRIBU	10,000	10,000	10,000	-	-
F34815 BUD SUPPORT TYPHOON BOPHA	4,000,000	1,223	-	-	1,223
F34817 CUSTOMS INFO SYS IMPROVE	1,200,000	5,567	262,395	5,481	(251,347)
F34818 INFO & TELECOM SYS & TECH U	400,000	138,624	48,746	50,890	140,768
F34847 BBP INSTITUTIONAL STRENGT	100,000	47,861	48,184	1,417	1,094
F3DDDU DRUG DETECTOR DOG UNIT	100,000	88,382	-	-	88,382
G3PRO1 PROPERTY REPAIRS & MAINT	100,000	88,579	62,798	2,378	28,159
G3VEH1 GOVT VEHICLE REPRS & ACQU	-	-	-	-	-
H34855 MOH UPS PURCHASE	150,000	148,900	427,500	-	(278,600)
J34921 PSS REMELIK HALFLIFE REF	64,000	-	-	-	-
J34925 JUVENILE DETENTION CENTER	10,000	-	-	-	-
M34834 INVASIVE SPECIES COMMITTEE	25,000	25,000	25,000	-	-
P34944 INDEPENDENCE DAY CELEB	100,000	63,195	58,061	-	5,134
P3PRS1 PRES IT IMPROVEMENTS	200,000	139,750	-	22,237	161,987
P3PRS2 PRESIDENT'S SUMMIT	25,000	23,839	25,897	-	(2,058)
R34809 SOLAR POWER GEN SYST 2013	300,000	18,800	268,800	-	(250,000)
R34813 MOF PARKING LOT CONCRETIN	65,000	61,541	15,754	-	45,787
R34816 POSTAL SERV PARKING CONCR	60,000	58,906	-	-	58,906
R34819 A/C CHILLERS & PREVENT	630,000	3,737	80,000	-	(76,263)
R34822 MOLD ERADICATION PKG D	50,000	(50,004)	-	-	(50,004)
R34827 STRUCTURAL REPAIR PKG E-I	840,000	459,930	210,000	49,446	299,376
R34828 ACCESS ROADS & PARKING RE	-	(93,750)	-	-	(93,750)
R34829 ELECMECH & CIV WKS PKGC	55,000	29,631	-	5,336	34,967
R34830 ANIMAL HUSBNDY PROJ 2013	300,000	-	-	240,000	240,000
R34837 GROUPER RESTOCKING 2013	500,000	-	-	-	-
R34966 MELEKEOK SEWER SYSTEM IMP	600,000	(186,391)	-	166,671	(19,720)
TOTAL FY2013 STIMULUS GRANTS	13,154,000	1,868,965	2,336,595	656,484	188,854

REPUBLIC OF PALAU

OTHER COUNTRY GRANTS FUND

Schedule of Expenditures of Other Country Grants, Continued
Year Ended September 30, 2015

Fund 440100 Grantor Account Title	Budget Authorizations	Receivable from Grantor (Deferred Revenue) at 9/30/14	Cash Receipts FY2015	Expenditures FY2015	Receivable from Grantor (Deferred Revenue) at 9/30/15
STATE ECONOMIC STIMULUS PACKAGE 2014					
B40101 NGERKEAI BAI IMPROVEMENTS	50,000	50,000	50,000	-	-
B40602 KB BRIDGE KOROR-SIDE PARK	300,000	-	175,500	274,083	98,583
B40603 NGERBECHED ROAD IMP	300,000	-	81,000	290,145	209,145
B40701 MELEKEOK WATERLINE-DISPEN	250,000	-	76,396	139,546	63,150
B40801 ULIMANG-NGESANG ROAD CONS	300,000	-	264,600	304,197	39,597
B40901 OKETOL DOCK ROAD IMPROVEM	300,000	-	264,600	316,778	52,178
B41001 NGARDMAU STATE ROAD REHAB	375,000	-	134,000	44,400	(89,600)
B41101 NGAREMLENGUI RD REHAB PH3	500,000	-	319,500	418,242	98,742
B41201 KOKSAI-NEKKEN-TTM RD IMPR	500,000	-	427,500	531,935	104,435
B41202 AGUACULTURE FISH PRODUCT.	200,000	200,000	-	-	200,000
B41301 NGCHESAR ROAD IMPROVEMENT	425,000	-	180,000	321,473	141,473
B41401 NGI WAL STATE RD REHAB PII	300,000	-	270,000	283,323	13,323
B41403 BACKHOE/LOADER	100,000	80,000	80,000	-	-
C44945 SOLAR LIGHTING-SWMNG POOL	200,000	-	175,322	197,165	21,843
E44870 SCH. RENOV/FIXTURES EQUI	1,200,000	902,981	1,125,885	217,065	(5,839)
F4TAX1 TAX INFO SYS UPGRADE PROJ	500,000	584	500,000	499,416	-
G44805 EXECUTIVE LUNCHEON FY14	18,000	-	25,000	17,690	(7,310)
G4PICR PICRC RES FACILITIES EXPA	400,000	-	80,000	4,410	(75,590)
G4SGS0 OERC MATCHING	50,000	-	(9,782)	46,986	56,768
G4SGS1 PVA-OTP HOLIDAY PROJECT	10,000	-	-	6,969	6,969
G4SGS2 BBP INSTITUTIONAL STRENGTH	100,000	29,738	50,000	65,766	45,504
G4SGS4 PNYC PROGRAM SUPPORT	15,000	-	-	15,000	15,000
G4SGS5 NGESECHEL A ERECHAR	25,000	-	25,000	25,000	-
G4SGS7 KRAMER WORKS TRANSLATION	25,000	70,000	-	(35,000)	35,000
G4SGS8 PCOG NGARABLOD	25,000	-	-	25,000	25,000
G4SGS9 NGARAARD COMMUNITY PRJCT	25,000	-	25,000	25,000	-
G4SG11 NGARCHELONG TARO FESTIVAL	15,000	-	-	15,000	15,000
G4SG12 10TH BELAU NATIONAL GAMES	32,000	-	-	32,000	32,000
G4SG13 NGARCHELONG COMM ACTIVITY	5,000	-	-	5,000	5,000
G4SG14 NGARARRD COMM ACTIVITIES	15,000	-	-	15,000	15,000
G4SG15 BMS COMMUNITY ACTIVITIES	3,000	-	-	3,000	3,000
H44856 BNH RO SYSTEM & PACS UPGR	500,000	-	384,800	384,800	-
J44926 AG OFFICE RENOVATION PRJ	30,000	-	-	30,191	30,191
P4MCSF MICRO CNTR 4 SUST FUTURE	200,000	-	-	4,128	4,128
P4NMS1 PNMS PIF OUTREACH '14	87,000	-	-	49,670	49,670
P4PNMS PAL NAT'L MARINE SANCTRY	300,000	-	75,000	258,243	183,243
P4PRS1 INDEPENDENCE DAY CELEBRAT	100,000	-	-	55,054	55,054
P4PRS2 PAC ISLS FORUM MEDIA	-	138,900	138,900	-	-
Q44807 PABLO RINGANG BLDG PROJ	432,000	-	392,000	406,889	14,889
R44830 ANIMAL HUSBANDRY	387,800	192,500	192,500	-	-
R44837 GROUPER RESTOCKING	362,200	332,500	332,500	-	-
S4HAYN ST HAIYAN HOUSING CONSTR.	1,500,000	574,612	1,182,904	756,202	147,910
TOTAL FY2014 STIMULUS GRANTS	10,462,000	2,571,815	7,018,125	6,049,766	1,603,456
STATE ECONOMIC STIMULUS PACKAGE 2015					
G5SGS2 BBP INSTITUTIONAL STRENGTH	-	-	-	84,558	84,558
M54830 AGRI PROJECT/ANIMAL HUSBANDRY	577,500	-	-	577,500	577,500
TOTAL FY2015 STIMULUS GRANTS	577,500	-	-	662,058	662,058

REPUBLIC OF PALAU

OTHER COUNTRY GRANTS FUND

Schedule of Expenditures of Other Country Grants, Continued
Year Ended September 30, 2015

Fund 440100 Grantor Account Title	Budget Authorizations	Receivable from Grantor (Deferred Revenue) at 9/30/14	Cash Receipts FY2015	Expenditures FY2015	Receivable from Grantor (Deferred Revenue) at 9/30/15
<u>ROC TAIWAN PROJECT CENTRAL ADMINISTRATIVE COST</u>					
P24999 ROC ADMIN COST	119,042	91,112	-	27,930	119,042
R24898 A/N ROAD ADDITIONAL	-	-	81,000	81,000	-
F44999 GEN. MANAGEMENT SUPPORT14	245,450	-	-	245,450	245,450
F54999 GEN. MANAGEMENT SUPPORT15	104,391	-	-	104,391	104,391
R04999 ROC TWN ADMIN COST	948,975	-	-	(68)	(68)
R14999 ROC TWN ADMIN COST	-	-	-	-	-
R24999 AIRAI NGERIKIL ROAD	-	185,254	307,037	121,783	-
SUB TOTAL	<u>1,417,858</u>	<u>276,366</u>	<u>388,037</u>	<u>580,486</u>	<u>468,815</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>(100,000)</u>	<u>-</u>	<u>-</u>	<u>(100,000)</u>
GRAND TOTAL	<u>\$ 25,671,358</u>	<u>\$ 4,617,146</u>	<u>\$ 9,742,757</u>	<u>\$ 7,948,794</u>	<u>\$ 2,823,183</u>

See Accompanying Independent Auditors' Report

REPUBLIC OF PALAU

OTHER NON-U.S. FEDERAL GRANTS FUND

**Schedule of Expenditures of Other Non-U.S. Federal Grants
Year Ended September 30, 2015**

Fund 360100 Grantor Account Title	Cost Center	Authorization	Receivable from Grantor (Deferred Revenue) at 9/30/14	Cash Receipts FY 2015	Expenditures FY 2015	Receivable from Grantor (Deferred Revenue) at 9/30/15
<u>UNFPA Grant</u>						
MCCA-GENDER POLICY 2013	C33920	\$ 10,000	\$ (358)	\$ -	\$ -	\$ (358)
GENDER FHSS FY'12 MOF	F2FHSS	53,159	30,809	-	-	30,809
GENDER FHSS 2013	F3FHSS	195,525	(74,737)	-	-	(74,737)
GENDER FHSS 2014	F4FHSS	46,000	2,842	9,939	8,800	1,703
GENDER FHSS FY'12	H2FHSS	48,665	51,802	-	-	51,802
RHCS FY'12	H2RHCS	15,000	3,895	-	-	3,895
Total UNFPA Grants		<u>368,349</u>	<u>14,253</u>	<u>9,939</u>	<u>8,800</u>	<u>13,114</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>(10,927)</u>	<u>-</u>	<u>-</u>
<u>UNCCD Grant Committee</u>						
UNCCD NAP FY15	R53923	50,000	-	30,000	35,556	5,556
UNCCD 4th National Report	A03923	4,000	155	155	-	-
UNCCD Gran Committee	S03923	22,950	(4,851)	(4,851)	-	-
Total UNCCD		<u>76,950</u>	<u>(4,696)</u>	<u>25,304</u>	<u>35,556</u>	<u>5,556</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>(546)</u>	<u>-</u>	<u>-</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	-	-	-	-
WHO OTHERS	H0WHO2	28,898	-	-	-	-
PHARMACY TECH ONLINE TRNG	H0WHO3	14,929	3,179	-	-	3,179
TOBACCO	H9WHO5	3,000	5,000	-	-	5,000
WHO HEALTHY WORK PLACE	H9WHO6	27,000	1	-	-	1
MOH LIBRARY UPGRD POLN	H1WHO6	39,700	700	-	-	700
NATIONAL STAKEHOLDER MTNG	H4WHO1	5,000	(5,000)	-	4,620	(380)
EBOLA WORKSHOP	H4WHO2	3,500	-	3,500	3,341	(159)
IMPLEM MOH STRATEGIC PLAN	H5WHO1	7,200	-	7,200	8,936	1,736
PH DRUGS & THERAPUTICS CO	H5WHO2	12,000	-	12,000	5,465	(6,535)
MHGAP TRAINING FY2015	H5WHO3	5,500	-	5,500	5,330	(170)
POST NEEDS ASSESSMENT	H5WHO4	10,575	-	-	4,081	4,081
WORLD NO TOBACCO DAY 2015	H5WHO5	9,715	-	20,290	4,625	(15,665)
ICD-10 WORKSHOP 2015	H5WHO6	3,200	-	3,200	3,235	35
ICD-10 PHASE II WRKSHP	H5WHO7	5,400	-	5,400	4,585	(815)
FIRST EMBRACE WRKSHP	H5WHO8	-	-	1,800	651	(1,150)
Total WHO APW health Career Trng		<u>182,407</u>	<u>2,092</u>	<u>58,890</u>	<u>44,869</u>	<u>(11,929)</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, 2015**

Fund 360100 Grantor Account Title	Cost Center	Authorization	Receivable from Grantor (Deferred Revenue) at 9/30/14	Cash Receipts FY 2015	Expenditures FY 2015	Receivable from Grantor (Deferred Revenue) at 9/30/15
<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	163,381	163,381	-	-
PACC EQPB PROJECT	R23930	-	6,174	6,174	-	-
Total Climate Change (UN) GET		<u>800,000</u>	<u>280,291</u>	<u>280,291</u>	<u>-</u>	<u>-</u>
<u>SPREP</u>						
Ozone Depleting Substance	A33936	50,000	1,397	-	-	1,397
Ozone Depleting Substance	A73936	-	9,037	-	-	9,037
Ozone Depleting Substance	A03936	60,000	-	-	-	-
Ozone Depleting Substance	A13936	38,688	(13,249)	-	-	(13,249)
Ozone Depleting Substance	A23936	75,000	(11,206)	30,000	38,888	(2,318)
Total SPREP		<u>223,688</u>	<u>(14,021)</u>	<u>30,000</u>	<u>38,888</u>	<u>(5,133)</u>
<u>UN Pops Grants</u>						
EQPB- UNEP POP/NIP 2013	R33938	27,000	(36,943)	-	3,639	(33,304)
Total UN Pops Grants		<u>27,000</u>	<u>(36,943)</u>	<u>-</u>	<u>3,639</u>	<u>(33,304)</u>
<u>UNICEF</u>						
UNICEF - PCPBR	H33940	22,450	(6,060)	-	-	(6,060)
Total UNICEF Grants		<u>22,450</u>	<u>(6,060)</u>	<u>-</u>	<u>-</u>	<u>(6,060)</u>
<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>22,619</u>	<u>-</u>	<u>-</u>
<u>8th OEK Orientation & WRKS</u>						
8th OEK Oreintation & WRKS	K93948	22,000	(281)	-	-	(281)
Support to ROP Congress Projects	K13948	200,000	(2,401)	-	1,578	(823)
Total Other Grants to OEK		<u>222,000</u>	<u>(2,682)</u>	<u>-</u>	<u>1,578</u>	<u>(1,104)</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>1,730</u>	<u>-</u>	<u>-</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>(14,664)</u>	<u>-</u>	<u>-</u>
<u>TNC GRANTS</u>						
PAN LEGAL FRAMEWORK FY13	M3TNC1	10,000	(8,503)	5,000	2,930	(10,573)
FISHERY DATA COLLECTION	M3TNC2	25,000	(3,044)	7,500	2,933	(7,611)
TUNA FISHERIES PROJECT	M53952	75,000	-	75,000	5	(74,995)
Total TNC Grants		<u>110,000</u>	<u>(11,547)</u>	<u>87,500</u>	<u>5,868</u>	<u>(93,179)</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, 2015**

Fund 360100 Grantor Account Title	Cost Center	Authorization	Receivable from Grantor (Deferred Revenue) at 9/30/14	Cash Receipts FY 2015	Expenditures FY 2015	Receivable from Grantor (Deferred Revenue) at 9/30/15
<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>9,287</u>	<u>-</u>	<u>-</u>
<u>SPREP Grants (Fruit Fly)</u>						
National Invasive Species	R33957	50,860	11,677	45,844	34,147	(20)
Total SPREP Grants		<u>50,860</u>	<u>11,677</u>	<u>45,844</u>	<u>34,147</u>	<u>(20)</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>(8)</u>	<u>-</u>	<u>-</u>
<u>Secretariat Pacific Comm</u>						
GCCA/PSIS OERC 2013	A33961	105,338	(42,203)	-	53,385	11,182
SPC-DRM-CC-BSRP	A43961	10,760	-	5,380	9,586	4,206
PLANTS BRFEEDING PROJ FY2015	A53961	11,264	-	11,264	7,225	(4,039)
Water Conservation Incentives	G43961	56,450	25	-	(25)	-
SPC-CLIMATE CHANGE - PPUC - WWO	G53961	14,816	-	-	-	-
MAP Water and Sewer Lines FY14	R43961	6,875	(6,875)	-	6,913	38
ENERGY PLANNER PEO	R53961	14,700	-	14,700	11,991	(2,709)
Total SPC Grants		<u>220,203</u>	<u>(49,053)</u>	<u>31,344</u>	<u>89,075</u>	<u>8,678</u>
<u>Pacific Island Forum</u>						
PAC ISLAND FORUM FY14	P43963	750,000	(592,063)	(181,488)	231,431	(179,144)
Total Pacific Island Forum Grants		<u>750,000</u>	<u>(592,063)</u>	<u>(181,488)</u>	<u>231,431</u>	<u>(179,144)</u>
<u>Republic of China Grants</u>						
HAIYAN- Health Donation	H43966	-	(86,887)	-	6,902	(79,985)
Ebassy of ROC Donation	N33966	-	(1,201)	-	-	(1,201)
Typhoon Haiyan Relief	N43966	-	(177,324)	-	110,350	(66,974)
PRES UN/PIF MEETING	P33966	50,000	137	-	(4,500)	(4,363)
KOREA DONATION TO KEC	S43966	-	(10,000)	-	10,000	-
Total Republic of China Grants		<u>50,000</u>	<u>(275,275)</u>	<u>-</u>	<u>122,752</u>	<u>(152,523)</u>
<u>Forum Secretariat Grants</u>						
PIFS PELELIU DS& PGS 2013	R33967	2,236,500	(41,799)	33,500	-	(75,299)
Total Forum Secretariat Grants		<u>2,236,500</u>	<u>(41,799)</u>	<u>33,500</u>	<u>-</u>	<u>(75,299)</u>
<u>Fisheries Forum Agency</u>						
Vessel Monitoring System	J13971	71,545	(32,705)	16,332	11,107	(37,930)
FFA PROJECTS	M4FFA0	175,040	(60,684)	50,006	82,234	(28,456)
AIRAI STATE PROJECT	M4FFA1	25,000	-	-	-	-
PALAU FISHING ASSOCIATION	M4FFA2	20,000	-	-	-	-
Palau PDF 15%	R03971	74,774	994	-	-	994
FFA 2013	R33971	25,000	(4,626)	-	-	(4,626)
Total Fisheries Forum Agency		<u>391,359</u>	<u>(97,021)</u>	<u>66,338</u>	<u>93,341</u>	<u>(70,018)</u>
<u>Tax Equipment Furniture & Supplies</u>						
GIS/GPS Training	R23973	32,291	(2,860)	(2,860)	-	-
		<u>32,291</u>	<u>(2,860)</u>	<u>(2,860)</u>	<u>-</u>	<u>-</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, 2015**

Fund 360100 Grantor Account Title	Cost Center	Authorization	Receivable from Grantor (Deferred Revenue) at 9/30/14	Cash Receipts FY 2015	Expenditures FY 2015	Receivable from Grantor (Deferred Revenue) at 9/30/15
<u>Australian Grants</u>						
MCCA-BPNA Palauan Language & CASP	C1ARC1	10,725	(12,248)	-	-	(12,248)
MCCA-BPNA Survey Analysis	C1ARC2	12,558	6,909	-	-	6,909
DYNA DATABASE	C5DAP1	17,000	-	17,000	6,775	(10,225)
TESOL TRAINING 2013	E33975	34,800	(18,960)	-	-	(18,960)
ANGAUR MACAQUE REMOVAL	M53975	100,000	-	100,000	-	(100,000)
CAP BLDG HUMAN RIGHTS FY'12	P23975	-	20,064	-	-	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>775,083</u>	<u>(4,235)</u>	<u>117,000</u>	<u>6,775</u>	<u>(114,460)</u>
<u>Japan Grants</u>						
JCM CRT 2015	M53976	5,581	-	5,581	900	(4,681)
Total Japan Grants		<u>5,581</u>	<u>-</u>	<u>5,581</u>	<u>900</u>	<u>(4,681)</u>
<u>SPREP Grants</u>						
CLEAN PACIFIC	R23979	2,000	(223)	(223)	-	-
Total SPREP Grants		<u>2,000</u>	<u>(223)</u>	<u>(223)</u>	<u>-</u>	<u>-</u>
<u>WildAid-Packard Foundation</u>						
EQPB EBM Project Cycle II	A03980	85,012	20,741	20,741	1,697	1,697
Total WildAid-Packard Foundation		<u>85,012</u>	<u>20,741</u>	<u>20,741</u>	<u>1,697</u>	<u>1,697</u>
<u>DYNA - COMPUTER SYSTEMS</u>						
PW MOH MILLION FY15	H53988	40,000	-	-	12,654	12,654
Total		<u>40,000</u>	<u>-</u>	<u>-</u>	<u>12,654</u>	<u>12,654</u>
<u>MOH SMALL GRANTS - OTHERS</u>						
MOH SEOW FY2011	H13991	100,000	(6,239)	-	1,358	(4,881)
MOH SEOW FY2012	H23991	75,000	(3,994)	-	1,486	(2,508)
MOH SEOW 2013	H33991	95,000	(8,909)	-	4,119	(4,791)
BUILD EVAL CAPACITY 2014	H4EDC1	24,000	(5,813)	6,000	9,870	(1,943)
Total MOH Small Grants		<u>294,000</u>	<u>(24,955)</u>	<u>6,000</u>	<u>16,833</u>	<u>(14,122)</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	-	-	-	-
IMLS LSTA 2013	E33992	40,720	40,720	40,720	-	-
IMLS LSTA 2014	E43992	58,500	-	58,500	58,500	-
Total LSTA State Grants		<u>181,982</u>	<u>38,884</u>	<u>97,384</u>	<u>58,500</u>	<u>-</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>-</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, 2015**

Fund 360100 Grantor Account Title	Cost Center	Authorization	Receivable from Grantor (Deferred Revenue) at 9/30/14	Cash Receipts FY 2015	Expenditures FY 2015	Receivable from Grantor (Deferred Revenue) at 9/30/15
<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>(1,036)</u>	<u>-</u>	<u>-</u>
<u>UNEP GRANTS</u>						
UNEP-GEF-SSFA-SRM	A58926	110,000	-	96,570	97,000	430
2ND NAT'L COMM 2013	M38926	50,400	(13,250)	-	4,245	(9,005)
NBSAP/ 5TH CBD RPT	R28926	220,000	50,839	130,492	60,820	(18,833)
NBSAP/ 5TH RPT CBD	R38926	-	503	-	-	503
Total UNEP Grants		<u>380,400</u>	<u>38,092</u>	<u>227,062</u>	<u>162,065</u>	<u>(26,905)</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>24,652</u>	<u>-</u>	<u>-</u>
<u>GENEVA GRANTS AND ASSISTANCE</u>						
GENEVA- GICHD 2012	S38951	34,300	(33)	-	-	(33)
REGIONAL UXO WORKSHOP	S48951	13,943	(309)	-	-	(309)
Total Geneva Grants and Assistance		<u>48,243</u>	<u>(342)</u>	<u>-</u>	<u>-</u>	<u>(342)</u>
<u>Other Foreign Grants</u>						
PIF Expenses	S48952	1,650,000	678,301	-	93,131	771,432
Total Other Foreign Grants		<u>1,650,000</u>	<u>678,301</u>	<u>-</u>	<u>93,131</u>	<u>771,432</u>
<u>HOSPITAL EQUIP - IINDIA GRT</u>						
Ministry of State Equipments	S08968	100,000	(3,570)	-	-	(3,570)
Submarine Cable Feasability	S18968	100,000	(947)	-	-	(947)
45TH PIF COMMITTEE	S48968	99,000	-	-	-	-
2ND FORUM FOR IPIC	S58968	55,274	-	55,274	25,000	(30,274)
Total India Grants		<u>354,274</u>	<u>(4,517)</u>	<u>55,274</u>	<u>25,000</u>	<u>(34,791)</u>
<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		<u>3,355,000</u>	<u>60,071</u>	<u>60,071</u>	<u>-</u>	<u>-</u>
<u>IWRM Project (SOPAC)</u>						
IWRM Project (SOPAC)	A78975	31,300	8,612	-	3,000	11,612
SOPAC-Ngerikiil Watershed	A98975	478,066	(34,576)	-	-	(34,576)
IWRM BOA	M98975	48,000	(2,748)	-	-	(2,748)
Water Policy Activities	P18975	42,900	6,803	-	-	6,803
IWRM EQPB LAB	R28975	23,500	(2,062)	-	2,000	(62)
IWRM Palaris	R98975	30,000	(5,343)	-	-	(5,343)
Total IWRM		<u>653,766</u>	<u>(29,314)</u>	<u>-</u>	<u>5,000</u>	<u>(24,314)</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, 2015**

Fund 360100 Grantor Account Title	Cost Center	Authorization	Receivable from Grantor (Deferred Revenue) at 9/30/14	Cash Receipts FY 2015	Expenditures FY 2015	Receivable from Grantor (Deferred Revenue) at 9/30/15
<u>MICRONESIAN CHALLENGE DONATION</u>						
Micronesia Challenge Donation TRKY	A78978	75,000	(35)	(35)	-	-
Total MC Donations		<u>75,000</u>	<u>(35)</u>	<u>(35)</u>	<u>-</u>	<u>-</u>
<u>ENERGY SECT IN 5 ACP ISLS</u>						
Energy Sect in 5 ACP Isls	F88979	287,650	3,094	3,094	17,063	17,063
PAL renewable energy NPE2	F8PE02	430,170	-	-	65,387	65,387
Tech. Coop. Facility	F0TFC1	147,000	43,930	43,930	-	-
TECH COOP FACILITY (2)	F2TCF2	-	6,042	6,042	-	-
Total Energy Grants		<u>864,820</u>	<u>53,066</u>	<u>53,066</u>	<u>82,450</u>	<u>82,450</u>
<u>Sustainable Land MGMT</u>						
Sustainable Land MGMT	A88983	475,000	(7,542)	(7,542)	-	-
Total SLM Grants		<u>475,000</u>	<u>(7,542)</u>	<u>(7,542)</u>	<u>-</u>	<u>-</u>
<u>Taiwan (ROC) Grants</u>						
UNFCC COP 20 Travel Support	A58984	21,107	-	21,107	20,580	(527)
Energy Support ASST-OPER	A88984	1,669,000	(231,000)	(231,000)	-	-
Total ROC Grants		<u>1,690,107</u>	<u>(231,000)</u>	<u>(209,893)</u>	<u>20,580</u>	<u>(527)</u>
<u>RESEARCH CORP UH-RCUH</u>						
PALAU CANCER REGISTRY	H38985	46,437	(14,961)	24,626	32,592	(6,995)
Total RCUH Grants		<u>46,437</u>	<u>(14,961)</u>	<u>24,626</u>	<u>32,592</u>	<u>(6,995)</u>
<u>Turkey Grants</u>						
Continental Shelf - Ext	R98986	150,000	848	848	-	-
Peleliu Multipurpose Gymnasium	S98686	150,000	-	-	-	-
Total Turkey Grants		<u>300,000</u>	<u>848</u>	<u>848</u>	<u>-</u>	<u>-</u>
<u>STATISTICS</u>						
Socio Economic Assessment	F98987	4,110	-	-	-	-
	H18987	35,000	32,636	32,636	-	-
Total Statistics		<u>39,110</u>	<u>32,636</u>	<u>32,636</u>	<u>-</u>	<u>-</u>
<u>Continental Shelf 09-00180</u>						
Contintal Shelf	R98988	154,765	(31,184)	-	(1,173)	(32,357)
Total Continental Shelf		<u>154,765</u>	<u>(31,184)</u>	<u>-</u>	<u>(1,173)</u>	<u>(32,357)</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>(23,250)</u>	<u>-</u>	<u>-</u>
<u>Universities Grants</u>						
Reach Chip Project FY2015-Uiniversity of Hawaii	H58990	11,500	-	8,000	5,520	(2,480)
Total Universities		<u>11,500</u>	<u>-</u>	<u>8,000</u>	<u>5,520</u>	<u>(2,480)</u>
<u>Dubai Grants</u>						
MBD FUNDING- AIRFARES	S38991	-	2,500	2,500	-	-
Total Dubai Grants		<u>-</u>	<u>2,500</u>	<u>2,500</u>	<u>-</u>	<u>-</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, 2015

Fund 360100 Grantor Account Title	Cost Center	Authorization	Receivable from Grantor (Deferred Revenue) at 9/30/14	Cash Receipts FY 2015	Expenditures FY 2015	Receivable from Grantor (Deferred Revenue) at 9/30/15
<u>SAMHSA</u>						
BHSIS 2014	H48993	42,033	(19,530)	-	18,459	(1,071)
BHSIS 2015	h58993	61,813	-	61,813	61,117	(696)
Total SAMHSA		<u>103,846</u>	<u>(19,530)</u>	<u>61,813</u>	<u>79,576</u>	<u>(1,767)</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>(50,000)</u>	<u>-</u>	<u>-</u>	<u>(50,000)</u>
<u>ADB - HIES</u>						
Palau HIES TA8581-REG	F58995	180,000	-	180,000	64,679	(115,321)
Total ADB - HIES		<u>180,000</u>	<u>-</u>	<u>180,000</u>	<u>64,679</u>	<u>(115,321)</u>
<u>PARTIES TO THE NAURU FUND</u>						
PAN - MPA	R58996	80,000	-	80,000	52,286	(27,714)
Total ADB - HIES		<u>80,000</u>	<u>-</u>	<u>80,000</u>	<u>52,286</u>	<u>(27,714)</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>25,000</u>	<u>-</u>	<u>-</u>
Total Other Grants		<u>\$ 18,150,920</u>	<u>\$ (224,043)</u>	<u>\$ 1,380,992</u>	<u>\$ 1,429,008</u>	<u>\$ (188,909)</u>

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