# REPUBLIC OF PALAU

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

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## YEAR ENDED SEPTEMBER 30, 2014

# REPUBLIC OF PALAU

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

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## YEAR ENDED SEPTEMBER 30, 2014

**REPUBLIC OF PALAU**

FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2014

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**REPUBLIC OF PALAU**

FINANCIAL STATEMENTS
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# INDEPENDENT AUDITORS' REPORT

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

## Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Republic of Palau (the Republic) as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the Republic's basic financial statements as set forth in Section III of the foregoing table of contents.

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

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

### *Auditors' Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of National Development Bank of Palau, Palau Community College, Palau National Communications Corporation, and Palau District Housing Authority, which represent 50%, 31%, and 40%, respectively, of the assets, net position, and operating revenues of the Republic's discretely presented component units. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for National Development Bank of Palau, Palau Community College, Palau National Communications Corporation, and Palau District Housing Authority, is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

***Opinions***

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Republic of Palau as of September 30, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis-of-Matters***

*Implementation of New Accounting Standards*

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

*Uncertainty*

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

Our opinion is not modified with respect to these matters.

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 16 as well as the Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund and notes thereto, on pages 73 and 74, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by GASB who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Supplementary Information*

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2015 on our consideration of the Republic's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Republic's internal control over financial reporting and compliance.

Deloitte + Touche LLP

June 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, 2014. We encourage readers to consider the information presented here in conjunction with the Republic's basic financial statements, which follow this section. Fiscal year 2013 comparative information has been included, where appropriate.

## FINANCIAL HIGHLIGHTS

- The assets of the Republic exceeded its liabilities at the close of the most recent fiscal year by $350.3 million (net position), increased by $3.7 million (or 1%) from net position of $346.6 million in the prior year. Of this amount, $157.5 million represents the Republic's investment in capital assets; $201.1 million represents amounts restricted for various purposes, with the remaining deficiency of $8.2 million to be funded from future governmental activities.

- During the current fiscal year, the Republic's expenses for governmental activities were $118.5 million and were funded in part by $49.2 million in program revenues and $57.2 million in taxes and other general revenues. General revenues increased by $5.8 million (or 11.2%) from $51.4 million in the prior year to $57.2 million, which was attributable primarily to the increase in tax and unrestricted grant revenues of $5.2 million and $8.2 million, respectively. Expenses increased by $3.1 million (or 2.6%) from $115.4 million in the prior year to $118.5 million, which was attributable primarily to the increase in general government expenses.

- The Compact Section 211(f) Trust Fund generated net revenues of $14.5 million in the current fiscal year offset by an appropriation of $5 million representing the transfer out to the General Fund as budgetary support, increasing the Republic's trust fund balance to $199.1 million from $189.6 million in the prior year (up 5.0%).

- For the current fiscal year, the General fund revenues (and other financing sources) of $80.1 million exceeded general fund expenditures (and other financing uses) of $68.7 million. General fund revenues (and other financing sources) were up $9.1 million (or 12.9%) from prior year primarily due to increases in taxes, license and permits and loan proceeds received in 2014. General Fund appropriations (and other financing uses), on the other hand, decreased by $2 million (or 2.8%) from prior year.

## OVERVIEW OF THE FINANCIAL STATEMENTS

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

### Government-wide Financial Statements

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

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

- Over time, increases or decreases in the Republic's net position are an indicator of whether its financial health is improving or deteriorating, respectively.

- To assess the overall health of the Republic, additional non-financial factors such as changes in the Republic's tax base, the condition of the Republic's roads and infrastructure, and the quality of services needs to be considered.

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

- Primary government – this grouping comprises governmental activities, which includes most of the Republic's basic services such as education, health and welfare, public safety, and general administration. Compact and other federal grants finance most activities of the primary government.

- Discretely presented component units – the Republic includes numerous other entities in its report. Although legally separate, these "component units" are important because the Republic is financially accountable for them.

**Fund Financial Statements**

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

- Some funds are required by Olbiil Era Kelulau legislation.

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

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

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

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

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

### Notes to the Financial Statements

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

### Other Information

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

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

## A FINANCIAL ANALYSIS OF THE REPUBLIC AS A WHOLE

### Net Position

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Republic, assets exceeded liabilities by $350.3 million at the close of the most recent fiscal year. However, this net position is either restricted as to the purpose it can be used for or is invested in capital assets. The Republic uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Republic's investment in its capital assets in reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate the liabilities. The majority of the Republic's net position is comprised of its capital assets net of long-term liabilities. Current assets and liabilities are amounts that are available in the current period and obligations that will be paid within one year, respectively. The Republic's current assets amounted to $30.4 million while its current liabilities were $23.6 million. Restricted net position represents resources that are subject to external constraints. The table below summarizes the Republic's net position at the close of the current year compared with prior year.

Net Position
As of September 30

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

At the end of the current fiscal year, the Republic's unrestricted net position deficiency was $8.2 million, a decrease of $5.3 million (or 39.2%) from the prior year amount. This deficiency is the result of having long-term commitments that are greater than currently available resources. Specifically, the Republic did not include in past annual budgets the full amounts needed to finance future liabilities arising from MICB and ADB loans as well as to pay for unused employee annual leave balances. The Republic will include these amounts in future years' budgets as they become due.

## Changes in Net Position

As noted earlier, net position of the primary government increased by $3.7 million, representing an increase of 1.1% from the prior year's amount of $346.6 million. This result indicates that the Republic's financial condition, as a whole, improved slightly from the prior year. The table below summarizes the Republic's change in net position for the current fiscal year as compared with prior year.

Changes in Net Position
For the Year Ended September 30

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

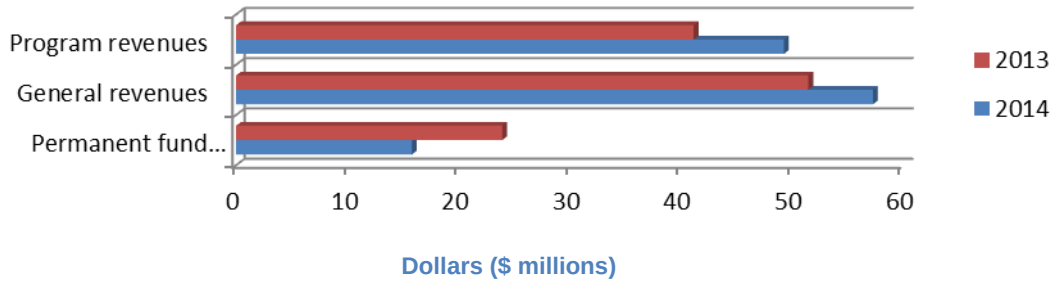
| | | | |
|---|---|---|---|
| General revenues: | | | |
| Taxes | 41,947,910 | 36,783,530 | 14.0% |
| Other general revenues | 15,222,451 | 14,642,429 | 4.0% |
| | 57,170,361 | 51,425,959 | 11.2% |
| Total revenues | 106,424,309 | 92,488,873 | 15.1% |
| Expenses: | | | |
| General government | 30,173,475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

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

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

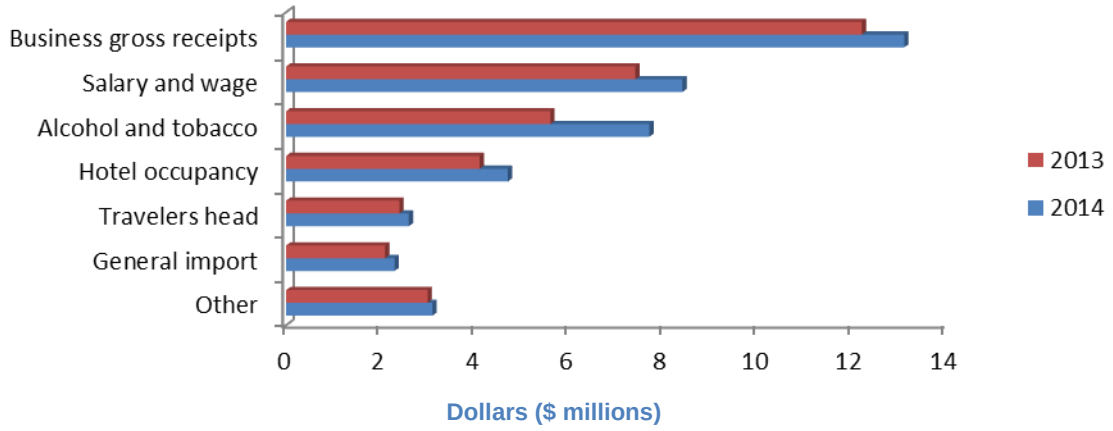
A graphic summary of program revenues, general revenues and permanent fund contributions received by the Republic for the current year compared with prior year follows:

Graph 1
Revenues
For the Years Ended September 30



A significant portion of the Republic's general revenues involves tax revenue collections. At $41.9 million in the current year, tax revenues were higher than the $36.8 million collected in the prior year. A graphic summary of the Republic's tax revenue collections for the current year compared with prior year follows:

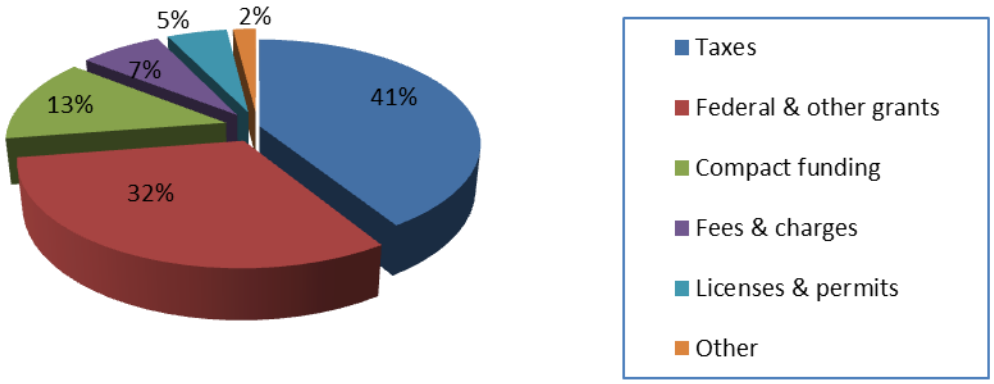
Graph 2
Tax Revenues
For the Years Ended September 30




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

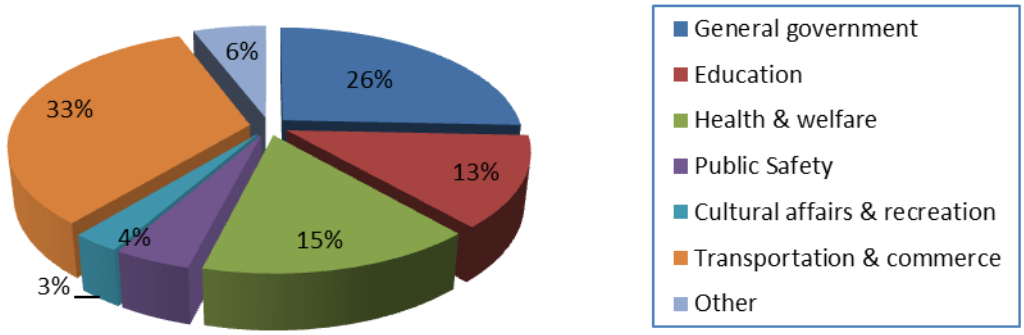
Graphs 3 and 4 below indicate the major component of revenues and cost of governmental activities.

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



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

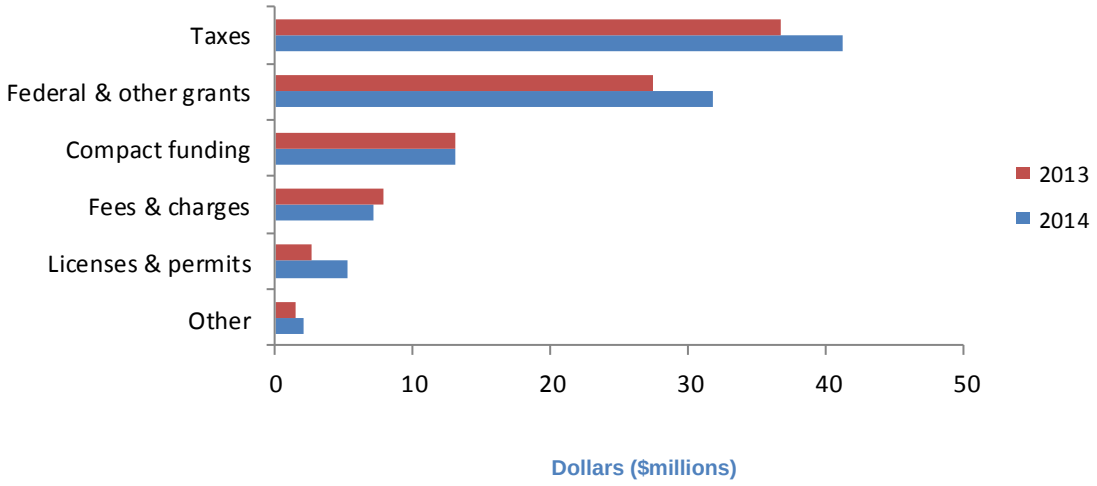
Graph 4
Cost of Governmental Activities
For the Year Ended September 30, 2014




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

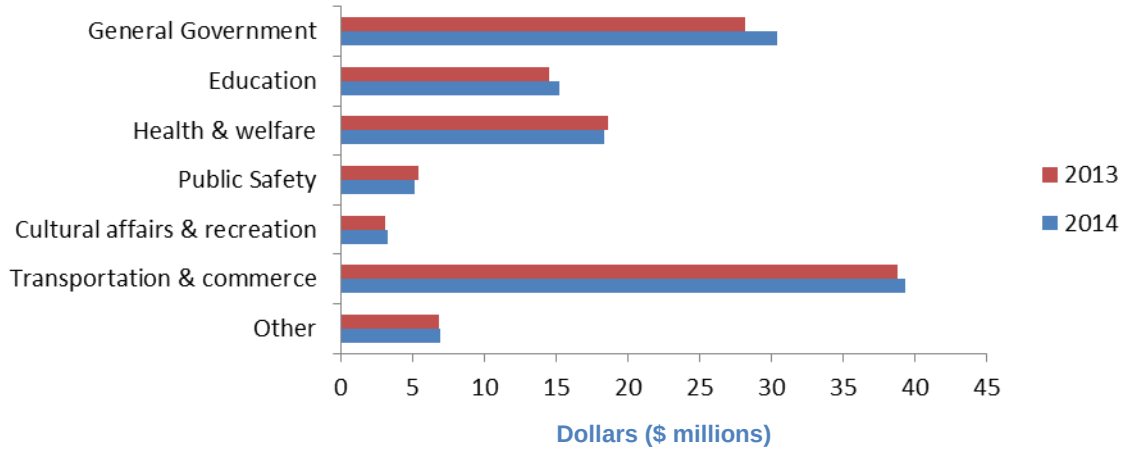
Graphs 5 and 6 below show a comparison of the major components of revenues and cost of governmental activities for fiscal years 2014 and 2013.

Graph 5
Revenue sources
For the Years Ended September 30



Graph 6

Cost of Governmental Activities
For the Years Ended September 30




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

**Analysis of Changes in Net Position**

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

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

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

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

## FINANCIAL ANALYSIS OF THE REPUBLIC'S FUNDS

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

### Governmental Funds

The focus of the Republic's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Republic's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. As of the end of the current fiscal year, the Republic's governmental funds reported combined ending fund balances of $215.6 million, which represents an increase of $22.7 million (or 11.7%) in comparison with the prior year. This increase is primarily attributable to an increase in grant revenues. Of this total combined fund balance, $202.0 million is designated as non spendable and cannot be spent either because it is not in a spendable form or because of legal or contractual constraints; $3.2 million is designated as restricted and is constrained for specific purposes which are externally imposed; and $ 1.7 million is designated as committed and is constrained for specific purposes which are internally imposed. The combined unassigned fund balance of the Republic's governmental funds is $8.7 million.

The General Fund is the chief operating fund of the Republic. At the end of the current fiscal year, the unassigned fund balance of the General fund was $9.2 million. Total fund balance was $11.5 million compared with a total fund balance of $0.1 million at the end of the prior fiscal year.

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

The Compact Section 211(f) Trust Fund has a total fund balance of $199.2 million, all of which is restricted for the funding of future operations of the primary government. The net increase in fund balance during the current year in the Compact Section 211(f) Trust Fund was $9.5 million (or 4.8), which reflects a transfer of $5 million to the Republic's General Fund and a net increase in the value of trust fund investments of $14.5 million.

## GENERAL FUND BUDGETARY HIGHLIGHTS

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

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

The Republic's investment in capital assets for its governmental activities as of September 30, 2014 amounted to $418.9 million (including $18.2 million of land and construction in progress), net of accumulated depreciation of $249.8 million, leaving a net book value of $169.1 million. This represents a decrease of $14.5 million from the amount of $183.6 million reported in the prior year. The Republic's capital assets include machinery and equipment, vehicles, infrastructure, roads, bridges, buildings, land and various projects under construction.

Capital Assets
September 30,
(Net of depreciation)

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

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

- Completion of the following infrastructure projects:

| Infrastructure Project | Current Year Additions ($ millions) | Completed Cost ($ millions) |
|---|---|---|
| One light project | $ 0.20 | $ 0.20 |
| Capitol Access Roads in Melekeok | $ 0.39 | $ 0.39 |
| Compact Road | $ 6.48 | $ 6.48 |
| Ngaraard Road | $ 0.30 | $ 0.30 |
| Ngardmau State Rd | $ 0.29 | $ 0.29 |
| Ngatpang Road | $ 0.40 | $ 0.40 |
| Ngchesar Road | $ 0.47 | $ 0.47 |
| Ngiwal Road | $ 0.25 | $ 0.25 |
| KES 40-kw Solar power generating system | $ 0.27 | $ 0.27 |

- Acquisition of the following machinery and equipment:

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

- Ongoing construction in progress of the following infrastructure projects:

| Infrastructure Project | Current Year Additions ($ millions) | Completed Cost ($ millions) |
|---|---|---|
| PIA Secondary Apron Phase II, Stage 1-A | $ 3.60 | $ 13.50 |
| Palau International Airport Master Plan | $ 0.26 | $ 0.26 |
| Melekeok Sewer Pump Improvements | $ 0.10 | $ 0.40 |
| Pablo Ringang Building | $ 0.15 | $ 0.15 |

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

**Long-term Debt**

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

Outstanding Long-term Debt
September 30

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

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

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

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

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

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

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

## CONTACTING THE REPUBLIC'S FINANCIAL MANAGEMENT

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

# REPUBLIC OF PALAU

## Statement of Net Position
September 30, 2014

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

See accompanying notes to basic financial statements.

## REPUBLIC OF PALAU

Statement of Activities
Year Ended September 30, 2014

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

See accompanying notes to basic financial statements.

# REPUBLIC OF PALAU

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

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

| | | |
|---|---|---|
| Amounts reported for governmental activities in the statement of net position are different because: | | |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds | | 169,137,210 |
| Long-term liabilities, including loans payable, are not due and payable in the current period and therefore are not reported in the funds. The liabilities include: | | |
| Long-term obligations | (27,446,752) | |
| Compensated absences | (3,813,643) | |
| Accrued interest payable | (166,642) | |
| Due to U.S. Government | (3,000,000) | |
| | | (34,427,037) |
| Net position of governmental activities | | $ 350,342,428 |

See accompanying notes to basic financial statements.

# REPUBLIC OF PALAU

## Statement of Revenues, Expenditures, and Changes in Fund Balances
## Governmental Funds
## Year Ended September 30, 2014

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

See accompanying notes to basic financial statements.

**REPUBLIC OF PALAU**

Reconciliation of the Governmental Funds
Statement of Revenues, Expenditures, and Changes in
Fund Balances to the Statement of Activities
Year Ended September 30, 2014

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

| | | |
|---|---|---|
| Net change in fund balances - total governmental funds | | $ 22,657,626 |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeds capital outlays in the current period. For the current year, these activities consist of: | | |
| Capital outlays, net of disposals | $ 11,666,717 | |
| Depreciation expense, net | (26,121,460) | |
| | | (14,454,743) |
| The incurrence of long-term debt (e.g., loans) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position. For the current year, these amounts consist of: | | |
| Repayment of MICB loans | $ 1,599,998 | |
| Repayment of ADB loan | 283,133 | |
| Proceeds from ADB loan | (6,200,000) | |
| | | (4,316,869) |
| Some expenses reported in the statement of activities do not require the use of current financial resources and therefore, are not reported as expenditures in governmental funds. These expenses include accrued annual leave and interest payable that are reported in the statement of activities, but not in funds. For the current year, these activities consist of: | | |
| Change in compensated absences payable | $ (159,144) | |
| Change in accrued interest payable | 15,418 | (143,726) |
| Change in net position of governmental activities. | | $ 3,742,288 |

See accompanying notes to basic financial statements.

**REPUBLIC OF PALAU**

Statement of Fiduciary Net Position
Fiduciary Funds
September 30, 2014

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

See accompanying notes to basic financial statements.

**REPUBLIC OF PALAU**

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

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

See accompanying notes to basic financial statements.

# REPUBLIC OF PALAU

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

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

See accompanying notes to basic financial statements.

# REPUBLIC OF PALAU

## Combining Statement of Revenues, Expenses, and Changes in Net Position
## Component Units
## Year Ended September 30, 2014

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

See accompanying notes to basic financial statements.

## (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.

(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.

(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.

## (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.

(1) Summary of Significant Accounting Policies, Continued

B. Government-Wide Financial Statements, Continued

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

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

- *Net investment in capital assets* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt that are attributed to the acquisition, construction or improvement of those assets.

- *Restricted net position* consists of resources in which the Republic is legally or contractually obligated to spend resources in accordance with restrictions either externally imposed by creditors, grantors, contributors, and the like, or imposed by law.

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

The government-wide Statement of Net Position reports $201,111,405 of restricted net position, of which $1,731,657 is restricted by enabling legislation.

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

C. Fund Financial Statements

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

(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.

(1) Summary of Significant Accounting Policies, Continued

D. Measurement Focus and Basis of Accounting, Continued

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

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

- General Fund - This fund is the primary operating fund of the Republic. It is used to account for all governmental transactions, except those required to be accounted for in another fund.

- Grants Fund - a Special Revenue Fund that accounts for grants received from the United States government and other donor countries.

- Compact Section 211(f) Fund - a Permanent Fund that accounts for funds provided pursuant to the Compact of Free Association, Section 211(f). Under the terms and conditions of Section 211(f) of the Compact and subsidiary agreements, the Republic may expend an agreed minimum annual distribution from accrued interest of the Fund. This amount has been determined to be $5,000,000 annually for the first fifteen years of the Compact. The objective for the Fund is to allow annual distributions from accrued interest of $15,000,000 annually after the fifteenth year of the Compact.

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

In addition, the Republic reports the following fiduciary funds:

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

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

(1) Summary of Significant Accounting Policies, Continued

E. Cash and Cash Equivalents and Time Certificates of Deposit

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

F. Investments

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

G. Receivables

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

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

H. Inventories

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

I. Prepaid Items

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

J. Interfund Receivables and Payables

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

(1) Summary of Significant Accounting Policies, Continued

K. Restricted Assets

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

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

L. Capital Assets

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

Management has elected to present only assets acquired subsequent to 1980, except for buildings. Accordingly, fixed assets records consist of additions commencing in fiscal year 1980. The Republic has elected to prospectively report general infrastructure assets in the government-wide financial statements and have retroactively reported all major general infrastructure assets at September 30, 2014.

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

| | Estimated Useful Life |
|---|---|
| Buildings and other improvements | 15 - 50 years |
| Infrastructure | 10 - 20 years |
| Vehicles | 5 years |
| Machinery and equipment | 4 - 20 years |

M. Deferred Outflows of Resources

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

(1) Summary of Significant Accounting Policies, Continued

N. Interfund/Intrafund Transactions

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

O. Unearned Revenues

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

P. Compensated Absences

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

Q. Deferred Inflows of Resources

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

R. Fund Equity

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

- Non-spendable - includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.

(1) Summary of Significant Accounting Policies, Continued

R. Fund Equity, Continued

- Restricted - includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

- Committed - includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.

- Assigned - includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed.

- Unassigned includes negative fund balances in other governmental funds.

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

A formal minimum fund balance policy has not been adopted.

S. Risk Financing

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

T. New Accounting Standards

During fiscal year 2014, the Republic implemented the following pronouncements:

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

(1) Summary of Significant Accounting Policies, Continued

T. New Accounting Standards, Continued

- GASB Statement No. 67, *Financial Reporting for Pension Plans, which* revises existing guidance for the financial reports of most pension plans.

- GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. The implementation of this statement did not have a material effect on the accompanying financial statements.

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

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

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

U. Encumbrances

The Republic utilizes encumbrance accounting to identify fund obligations. Encumbrances represent commitments related to unperformed contracts for goods. At September 30, 2014, the Republic has significant encumbrances summarized as follows:

| General | Grants | Compact Section 211(f) | Other Governmental | Total |
|---|---|---|---|---|
| $ 883,064 | $ 7,075,840 | $ - | $ 293,537 | $ 8,252,441 |

(1) Summary of Significant Accounting Policies, Continued

V. Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenditures and expenses during the reporting period. Actual results could differ from those estimates.

W. Total Columns

Total columns are presented primarily to facilitate financial analysis. The Management's Discussion and Analysis includes certain prior year summarized comparative information in total. Such information does not include sufficient detail to constitute a full comparative presentation. Accordingly, such information should be read in conjunction with the Republic's financial statements for the year ended September 30, 2013 from which summarized information was derived.

(2) Deposits and Investments

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

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

(i) Time Horizon: Investment guidelines are based upon an investment horizon of greater than twenty years, so that interim fluctuations should be viewed with appropriate perspective. Strategic asset allocation is based on this long-term perspective.

(ii) Risk Tolerance: Risk is evaluated by:

- Over a market cycle, risk associated with any Investment Managers portfolio, as measured by the variability of quarterly returns (standard deviation) must not exceed that of the Investment Manager's respective performance benchmark, without a commensurate increases in return;
- Over a market cycle, risk associated with the total Fund, as measured by the variability of quarterly returns (standard deviation) must not exceed that of the blend of indices representing that strategic asset allocation of the Fund, without a commensurate increase in return; and
- During market cycles the risk measures, as indicated herein, will be reviewed periodically by the Fund's Management Committee (Committee).

(iii) Performance Expectations: The investment objective is a long-term nominal rate of return on assets that is at least equal to 6.0%. This target rate of return for the Fund was derived from earnings assumptions employed in the renewed terms of the COFA agreed upon by and between the ROP and the U.S. Government in September 2010. The rate was based upon modeling that employed the assumption that future real returns will approximate the long-run rates of return experienced for various asset class.

(2) Deposits and Investments, Continued

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

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

| Asset class | Lower limit | Strategic Allocation | Upper limit |
|---|---|---|---|
| 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.

## (2) Deposits and Investments, Continued

### A. Deposits, Continued

As of September 30, 2014, the carrying amount of the primary government's total cash and cash equivalents was $9,604,717 and the corresponding bank balances were $12,064,592. Of the bank balances, $11,700,663 is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2014, bank deposits in the amount of $500,000 were FDIC insured. The remaining bank deposits of $363,929 are maintained in financial institutions not subject to depository insurance. The Republic does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

As of September 30, 2014, the carrying amount of the fiduciary fund's total cash and cash equivalents was $13,428,133 and the corresponding bank balances were $5,847,260, which are maintained in financial institutions subject to FDIC insurance. As of September 30, 2014, bank deposits in the amount of $500,000 were FDIC insured. The Republic does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

As of September 30, 2014, the carrying amount in the aggregate of the discretely presented component units' total cash and cash equivalents and time certificates of deposit was $22,242,338 and the corresponding bank balances were $22,946,320. Of the bank balances, $22,945,273 is maintained in financial institutions subject to FDIC insurance or held and administered by investment managers subject to Securities Investor Protection Corporation (SIPC) insurance. As of September 30, 2014, bank deposits in the amount of $4,729,842 were FDIC or SIPC insured. The remaining bank deposits of $1,047 are maintained in financial institutions not subject to depository insurance. The component units do not require collateralization of their cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

### B. Investments

As of September 30, 2014, investments of the primary government recorded at fair value are as follows:

| | |
|---|---|
| General Fund: | |
| Fixed income | $ 1,362,306 |
| Equities | 2,016,621 |
| Money market funds | 550,469 |
| | 3,929,396 |
| Compact Section 211(f) Trust Fund: | |
| Fixed income | 47,518,030 |
| Equities | 141,390,654 |
| Alternative | 4,538,495 |
| Money market funds | 5,975,240 |
| | 199,422,419 |

(2) Deposits and Investments, Continued

B. Investments, Continued

| | |
|---|---|
| Nonmajor Governmental Funds: | |
| Fixed income | 1,201,414 |
| Equities | 1,849,106 |
| Money market funds | 23,225 |
| | 3,073,745 |
| | $ 206,425,560 |

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

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, the Republic will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The Republic's investments are held and administered by trustees in accordance with various trustee agreements. Based on negotiated trust and custody contracts, all of these investments were held in the Republic's name by the Republic's custodial financial institutions at September 30, 2014.

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

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

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. As of September 30, 2014, there were no investments in any one issuer that exceeded 5% of total investments.

Fixed income maturities of the general fund are as follows:

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

## (2) Deposits and Investments, Continued

### B. Investments, Continued

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

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

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

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

(2) Deposits and Investments, Continued

B. Investments, Continued

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

| | |
|---|---|
| Equities | $ 15,526,527 |
| Fixed income | 27,277,779 |
| Mutual funds | 40,986,780 |
| Money market funds | 644,126 |
| | $ 84,435,212 |

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;

(2) Deposits and Investments, Continued

B. Investments, Continued

(3) U.S. Equities, Continued

c. Equity portfolios shall be diversified among issuers and industry classifications. The market value of the equity holdings in a single corporation should not exceed 5%, nor 5% of the corporation's total market capitalization; and

d. An investment manager's firm aggregate equity position should not exceed 5% of the corporation's total market capitalization.

(4) International Equities

a. Equity securities of Corporations provided they are listed on the stock exchange of countries included in the Morgan Stanley Capital International (MSCI) All Country World excluding US Index;

b. ADRs, European Depository Receipts (EDRs) and Global Depository Receipts (GDRs) relating to any of the above are allowable; and

c. Portfolios shall be diversified among issuers, industry classifications and countries. The market value of the equity holdings in a single corporation should not exceed 5% of the market value of the portfolio under management by the Fund's investment manager.

As of September 30, 2014, maturities of investments in fixed income securities for the Republic of Palau Social Security Retirement Fund were as follows:

| | | Investment Maturities (In Years) | | | | |
|---|---|---|---|---|---|---|
| Investment Type | Fair Value | Less Than 1 | 1 - 5 | 6 - 10 | More Than 10 | Credit Rating |
| U.S. Treasury notes | $ 5,240,590 | $ 677,706 | $ 2,592,448 | $ 993,768 | $ 976,668 | Aaa |
| Other U.S. government obligations | 4,379,416 | 150,574 | 2,844,560 | 1,053,598 | 330,684 | Aaa |
| Other U.S. government obligations | 897,392 | - | 507,545 | - | 389,847 | Unrated |
| Mortgage pass throughs | 2,989,475 | - | 18,359 | 94,861 | 2,876,255 | Aaa |
| State and local government | 420,596 | - | 20,002 | 203,768 | 196,826 | Aaa |
| State and local government | 599,019 | 15,050 | 432,284 | 27,200 | 124,485 | Aa |
| State and local government | 10,115 | - | 10,115 | - | - | A |
| Asset-backed securities | 175,021 | - | 175,021 | - | - | Aaa |
| Corporate bonds | 1,382,050 | 44,586 | 653,267 | 546,748 | 137,449 | Aaa |
| Corporate bonds | 3,175,811 | 260,573 | 1,498,855 | 1,084,823 | 331,560 | Aa |
| Corporate bonds | 4,570,064 | 520,075 | 1,361,736 | 1,628,014 | 1,060,239 | A |
| Corporate bonds | 2,167,696 | - | 1,146,469 | 896,833 | 124,394 | Baa |
| Corporate bonds | 1,270,534 | 25,064 | 812,973 | - | 432,497 | Unrated |
| | $ 27,277,779 | $ 1,693,628 | $ 12,073,634 | $ 6,529,613 | $ 6,980,904 | |

(2) Deposits and Investments, Continued

B. Investments, Continued

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

| | |
|---|---|
| Equities | $ 16,690,046 |
| Fixed income | 11,341,530 |
| Mutual Funds | 3,542,714 |
| Money market funds | 1,008,709 |
| | $ 32,582,999 |

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.

(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.

(2) Deposits and Investments, Continued

B. Investments, Continued

Equities, Continued:

(C) The investment managers shall have the discretion to invest a portion of the assets in cash reserves when they deem appropriate. However, as per the IPS, they will be evaluated against their performance benchmarks and peers on the performance of the total funds under their direct management.

(D) Common stock and preferred stock of any institution or entity created or existing under the laws of the United States or any other country are permissible investments.

Cash/Cash Equivalents:

(A) Cash equivalent reserves shall consist of cash instruments having a credit quality rating of Standard & Poor's A-1, Moody's P-1, or their equivalent. U.S. Treasury and Agency securities, Banker Acceptances, Certificate of Deposit, and Collateralized Repurchase Agreements are also acceptable investment vehicles. Custodial Sweep Accounts must be, in the judgment of the Investment Managers, of credit quality equal or superior to the standards described above.

(B) In the case of Certificates of Deposit, except as discussed under Fixed Income with respect to the Local CDs, they must be issued by FDIC insured institutions. Deposits in institutions with less than $10 million in assets may not be made in excess of $100,000 (or prevailing FDIC insurance limit), unless the Deposit is fully collateralized by U.S. Treasury Securities.

(C) No single issue shall have a maturity of greater than two years.

(D) Custodial Sweep Account portfolios must have an average maturity of less than one year.

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

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

## (2) Deposits and Investments, Continued

### B. Investments, Continued

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

Palau Community College (PCC):

| | Fair Value |
|---|---|
| Fixed income | $ 1,127,669 |
| Domestic equities | 1,557,358 |
| Cash and cash equivalents | 102,445 |
| Non-U.S. equities | 848,528 |
| | $ 3,636,000 |

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

| | | Investment Maturities (In Years) | | | | Ratings | |
|---|---|---|---|---|---|---|---|
| Investment Type | Fair Value | Less Than 1 | 1 - 5 | 6 - 10 | More than 10 | Moody | Standard & Poor's |
| Government securities | $ 270,648 | $ - | $ 270,648 | $ - | $ - | AAA | No rating |
| Corporate bonds | 11,186 | - | 11,186 | - | - | BAA2 | BBB |
| Corporate bonds | 10,147 | - | 10,147 | - | - | AA2 | AA |
| Corporate bonds | 11,192 | - | 11,192 | - | - | A3(-) | A- |
| Corporate bonds | 8,014 | -- | 8,014 | - | - | BAA1 | A- |
| Government securities | 66,725 | - | 66,725 | - | - | AAA | No rating |
| Government securities | 34,558 | - | 34,558 | - | - | AAA | No rating |
| Government securities | 82,451 | - | 82,451 | - | - | AAA | No rating |
| Government securities | 199,247 | -- | 199,247 | - | - | AAA | No rating |
| Corporate bonds | 11,209 | - | 11,209 | - | - | BAA2 | BBB+ |
| Corporate bonds | 11,060 | - | 11,060 | - | - | BAA3 | BBB- |
| Corporate bonds | 11,038 | - | 11,038 | - | - | BAA2 | A- |
| Corporate bonds | 9,553 | - | - | 9,553 | - | BA1 | BBB |
| Corporate bonds | 11,175 | - | - | 11,175 | - | A1 | AA+ |
| Corporate bonds | 11,062 | - | - | 11,062 | - | BAA3 | BBB- |
| Corporate bonds | 11,038 | - | - | 11,038 | - | BAA1 | BBB+ |
| Corporate bonds | 10,842 | - | - | 10,842 | - | BAA1 | BBB+ |
| Corporate bonds | 11,014 | - | - | 11,014 | - | BAA3 | BBB |
| Government securities | 23,944 | - | - | 23,944 | - | AAA | No rating |
| Government securities | 98,149 | - | - | 98,149 | - | AAA | No rating |
| Corporate bonds | 10,752 | - | - | 10,752 | - | A3 | A |
| Corporate bonds | 10,233 | - | - | 10,233 | - | BAA1 | A- |
| Corporate bonds | 9,489 | - | - | 9,489 | - | BAA3 | BBB- |
| Corporate bonds | 11,266 | - | - | - | 11,266 | No rating | A- |
| Corporate bonds | 11,269 | - | - | - | 11,269 | BAA1 | BBB+ |
| Corporate bonds | 10,939 | - | - | - | 10,939 | A3 | A- |
| Corporate bonds | 10,135 | - | - | - | 10,135 | BAA2 | BBB |
| Corporate bonds | 9,703 | - | - | - | 9,703 | BAA2 | A- |
| Government securities | 86,748 | - | - | - | 86,748 | AAA | No rating |
| Corporate bonds | 10,432 | - | - | - | 10,432 | BAA2(-) | BBB(-) |
| Corporate bonds | 11,143 | - | - | - | 11,143 | A3 | A |
| Corporate bonds | 10,107 | - | - | - | 10,107 | BAA3 | BBB- |
| Corporate bonds | 11,201 | - | - | - | 11,201 | BAA3 | BBB |
| | $ 1,127,669 | $ - | $ 727,475 | $ 217,251 | $ 182,943 | | |

## (2) Deposits and Investments, Continued

### B. Investments, Continued

Palau National Communications Corporation (PNCC):

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

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

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

## (2) Deposits and Investments, Continued

### B. Investments, Continued

Palau National Communications Corporation (PNCC), Continued:

As of September 30, 2014, PNCC maintained investments in short-term money market mutual funds of $3,724,627 held by the Bank of New York Mellon, an FDIC insured financial institution. Although these mutual funds are not insured by the FDIC, the mutual fund portfolio consists of U.S. Treasury bills and obligations guaranteed by the U.S. Department of the Treasury as well as repurchase agreements which are fully collateralized by such obligations. This mutual fund has a weighted average maturity of 45 days and is rated AAAm by Standard and Poor's and AAA-mf by Moody's.

Palau International Coral Reef Center:

| | Fair Value |
|---|---|
| Cash and cash equivalents | $ 7,217 |
| Common stocks | 111,041 |
| Mutual funds | 29,951 |
| Fixed income | 44,494 |
| | $ 192,703 |

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

## (3) Receivables

### Primary Government

Receivables as of September 30, 2014, for the primary government's individual major funds, and nonmajor governmental funds and fiduciary funds in the aggregate, including applicable allowances for uncollectible accounts, are as follows:

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

## (3) Receivables, Continued

### Discretely Presented Component Units

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

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

National Development Bank of Palau (NDBP):

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

Palau District Housing Authority (PDHA):

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

## (4) Interfund Receivables and Payables

### Primary Government

Receivables and payables between funds reflected as due to/from other funds in the governmental funds balance sheet at September 30, 2014, are summarized as follows:

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

(4) Interfund Receivables and Payables, Continued

Primary Government, Continued

These balances result from the time lag between the dates that 1) interfund goods and services are provided or reimbursable expenditures occur, 2) transactions are recorded in the accounting system, and 3) payments between funds are made, and are scheduled to be collected in the subsequent year.

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

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

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

The amount recorded as due from component units by the Republic of Palau Social Security Retirement Fund (the Fund) due from NDBP of $4,934,525 represents a loan agreement entered into in the initial amount of $3,000,000 with a subsequent $2,000,000 line of credit to be made available with terms and conditions to be agreed to by the parties at that time. On August 7, 2008, the Fund entered into a new agreement to restructure the existing loan with NDBP with the loan ceiling increasing to $6,000,000. Principal and interest are payable in equal semi-annual installments of $554,392 through December 31, 2025, with interest at a variable annual rate equal to the Fund's Fixed Income Fund Return Rate as reported monthly by the Fund's investment consultant, plus 0.5%; provided, that the interest rate to be charged and paid by NDBP shall not be less than 4.5% per annum nor more than 7.5% per annum after addition of the 0.5% to the prime rate. The loan is collateralized by the full faith and credit of the Republic.

(4) Interfund Receivables and Payables, Continued

Primary Government, Continued

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

| Year ending September 30, | Principal | Interest | Total |
|---|---|---|---|
| 2015 | $ 336,025 | $ 218,367 | $ 554,392 |
| 2016 | 350,772 | 203,620 | 554,392 |
| 2017 | 367,279 | 187,113 | 554,392 |
| 2018 | 383,993 | 170,399 | 554,392 |
| 2019 | 401,468 | 152,924 | 554,392 |
| 2020 – 2024 | 2,298,024 | 473,936 | 2,771,960 |
| 2024 - 2025 | 796,963 | 34,625 | 831,588 |
| | $ 4,934,524 | $ 1,440,984 | $ 6,375,508 |

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

Discretely Presented Component Units

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

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

## (5) Capital Assets

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

### Primary Government

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

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

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

## (5) Capital Assets, Continued

### Fiduciary Funds

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

### Discretely Presented Component Units

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

## (6) Notes Payable

### Primary Government

On June 28, 2002, the Republic's Washington Embassy entered into a loan agreement with a bank in the amount of $160,000 for the purpose of funding overdraft facilities. Although the loan was due on May 20, 2004, including interest at 7% per annum, $198,142 remains outstanding at September 30, 2014. This loan is in noncompliance with local requirements since only the President of the Republic is authorized to enter into debt agreements.

## (7) Long-Term Obligations

### Primary Government

As of September 30, 2014, the primary government had the following long-term debt outstanding:

Mega International Commercial Bank (MICB):

| | |
|---|---|
| Loan payable to MICB, formerly the International Commercial Bank of China, in the amount of $20,000,000, interest at 3.5% per annum, principal payable in semi-annual installments of $571,429 plus interest, due June 21, 2020. This loan was used for construction of a new national capital in Melekeok State and is uncollateralized. | $ 6,857,131 |
| Loan payable to the MICB in the amount of $8,000,000, interest at 3.5% per annum, principal payable in semi-annual installments of $228,570 plus interest, due October 28, 2024. This loan was used to fund the Palau International Airport Repaving Project and is uncollateralized. | 4,800,020 |

Asian Development Bank (ADB):

| | |
|---|---|
| Loan Number 2691 PAL - Water Sector Improvement Loan ($12,600,000), interest at the ADB's pool-based variable lending rate system for U.S. dollar loans (5.03% at September 30, 2014), a front-end fee of 1%, and a commitment charge of 0.15% per annum on the amount of the loan unwithdrawn from the Loan Account. Semi-annual loan payments commence May 1, 2014 with graduated increases of 5% through November 1, 2025. | 12,316,867 |
| Loan Number 2692 PAL (SF) - Water Sector Improvement Loan (SDR 2,230,000), non-interest bearing with a service charge of 1% per annum on the amount of the loan withdrawn from the Loan Account. Semi-annual loan payments commence on May 1, 2019 in an amount of SDR 69,688, at which time the service charge increases to 1.5% per annum. | 3,472,734 |
| | $ 27,446,752 |

(7) Long-Term Obligations, Continued

Primary Government, Continued

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

| Year Ending September 30, | Principal | Interest | Total |
|---|---|---|---|
| 2015 | $ 2,195,748 | $ 499,755 | $ 2,695,503 |
| 2016 | 2,256,812 | 440,996 | 2,697,808 |
| 2017 | 2,324,136 | 381,955 | 2,706,091 |
| 2018 | 2,398,360 | 322,603 | 2,720,963 |
| 2019 | 2,588,715 | 280,270 | 2,868,985 |
| 2020 - 2024 | 10,467,801 | 690,505 | 11,158,306 |
| 2025 - 2029 | 4,021,429 | 165,433 | 4,186,862 |
| 2030 - 2034 | 1,085,229 | 56,975 | 1,142,204 |
| 2035 | 108,522 | 1,628 | 110,150 |
| | $ 27,446,752 | $ 2,840,120 | $ 30,286,872 |

As provided for in the Compact of Free Association, the Republic was awarded $3,000,000, which it had agreed to repay in financial year 2005. On May 8, 2008, the U.S. Congress approved the forgiveness of the debt. The terms and conditions require the Republic to establish a trust fund wherein the Republic agrees to utilize the earnings of the trust fund solely for maintenance and upkeep of the Compact Road. The Republic has not established a trust fund as of September 30, 2014 and therefore has restricted assets of $3,073,716 in the other governmental funds (Compact Section 211(b) Energy Fund) to fund this repayment in the event the terms and conditions of the forgiveness of the debt are not met. This debt of $3,000,000 is presented as a long-term liability at the government-wide level until the terms and conditions are met (see Note 9).

## (7) Long-Term Obligations, Continued

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

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

### Discretely Presented Component Units

National Development Bank of Palau (NDBP):

| | |
|---|---|
| Loan payable to the Mega International Commercial Bank (MICB) in the amount of $5,000,000, due July 1, 2024 with interest at 3.5% per annum, principal payable in semi-annual installments of $142,858 plus interest. This loan was used to fund various loan programs of NDBP and is guaranteed by the Republic. | $ 2,857,130 |
| Loan payable to the European Investment Bank (EIB) up to the amount of 5,000,000 Euro, due September 10, 2021 with interest at 3.379% - 5.175% per annum, principal and interest payable in semi-annual installments of $234,750. Of the original amount, 3,260,573 Euro was drawn down in two tranches ($1,391,285 and $3,016,465, respectively). The loan is guaranteed by the Republic. On December 12, 2011, EIB cancelled the remaining balance of NDBP's credit line of 1,739,427 Euro. | 2,704,596 |
| | $ 5,561,726 |

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

| Year ending September 30, | Principal | Interest | Total |
|---|---|---|---|
| 2015 | $ 635,759 | $ 119,457 | $ 755,216 |
| 2016 | 542,429 | 212,787 | 755,216 |
| 2017 | 561,381 | 193,835 | 755,216 |
| 2018 | 581,957 | 173,259 | 755,216 |
| 2019 | 604,226 | 150,990 | 755,216 |
| 2020 - 2024 | 2,635,974 | 401,382 | 3,037,356 |
| | $ 5,561,726 | $ 1,251,710 | $ 6,813,436 |

(7) Long-Term Obligations, Continued

Discretely Presented Component Units, Continued

Palau National Communications Corporation (PNCC):

| | |
|---|---|
| Loan payable to the Rural Utilities Services (RUS) up to the amount of $39,143,000, due October 2029 with interest at 4.59% per annum, principal and interest payable in monthly installments of $192,181, including interest. The loan is guaranteed by the Republic, is collateralized by substantially all PNCC assets and a pledge of PNCC revenues. | $ 24,257,785 |

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

| Year Ending December 31, | Principal | Interest | Total |
|---|---|---|---|
| 2015 | $ 1,218,155 | $ 1,088,017 | $ 2,306,172 |
| 2016 | 1,275,259 | 1,030,913 | 2,306,172 |
| 2017 | 1,335,041 | 971,131 | 2,306,172 |
| 2018 | 1,397,625 | 908,547 | 2,306,172 |
| 2019 | 1,463,143 | 843,029 | 2,306,172 |
| 2020 - 2024 | 8,411,165 | 3,119,696 | 11,530,861 |
| 2025 - 2029 | 9,157,397 | 971,561 | 10,128,958 |
| | $ 24,257,785 | $ 8,932,894 | $ 33,190,679 |

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

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

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

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

(7) Long-Term Obligations, Continued

Discretely Presented Component Units, Continued

Palau National Communications Corporation (PNCC), Continued:

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

*New billing and customer care information technology system*

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

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

*Third Generation (3G) Mobile Network Agreement*

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

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

(7) Long-Term Obligations, Continued

Discretely Presented Component Units, Continued

Palau National Communications Corporation (PNCC), Continued:

Future payments under this contract are as follows:

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

Public Utilities Corporation (PUC):

| | |
|---|---|
| Loan payable to MICB in the amount of $7,000,000, due December 11, 2026 with interest at 3.5% per annum, principal payable in semi-annual installments of $200,000 plus interest. This loan was used to finance the purchase of portable generators, crankshaft assembly and other necessary equipment to facilitate the overhaul of aging generators and is guaranteed by the Republic. | $ 5,000,000 |
| Loan payable to the National Development Bank of Palau in the amount of $3,000,000, due January 31, 2026 with interest at 7.5% per annum, principal payable in monthly installments of $27,810 plus interest. This loan was used to finance the purchase of two generator sets. The loan is collateralized by the generator sets inclusive of auxiliary equipment and is guaranteed by the Republic. | 2,541,129 |
| | $ 7,541,129 |

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

| Year Ending September 30, | Principal | Interest | Total |
|---|---|---|---|
| 2015 | $ 548,183 | $ 355,118 | $ 903,301 |
| 2016 | 559,183 | 330,350 | 889,533 |
| 2017 | 572,043 | 302,867 | 874,910 |
| 2018 | 585,399 | 275,317 | 860,716 |
| 2019 | 599,792 | 246,729 | 846,521 |
| 2020 - 2024 | 3,256,549 | 763,532 | 4,020,081 |
| 2025 - 2027 | 1,419,980 | 65,006 | 1,484,986 |
| | $ 7,541,129 | $ 2,338,919 | $ 9,880,048 |

## (7) Long-Term Obligations, Continued

### Discretely Presented Component Units, Continued

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

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

## (8) Restricted Assets

### Primary Government

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

| | |
|---|---|
| Deposit accounts established for the purpose of accounting of funds held by the Republic in a custodial capacity relating to court-ordered settlements. | $ 304,154 |

Restricted investments of the primary government are as follows:

| | |
|---|---|
| Investments held in a trust fund for the purpose of accumulating resources to fund future government operations. | $ 199,422,419 |
| Investments held in a trust fund for the purpose of funding a liability to the United States government. | 3,073,716 |
| | $ 202,496,135 |

### Discretely Presented Component Units

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

National Development Bank of Palau:

| | |
|---|---|
| Time certificate of deposit collateralizing loan payable to a bank. | $ 453,639 |
| Deposit account established in accordance with RPPL 4-48, Section 126, as amended by RPPL 5-37, for the purposes of a reserve account representing 10% of the total amount of all loan guarantees on commercial bank loans. | 50,188 |

(8) Restricted Assets, Continued

Discretely Presented Component Units, Continued

National Development Bank of Palau, Continued:

| | |
|---|---|
| Deposit account collateralizing loans funded by Rural Housing Service. | 532,554 |
| Deposit account established for cash received from grantor agencies. | 332,784 |
| Palau Community College: | |
| Deposit accounts established for library fund and endowment fund. | 1,055,089 |
| | $ 2,424,254 |

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

| | |
|---|---|
| Palau Community College: | |
| Investments held for endowment purposes. | $ 3,636,000 |
| Palau National Communications Corporation: | |
| Investment account established in accordance with Rural Utilities Service loan agreement for the purposes of a reserve account. | 3,724,627 |
| | $ 7,360,627 |

(9) Other Liabilities

Pursuant to a subsidiary agreement to the Compact of Free Association, entitled “Agreement Concerning Special Programs Related to the Entry into Force of the Compact of Free Association Between the Government of the United States and the Government of the Republic of Palau”, Article 5, the Republic is to pay the United States Government, by September 30, 2005, a total of $3,000,000. This amount represents the mutually agreed net economic cost of the United States providing all $28,000,000 of Compact Section 211(b) funds in a lump sum at inception of the Compact, rather than payments of $2,000,000 annually for fourteen years. During the fiscal year ended September 30, 2014, the Republic made no payments under this agreement. Please refer to Note 7 for matters involving potential release of this liability.

## (10) Transfers In/Out

### Operating Fund Transfers

Operating transfers in/out for each major fund and nonmajor governmental funds in the aggregate, for the year ended September 30, 2014, are as follows:

| | Transfer Out | Transfer In |
|---|---|---|
| General Fund: | | |
| Grants Fund | $ 384,288 | $ 50,000 |
| Compact Section 211(f) Fund | - | 5,000,000 |
| | 384,288 | 5,050,000 |
| Grants Fund: | | |
| General Fund | 50,000 | 384,288 |
| Compact Section 211(f) Fund: | | |
| General Fund | 5,000,000 | - |
| | $ 5,434,288 | $ 5,434,288 |

Operating transfers out were provided for under appropriation by the OEK. Transfers are used to (1) move revenues from the fund that statute requires to collect them to the fund that statute requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

## (11) Fund Balances

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

| | General | Grants | Compact Section 211 (f) | Nonmajor Governmental Funds | Totals |
|---|---|---|---|---|---|
| Fund balances: | | | | | |
| Nonspendable: | | | | | |
| UMDA investment | $ 1,185,575 | $ - | $ - | $ - | $ 1,185,575 |
| Loan receivable - NDBP | 1,000,000 | - | - | - | 1,000,000 |
| ServMart Inventory | 46,468 | - | - | - | 46,468 |
| Prepayments | 128,209 | 476,708 | - | 20,413 | 625,330 |
| Permanent fund principal | - | - | 199,170,134 | - | 199,170,134 |
| | 2,360,252 | 476,708 | 199,170,134 | 20,413 | 202,027,507 |
| Restricted: | | | | | |
| Capital projects | - | 87,586 | - | - | 87,586 |
| Compact Section 211(b) Energy | - | - | - | 3,115,658 | 3,115,658 |
| | - | 87,586 | - | 3,115,658 | 3,203,244 |

## (11) Fund Balances, Continued

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

## (12) Commitments and Contingencies

### A. Sick Leave

It is the policy of the Republic to record expenditures for sick leave when leave is actually taken. Sick leave is compensated time for absence during work hours arising from employee illness or injury. The estimated accumulated amount of unused sick leave at September 30, 2014, amounted to $7,646,622.

### B. Promissory Notes

During 1998, the Republic executed four noninterest bearing, nonnegotiable promissory notes in the amounts of $3,002,693, $152,000, $54,100 and $21,714, respectively, to various international organizations in lieu of its membership fees. The notes are payable on demand. As of September 30, 2014, demand had not occurred. The notes are to be held in the custody of a bank. The Republic has not recorded these notes as it believes the debt is essentially defeased by cash and deposits in the same amount with the organizations.

### C. Federal Grants

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

The Republic participates in a number of federally assisted grant programs funded by the United States Government. These programs are subject to financial and compliance audits to ascertain if Federal laws and guidelines have been followed. Cumulative questioned costs have been set forth in the Republic's Single Audit Report for the year ended September 30, 2014. The ultimate disposition of these questioned costs can be determined only by final action of the respective grantor agencies. Therefore, no provision for any liability that may result upon resolution of this matter has been made in the accompanying financial statements.

(12) Commitments and Contingencies, Continued

D. Insurance Coverage

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

E. Unfunded Liability

An actuarial valuation of the Republic of Palau Social Security Retirement Fund has determined that the Fund has an actuarial deficiency of approximately $47,515,000 as of October 1, 2013. Unless the existing deficiency is corrected, the Fund's cash flows may eventually become negative, which may cause the Fund to become depleted to the point that the Fund may not be able to meet its benefit obligations. The Fund has not developed a formal plan as of September 30, 2014 to correct this funding deficiency. No recognition is given in the accompanying financial statements to the present value of liabilities of prospective benefit payments or the present value of future contributions required from employees or employers.

F. Litigation

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

G. Debt Commitments

Significant commitments of the primary government as of September 30, 2014, are as follows:

a) Guaranteed bank debt of the National Development Bank of Palau (NDBP) with letters of guarantee. At September 30, 2014, NDBP had guaranteed debt totaling $5,561,726

b) Guaranteed a debt of NDBP in respect of a loan from the Republic of Palau Social Security Retirement Fund with a letter of guarantee. At September 30, 2014, NDBP had guaranteed debt associated with this loan totaling $4,934,525.

c) Guaranteed a debt of the Palau National Communications Corporation (PNCC) in respect to a loan from the United States Rural Utilities Service (RUS) with a letter of guarantee. At September 30, 2014, PNCC had guaranteed debt totaling $24,257,785.

d) Guaranteed bank debt of the Public Utilities Corporation (PUC) with a letter of guarantee. At September 30, 2014, PUC had guaranteed debt totaling $5,000,000.

e) Guaranteed a debt of PUC in respect of a loan from NDBP with a letter of guarantee. At September 30, 2014, PUC had guaranteed debt associated with this loan totaling $2,541,129.

(12) Commitments and Contingencies, Continued

H. Civil Service Pension Trust Fund

As of September 30, 2014, interest associated with delinquent payment of contributions to the Republic of Palau Civil Service Pension Trust Fund (the Pension Fund) has been accrued in the amount of $1,408,874. The Pension Fund has filed suit against the Republic for lost earnings as a result of failure to timely remit contributions. Unfavorable resolution of this matter could expose the Republic to additional penalties and interest. At September 30, 2014, the financial statements do not include any adjustments that might result from the outcome of this uncertainty. Management plans to negotiate a settlement agreement with the Pension Fund.

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

I. Budgetary Compliance

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

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

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

J. Other

In the normal course of business, the Republic periodically engages in disputes with its vendors. Management of the Republic is of the opinion that resolution of such disputes existing as of September 30, 2014, will not have a material impact on the accompanying financial statements.

(13) Republic of Palau Civil Service Pension Trust Fund

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

The Pension Fund provides retirement, security and other benefits to employees, and their spouses and dependents, of the Republic, Republic State Governments and Republic agencies, funds and public corporations, which are paid monthly and are two percent of each member's average monthly salary. Normal benefits are of credited total service up to a maximum of thirty years total service. Generally, benefits vest after three years of credited service. A member, who retires at or after age 60, or with 25 years of vesting service, is entitled to retirement benefits. RPPL No. 2-26 is the authority under which benefit provisions are established. Member contribution rates are established by RPPL No. 2-26 at six percent (6%) of total payroll and matched dollar for dollar by the employer. The Republic contributed $1,785,090, $1,666,717 and $1,554,455 to the Pension Fund during the years ended September 30, 2014, 2013 and 2012, respectively. Per the provisions of RPPL No. 2-26 and RPPL No. 3-21, the Republic shall from time to time contribute additional sums to the Pension Fund in order to keep the Pension Fund on a sound actuarial basis. The Pension Fund issues a stand-alone financial report, which is available at its office site.

Under the provisions of the RPPL No. 2-26, the Pension Fund's Board of Trustees adopted a Trust Fund Operation Plan which has the force and effect of law and which sets forth the procedures for the administration and coverage of the Plan. Amendments to the Plan are subject to the requirements of Title 6 of the Palau National Code. The Republic's payroll for fiscal year 2014 was covered in total by the Pension Fund's pension plan.

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

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

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

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

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

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

The funded status as of October 1, 2013, the most recent actuarial valuation date, is as follows:

| Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) - Entry Age Normal Cost Method (b) | Unfunded AAL (UAAL) (b - a) | Funded Ratio (a / b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll (b - a / c) |
|---|---|---|---|---|---|
| $ 34,261,206 | $ 147,288,541 | $ 113,027,335 | 23.26% | $ 39,004,000 | 289.78 % |

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

Additional information as of the latest actuarial valuation follows:

| | |
|---|---|
| Valuation Date: | October 1, 2013 |
| Actuarial Cost Method: | Entry age normal cost method |
| Amortization Method: | Level percent open |
| Remaining Amortization Period: | 30 years |
| Asset Valuation Method: | Market value, including accrued but unpaid contributions |
| Actuarial Assumptions: | |
| Investment rate of return: | 7.5% per year |
| Projected salary increases: | 3% per annum |
| COLAS: | 0% |

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

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

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

*Actuarial Assumptions*

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

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

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

*Actuarial Assumptions, Continued*

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

*Discount Rate*

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

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

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

| 1% Decrease 3.64% | Current Single Discount Rate Assumption 4.64% | 1% Increase 5.64% |
|---|---|---|
| $178,385,000 | $ 206,054,796 | $ 224,903,000 |

# REPUBLIC OF PALAU

## REQUIRED SUPPLEMENTARY INFORMATION
## - BUDGETARY REPORTING

## YEAR ENDED SEPTEMBER 30, 2014

## REPUBLIC OF PALAU

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

| | Original Budget | Final Budget | Actual - Budgetary Basis (see note 1) | Variance |
|---|---|---|---|---|
| Revenues: | | | | |
| Local revenue | $ 42,887,600 | $ 45,544,103 | $ 50,162,578 | $ 4,618,475 |
| Compact funding - Section 211(a) | 6,000,000 | 6,000,000 | 6,000,000 | - |
| Compact funding - Section 215 inflation adjustment | 4,250,000 | 4,250,000 | 5,147,000 | 897,000 |
| Net change in the fair value of investments | - | - | 32,040 | 32,040 |
| Other | - | 228,624 | 184,246 | (44,378) |
| Total revenues | 53,137,600 | 56,022,727 | 61,525,864 | 5,503,137 |
| Expenditures - budgetary basis: | | | | |
| Office of the President | 1,181,653 | 1,373,700 | 1,333,239 | 40,461 |
| Office of the Vice-President | 380,202 | 380,202 | 368,785 | 11,417 |
| Ministry of Finance | 2,973,958 | 3,045,535 | 3,026,729 | 18,806 |
| Ministry of State | 2,411,874 | 2,586,974 | 2,493,892 | 93,082 |
| Ministry of Community and Cultural Affairs | 1,074,160 | 1,077,160 | 1,056,677 | 20,483 |
| Ministry of Education | 7,330,410 | 7,209,410 | 7,150,701 | 58,709 |
| Ministry of Public Infrastructure, Industry and Commerce | 6,202,569 | 6,260,569 | 5,630,922 | 629,647 |
| Ministry of Justice | 4,598,135 | 4,668,135 | 4,628,654 | 39,481 |
| Ministry of Health | 9,287,323 | 9,586,323 | 8,790,465 | 795,858 |
| Ministry of Natural Resources, Environment and Tourism | 1,400,247 | 1,420,247 | 1,397,038 | 23,209 |
| Boards, Commissions and Authorities | 688,788 | 713,788 | 631,108 | 82,680 |
| Judicial Branch | 2,200,000 | 2,200,000 | 2,190,073 | 9,927 |
| Legislative Branch | 4,811,716 | 4,821,716 | 4,724,909 | 96,807 |
| State Block Grants | 5,703,600 | 5,703,600 | 5,624,049 | 79,551 |
| Independent Agencies | 2,206,646 | 2,119,646 | 2,015,379 | 104,267 |
| Other Agencies and Activities | 2,214,625 | 2,282,925 | 2,339,481 | (56,556) |
| Education Assistance | 3,204,000 | 3,254,000 | 3,254,000 | - |
| Other Appropriations | 1,841,165 | 4,333,268 | 3,938,467 | 394,801 |
| Total expenditures | 59,711,071 | 63,037,198 | 60,594,568 | 2,442,630 |
| Excess (deficiency) of revenues over (under) expenditures | (6,573,471) | (7,014,471) | 931,296 | 7,945,767 |
| Other financing sources (uses): | | | | |
| Loan proceeds | 1,300,000 | 1,700,000 | 6,200,000 | 4,500,000 |
| Operating transfers in | 8,000,000 | 8,000,000 | 8,000,000 | - |
| Operating transfers out | (4,735,000) | (4,694,000) | (4,365,799) | 328,201 |
| Total other financing sources (uses), net | 4,565,000 | 5,006,000 | 9,834,201 | 4,828,201 |
| | (2,008,471) | (2,008,471) | 10,765,497 | 12,773,968 |
| Other changes: | | | | |
| Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary purposes but in the year the supplies are received for financial reporting purposes | 2,008,471 | 2,008,471 | 658,495 | (1,349,976) |
| Net change in fund balance | $ - | $ - | $ 11,423,992 | $ 11,423,992 |

See Accompanying Notes to Required Supplementary Information - Budgetary Reporting.

## (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

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

See Accompanying Independent Auditors' Report.

**REPUBLIC OF PALAU**

**OTHER SUPPLEMENTARY INFORMATION**

**YEAR ENDED SEPTEMBER 30, 2014**

**REPUBLIC OF PALAU**

GENERAL FUND

September 30, 2014

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

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

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

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

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

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

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

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

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

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

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

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

See Accompanying Independent Auditors' Report.

# REPUBLIC OF PALAU

## GENERAL FUND

### Combining Schedule of Balance Sheet
### September 30, 2014

| | | 100150 | 311300 | 311400 | 311500 | 313000 | 321000 |
|---|---|---|---|---|---|---|---|
| | General | Scholarship | Compact Section 211 (c) | Compact Section 211 (d) | Compact Section 211 (e) | Compact Section 213 | Compact Section 221 (b) |
| ASSETS | | | | | | | |
| Cash and cash equivalents | $ 9,300,563 | $ - | $ - | $ - | $ - | $ - | $ - |
| Investments | 1,193,148 | - | - | - | 442,442 | 3,425,412 | - |
| Receivables, net: | | | | | | | |
| Taxes | 4,974,102 | - | - | - | - | - | - |
| General | 712,745 | - | - | - | - | - | - |
| Accrued interest | - | - | - | - | - | 2,934 | - |
| Due from component units | - | - | - | - | - | - | - |
| Due from other funds | 74,687,636 | - | 102,889 | 48,136 | - | - | - |
| Advances | 238,959 | - | - | - | - | - | - |
| Inventory | 46,468 | - | - | - | - | - | - |
| Prepaid items | 128,209 | - | - | - | - | - | - |
| Restricted assets: | | | | | | | |
| Cash and cash equivalents | 304,154 | - | - | - | - | - | - |
| Total assets | $ 91,585,984 | $ - | $ 102,889 | $ 48,136 | $ 442,442 | $ 3,428,346 | $ - |
| LIABILITIES AND FUND BALANCES (DEFICIT) | | | | | | | |
| Liabilities: | | | | | | | |
| Note payable | $ 198,142 | $ - | $ - | $ - | $ - | $ - | $ - |
| Accounts payable | 4,122,823 | 16,543 | - | - | - | - | - |
| Due to State governments | 3,384,036 | - | - | - | - | - | - |
| Due to component units | 292,250 | - | - | - | - | - | - |
| Due to other funds | 74,109,448 | 749,297 | - | - | - | - | - |
| Accrued payroll and others | 2,779,543 | 1,594 | - | - | - | - | - |
| Other liabilities and accruals | 493,576 | - | - | - | - | - | - |
| Unearned revenue | - | - | - | - | - | - | - |
| Income tax refunds | 995,930 | - | - | - | - | - | - |
| Total liabilities | 86,375,748 | 767,434 | - | - | - | - | - |
| Fund balances (deficit): | | | | | | | |
| Nonspendable | 1,360,252 | - | - | - | - | - | - |
| Unassigned | 3,849,984 | (767,434) | 102,889 | 48,136 | 442,442 | 3,428,346 | - |
| Total fund balances (deficit) | 5,210,236 | (767,434) | 102,889 | 48,136 | 442,442 | 3,428,346 | - |
| Total liabilities and fund balances (deficit) | $ 91,585,984 | $ - | $ 102,889 | $ 48,136 | $ 442,442 | $ 3,428,346 | $ - |

See Accompanying Independent Auditors' Report.

# REPUBLIC OF PALAU

## GENERAL FUND

### Combining Schedule of Balance Sheet, Continued
### September 30, 2014

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

See Accompanying Independent Auditors' Report.

# REPUBLIC OF PALAU

## GENERAL FUND

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

| | | 100150 | 311300 | 311400 | 311500 | 313000 | 321000 |
|---|---|---|---|---|---|---|---|
| | General | Scholarship | Compact Section 211 (c) | Compact Section 211 (d) | Compact Section 211 (e) | Compact Section 213 | Compact Section 221 (b) |
| Revenues: | | | | | | | |
| Taxes | $ 41,222,403 | $ - | $ - | $ - | $ - | $ - | $ - |
| Compact funding | 11,147,000 | - | - | - | - | - | 2,000,000 |
| Net change in the fair value of investments | 282,040 | - | - | - | 156 | 529,182 | - |
| Fees and charges | 7,217,914 | - | - | - | - | - | - |
| Licenses and permits | 5,262,301 | - | - | - | - | - | - |
| Other | 1,102,150 | 30,862 | - | - | - | - | - |
| Total revenues | 66,233,808 | 30,862 | - | - | 156 | 529,182 | 2,000,000 |
| Expenditures: | | | | | | | |
| Current: | | | | | | | |
| Judicial Branch | 2,190,073 | - | - | - | - | - | - |
| Legislative Branch | 4,678,273 | - | - | - | - | - | - |
| Office of the President | 1,267,812 | - | - | - | - | - | - |
| Office of the Vice-President | 363,790 | - | - | - | - | - | - |
| Ministry of Finance | 3,177,318 | - | - | - | - | - | - |
| Ministry of State | 2,476,257 | - | - | - | - | - | - |
| Ministry of Community and Cultural Affairs | 1,053,669 | - | - | - | - | - | - |
| Ministry of Education | 6,990,226 | - | - | - | - | - | - |
| Ministry of Public Infrastructure, Industry and Commerce | 5,775,621 | - | - | - | - | - | - |
| Ministry of Justice | 4,803,145 | - | - | - | - | - | - |
| Ministry of Health | 8,616,442 | - | - | - | - | - | - |
| Ministry of Natural Resources, Environment and Tourism | 1,388,478 | - | - | - | - | - | - |
| Boards, Commissions, and Authorities | 2,691,641 | - | - | - | - | - | - |
| State Block Grants | 5,624,049 | - | - | - | - | - | - |
| Independent Agencies | 2,001,219 | - | - | - | - | - | - |
| Other Agencies and Activities | 2,530,981 | - | - | - | 5,927 | - | - |
| Education assistance | 3,254,000 | 1,330,259 | - | - | - | - | - |
| PPUC Water & Sewer Operations | 1,874,700 | - | - | - | - | - | - |
| Financial and Compliance Audit | 32,500 | - | - | - | - | - | - |
| Compact Review Office | 284,781 | - | - | - | - | - | - |
| Health care fund contributions | 301,480 | - | - | - | - | - | - |
| Low-income assistance | 19,200 | - | - | - | - | - | - |
| Uighur Detainees Settlement Assistance | 36,845 | - | - | - | - | - | - |
| 2014 Micronesian Games | 301,000 | - | - | - | - | - | - |
| Typhoon emergency assistance | 1,211,643 | - | - | - | - | - | - |
| Claims and judgments | 70,000 | - | - | - | - | - | - |
| Capital projects | - | - | - | - | - | - | - |
| Debt service: | | | | | | | |
| Principal retirement | - | - | - | - | - | - | - |
| Interest | - | - | - | - | - | - | - |
| Total expenditures | 63,015,143 | 1,330,259 | - | - | 5,927 | - | - |
| Excess (deficiency) of revenues over (under) expenditures | 3,218,665 | (1,299,397) | - | - | (5,771) | 529,182 | 2,000,000 |
| Other financing sources (uses): | | | | | | | |
| Loan proceeds | 6,200,000 | - | - | - | - | - | - |
| Operating transfers in | 8,050,000 | 1,270,318 | - | - | - | - | - |
| Operating transfers out | (5,767,799) | - | - | - | - | - | (2,000,000) |
| Total other financing sources (uses), net | 8,482,201 | 1,270,318 | - | - | - | - | (2,000,000) |
| Net change in fund balances (deficit) | 11,700,866 | (29,079) | - | - | (5,771) | 529,182 | - |
| Fund balances (deficit) at beginning of year | (6,490,630) | (738,355) | 102,889 | 48,136 | 448,213 | 2,899,164 | - |
| Fund balances (deficit) at end of year | $ 5,210,236 | $ (767,434) | $ 102,889 | $ 48,136 | $ 442,442 | $ 3,428,346 | $ - |

See Accompanying Independent Auditors' Report.

# REPUBLIC OF PALAU

## GENERAL FUND

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

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

See Accompanying Independent Auditors' Report.

# REPUBLIC OF PALAU

## GENERAL FUND

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

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

See Accompanying Independent Auditors' Report.

# REPUBLIC OF PALAU

## GENERAL FUND

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

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

See Accompanying Independent Auditors' Report.

**REPUBLIC OF PALAU**

GENERAL FUND

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

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

See Accompanying Independent Auditors' Report.

## REPUBLIC OF PALAU

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

Year Ended September 30, 2014

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

See Accompanying Independent Auditors' Report.

## REPUBLIC OF PALAU

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

Year Ended September 30, 2014

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

See Accompanying Independent Auditors' Report.

## REPUBLIC OF PALAU

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

Year Ended September 30, 2014

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

See Accompanying Independent Auditors' Report.

## REPUBLIC OF PALAU

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

Year Ended September 30, 2014

| | Budgeted Amounts Original | Budgeted Amounts Final | Actual | Variance |
|---|---|---|---|---|
| Education Assistance: | | | | |
| Palau Community College Operations | 2,338,000 | 2,388,000 | 2,388,000 | - |
| PCC Board of Trustees | 38,000 | 38,000 | 38,000 | - |
| PCC CRE Program | 35,000 | 35,000 | 35,000 | - |
| COM Board of Regents | 25,000 | 25,000 | 25,000 | - |
| Aid to Non-Public Schools | 768,000 | 768,000 | 768,000 | - |
| Total Education Assistance | 3,204,000 | 3,254,000 | 3,254,000 | - |
| Other Appropriations: | | | | |
| Financial and Compliance Audit | 32,500 | 32,500 | 32,500 | - |
| Compact Review Office | 204,665 | 338,768 | 286,932 | 51,836 |
| Health Care Fund Contributions | 304,000 | 304,000 | 301,480 | 2,520 |
| PPUC Water & Sewer Operations | 1,300,000 | 1,700,000 | 1,700,000 | - |
| Supertyphoon Haiyan Relief | - | 1,480,000 | 1,209,710 | 270,290 |
| Uighur Detainees Temporary Settlement Assistance | - | 50,000 | 36,845 | 13,155 |
| Payment of Judgments | - | 127,000 | 70,000 | 57,000 |
| 2014 Micronesian Games | - | 301,000 | 301,000 | - |
| Total Other Appropriations | 1,841,165 | 4,333,268 | 3,938,467 | 394,801 |
| Total expenditures | 59,711,071 | 63,037,198 | 60,594,568 | 2,442,630 |
| Deficiency of revenues under expenditures | (6,573,471) | (7,014,471) | 931,296 | 7,945,767 |
| Other financing sources (uses): | | | | |
| Loan proceeds | 1,300,000 | 1,700,000 | 6,200,000 | 4,500,000 |
| Operating transfers in: | | | | |
| Non-Lapsing Fund | 1,000,000 | 1,000,000 | 1,000,000 | - |
| Compact Section 211(f) Trust Fund | 5,000,000 | 5,000,000 | 5,000,000 | - |
| Compact Direct Economic Assistance Fund | 2,000,000 | 2,000,000 | 2,000,000 | - |
| Total other financing sources | 9,300,000 | 9,700,000 | 14,200,000 | 4,500,000 |
| Operating transfers out: | | | | |
| Debt Service Fund | (2,745,000) | (2,745,000) | (2,023,074) | 721,926 |
| Local CIP Fund | (715,000) | (674,000) | (788,119) | (114,119) |
| Non-DOI Capital Projects Fund | - | - | (284,288) | (284,288) |
| National Scholarship Fund | (1,275,000) | (1,275,000) | (1,270,318) | 4,682 |
| Total other financing uses | (4,735,000) | (4,694,000) | (4,365,799) | 328,201 |
| Total other financing sources (uses), net | 4,565,000 | 5,006,000 | 9,834,201 | 4,828,201 |
| | (2,008,471) | (2,008,471) | 10,765,497 | 12,773,968 |
| Other changes: | | | | |
| Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary purposes but in the year the supplies are received for financial reporting purposes | 2,008,471 | 2,008,471 | 658,495 | (1,349,976) |
| Net change in fund balance | $ - | $ - | $ 11,423,992 | $ 11,423,992 |

See Accompanying Independent Auditors' Report.

**REPUBLIC OF PALAU**

GRANTS FUND

September 30, 2014

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

See Accompanying Independent Auditors' Report.

# REPUBLIC OF PALAU

## GRANTS FUND

## Combining Balance Sheet
## September 30, 2014

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

See Accompanying Independent Auditors' Report.

# REPUBLIC OF PALAU

## GRANTS FUND

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

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

See Accompanying Independent Auditors' Report.

# REPUBLIC OF PALAU

## GRANTS FUND

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

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

See Accompanying Independent Auditors' Report.

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

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

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

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

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

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

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

Palau Agricultural Fund – This fund accounts for sales and purchase of agriculture items.

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

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

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

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

See Accompanying Independent Auditors' Report.

# REPUBLIC OF PALAU

## NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS

### Combining Balance Sheet
### September 30, 2014

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

See Accompanying Independent Auditors' Report.

# REPUBLIC OF PALAU

## NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS

### Combining Statement of Revenues, Expenditures by Function, and Changes in Fund Balances (Deficit)
### Year Ended September 30, 2014

| | 100115 Drug Fine Collection | 100130 Hospital Trust | 100140 Palauan Ed Textbook Development and Sales | 100145 Publication and Law Access Unit | 100147 Sports Facilities Trust | 100148 Operator License | 100160 EQPB Mitigation Trust | 100165 Road Maintenance | 100170 Giant Clam Seed Sustainability Project | 300100 Palau Agricultural | 311120 Compact Section 211(b) Energy | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Revenues: | | | | | | | | | | | | |
| Taxes | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ 725,507 | $ - | $ - | $ - | $ 725,507 |
| Fees and charges | 6,834 | 4,801,354 | - | 18,475 | - | 44,830 | 14,542 | - | 3,971 | 12,828 | - | 4,902,834 |
| Licenses and permits | - | 36,019 | - | - | - | - | - | - | - | - | - | 36,019 |
| Net change in the fair value of investments | - | - | - | - | - | - | - | - | - | - | 81,046 | 81,046 |
| Total revenues | 6,834 | 4,837,373 | - | 18,475 | - | 44,830 | 14,542 | 725,507 | 3,971 | 12,828 | 81,046 | 5,745,406 |
| Expenditures: | | | | | | | | | | | | |
| Current: | | | | | | | | | | | | |
| Ministry of State | - | - | - | 5,472 | - | - | - | - | - | - | - | 5,472 |
| Ministry of Justice | 3,000 | - | - | - | - | 27,914 | - | - | - | - | - | 30,914 |
| Ministry of Health | - | 3,896,304 | - | - | - | - | - | - | - | - | - | 3,896,304 |
| Ministry of Natural Resources, Environment and Tourism | - | - | - | - | - | - | - | - | - | 11,846 | - | 11,846 |
| Ministry of Public Infrastructure, Industry and Commerce | - | - | - | - | - | - | - | 142,454 | - | - | - | 142,454 |
| Independent Agencies | - | - | - | - | - | - | 6,502 | - | - | - | - | 6,502 |
| Investment management fees | - | - | - | - | - | - | - | - | - | - | 6,904 | 6,904 |
| Total expenditures | 3,000 | 3,896,304 | - | 5,472 | - | 27,914 | 6,502 | 142,454 | - | 11,846 | 6,904 | 4,100,396 |
| Net change in fund balances (deficit) | 3,834 | 941,069 | - | 13,003 | - | 16,916 | 8,040 | 583,053 | 3,971 | 982 | 74,142 | 1,645,010 |
| Fund balances (deficit) at beginning of year | (16,391) | - | 50 | 15,176 | 416 | 530 | 79,695 | 77,325 | - | (2,499) | 3,041,516 | 3,195,818 |
| Fund balances (deficit) at end 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 |

See Accompanying Independent Auditors' Report.

# REPUBLIC OF PALAU

## NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS

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

| | 100115 Drug Fine Collection | 100130 Hospital Trust | 100140 Palauan Ed Textbook Development and Sales | 100145 Publication and Law Access Unit | 100147 Sports Facilities Trust | 100148 Operator License | 100160 EQPB Mitigation Trust | 100165 Road Maintenance | 100170 Giant Clam Seed Sustainability Project | 300100 Palau Agricultural | 311120 Compact Section 211(b) Energy | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Expenditures: | | | | | | | | | | | | |
| Salaries and wages | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ 101,807 | $ - | $ - | $ - | $ 101,807 |
| Freight | - | 14,113 | - | 5 | - | - | 40 | - | - | - | - | 14,158 |
| Communications and postage | - | - | - | 3,349 | - | - | 87 | - | - | - | - | 3,436 |
| Medical referrals | - | 1,377,150 | - | - | - | - | - | - | - | - | - | 1,377,150 |
| Supplies and materials | - | 86,082 | - | 1,974 | - | 12,877 | 3,304 | 11,563 | - | 2,295 | - | 118,095 |
| Petroleum products | - | - | - | 144 | - | - | 536 | 29,084 | - | 8,487 | - | 38,251 |
| Food stuffs | - | 18,075 | - | - | - | - | 352 | - | - | - | - | 18,427 |
| Medical supplies | - | 878,050 | - | - | - | - | - | - | - | - | - | 878,050 |
| Medical drugs | - | 1,274,842 | - | - | - | - | - | - | - | - | - | 1,274,842 |
| Travel | - | 136,852 | - | - | - | - | 1,510 | - | - | 1,064 | - | 139,426 |
| Equipment | - | 1,028 | - | - | - | 6,165 | - | - | - | - | - | 7,193 |
| Investment management fees | - | - | - | - | - | - | - | - | - | - | 6,904 | 6,904 |
| Dues, fees and registration | - | 419 | - | - | - | - | - | - | - | - | - | 419 |
| Repairs and maintenance | - | 109,500 | - | - | - | 8,872 | 87 | - | - | - | - | 118,459 |
| Bank service fee | - | 8 | - | - | - | - | - | - | - | - | - | 8 |
| Miscellaneous | 3,000 | 185 | - | - | - | - | 586 | - | - | - | - | 3,771 |
| Total expenditures | $ 3,000 | $ 3,896,304 | $ - | $ 5,472 | $ - | $ 27,914 | $ 6,502 | $ 142,454 | $ - | $ 11,846 | $ 6,904 | $ 4,100,396 |

See Accompanying Independent Auditors' Report.

**REPUBLIC OF PALAU**

OTHER INFORMATION

September 30, 2014

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

Combining Schedule of Expenditures By Object:
All Governmental Funds

Other Country Grants:
Schedule of Expenditures of Other Country Grants

Other Grants:
Schedule of Expenditures of Other Grants

See Accompanying Independent Auditors' Report.

## REPUBLIC OF PALAU

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

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

See Accompanying Independent Auditors' Report.

# REPUBLIC OF PALAU

## OTHER COUNTRY GRANTS FUND

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

| Fund 440100 Grantor Account Title | Budget Authorizations | Receivable from Grantor (Deferred Revenue) at 10/01/13 | Cash Receipts FY2014 | Expenditures FY2014 | Receivable from Grantor (Deferred Revenue) at 9/30/14 |
|---|---|---|---|---|---|
| STATE ECONOMIC STIMULUS PACKAGE 2006 | | | | | |
| R64827 NORTH BABELDAOB WATERLINE | $ 115,000 | $ 5,509 | $ - | $ - | $ 5,509 |
| R64836 WB PETROLEUM T/A MATCHING | 200,000 | 19,600 | - | - | 19,600 |
| R84898 PHASE IV-FINAL A/N ROAD | 3,100,000 | (46,295) | (21,186) | - | (25,109) |
| SUB TOTAL | 3,415,000 | (21,186) | (21,186) | - | - |
| STATE ECONOMIC STIMULUS PACKAGE 2008 | | | | | |
| B80101 AIMELIIK ROAD REPAIR PROJ | 25,000 | - | - | - | - |
| B80102 ELECHUI WATER SYS - PH II | 150,000 | (7,234) | - | - | (7,234) |
| B80103 AIMELIIK PUBL WORKS BLDG | 50,000 | (5,000) | - | - | (5,000) |
| B80202 AIRAI ROAD IMPROVEMENT PR | 239,000 | - | - | - | - |
| B80501 KAYANGEL GARBAGE FACILITY | 65,000 | (38,429) | - | - | (38,429) |
| B80701 MELEKEOK ROAD IMPROVEMENT | 100,000 | - | - | - | - |
| B80801 CHOLL TYPHOON SHELTER | 200,000 | 203,777 | - | - | 203,777 |
| B80803 NGARAARD NEW ROAD PROJ | 100,000 | (30,631) | - | - | (30,631) |
| B80804 NGARAARD WATER PUMP STATI | 50,000 | (48,341) | - | - | (48,341) |
| B80805 ORREDAKL TO ULIMANG ROAD | 300,000 | (81) | - | - | (81) |
| B80901 NGARCHELONG MAIN ROAD IMP | 100,000 | (4,073) | - | - | (4,073) |
| B81001 NGARDMAU ROAD PAVING PROJ | 250,000 | (96) | - | - | (96) |
| B81101 NGERMETENGEL COMM BAI | 225,000 | (412) | - | - | (412) |
| B81102 NGERMETENGEL DOCK IMPROVE | 125,000 | (15,166) | - | - | (15,166) |
| B81103 NGAREM ROAD IMPR PH IV | 40,000 | (345) | - | - | (345) |
| B81104 NGAREML ELEM ROAD PAVEMNT | 60,000 | (8,521) | - | - | (8,521) |
| B81105 NGARMESKANG WTRFALLS ROAD | 100,000 | (22,386) | - | - | (22,386) |
| B81201 AQUACULTURE PROJ PHIV | 150,000 | (96) | - | - | (96) |
| B81301 NGCHESAR MAIN ROAD IMPROV | 200,000 | (32,204) | - | - | (32,204) |
| B81401 NGIWAL WATER SYSTEM IMPRO | 160,000 | 99,993 | - | - | 99,993 |
| B81402 NGIWAL DOCK REPAIR | 40,000 | (20,053) | - | - | (20,053) |
| B81501 PELELIU STATE BOAT REPAIR | 330,000 | (9,604) | - | - | (9,604) |
| S78969 PALAU DIGITAL ARCHIVING | 125,000 | (3,191) | - | - | (3,191) |
| S84813 CNMI CONSUL ABAI CONTRIB | 25,000 | - | - | - | - |
| P84810 COMPACT REVIEW | 175,000 | - | - | - | - |
| P84811 PRES DIGITAL ARCHIV/OTHER | 225,000 | (36) | - | - | (36) |
| F84812 CAPITOL COMPLX INFO SUPPL | 347,000 | (154,957) | - | - | (154,957) |
| F84814 CAPITOL COMPLEX MIS-PH2 | 1,000,000 | (100,400) | (6,222) | - | (94,178) |
| H84854 HOSP SOLAR LIGHTING PROJ | 2,500,000 | (56,388) | - | - | (56,388) |
| R84971 KOROR SEWER SYS PROJ PH 2 | 2,255,000 | 247,652 | - | - | 247,652 |
| SUB TOTAL | 9,711,000 | (6,222) | (6,222) | - | - |
| STATE ECONOMIC STIMULUS PACKAGE 2009 | | | | | |
| B90701 MELEKEOK MAIN ROAD | 850,000 | (132) | - | - | (132) |
| R94823 IMEKANG DOCK | 1,000,000 | 6,053 | - | - | 6,053 |
| J94825 GLOBAL POSITIONING SYSTEM | 1,900,000 | (2,000) | - | - | (2,000) |
| J94826 LIGHT EMITTING DIODE | 800,000 | 2,203 | - | - | 2,203 |
| B90901 NGERCHELONG MAIN ROAD | 810,000 | 3,239 | - | - | 3,239 |
| B91101 NGERMLENGUI BRIDGE | 640,000 | (3,218) | - | - | (3,218) |
| R94824 KOKSAI/NGCHESAR ACCESS RD | 5,000,000 | (6,147) | - | - | (6,147) |
| SUB TOTAL | 11,000,000 | (2) | - | - | (2) |

See Accompanying Independent Auditors' Report

# REPUBLIC OF PALAU

## OTHER COUNTRY GRANTS FUND

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

| Fund 440100 Grantor Account Title | Budget Authorizations | Receivable from Grantor (Deferred Revenue) at 10/01/13 | Cash Receipts FY2014 | Expenditures FY2014 | Receivable from Grantor (Deferred Revenue) at 9/30/14 |
|---|---|---|---|---|---|
| STATE ECONOMIC STIMULUS PACKAGE 2010 | | | | | |
| B00201 RABIT FISH HATCHERY FY2010 | 400,000 | (2,282) | - | - | (2,282) |
| B01001 NGARDMAU CONCRETE ROAD FY2010 | 500,000 | (25,795) | - | - | (25,795) |
| B01002 NGARDMAU BOTANICAL GARDER FY2010 | 30,000 | - | - | - | - |
| B01201 TWN EXPERT AQUACULTURE FY2010 | 150,000 | 30,096 | 21,186 | - | 8,910 |
| B01301 NGCHESAR CONCRETE ROAD FY2010 | 600,000 | (33,879) | - | - | (33,879) |
| H04850 MOH EQUIP & OTHERS FY2010 | 1,500,000 | (3,267) | - | - | (3,267) |
| R04821 ENERGY EFFICIENT BUILDING FY2010 | 445,000 | - | - | - | - |
| R04824 KOKSAI-NGCHESAR ROAD II FY2010 | 3,000,000 | 15,568 | - | - | 15,568 |
| R04830 AGRI DEV. CENTER FY2010 | 750,000 | 78,919 | 55,200 | - | 23,719 |
| R04835 COCONUT TREE PLANTING FY2010 | 175,000 | - | - | - | - |
| R04837 MALAKAL MARINE RESOURCE FY2010 | 750,000 | (204) | - | - | (204) |
| R04840 STATE MARINE SANCTUARY FY2010 | 400,000 | (1,256) | - | - | (1,256) |
| R04842 TWN EXPERT AGRICULTURE FY2010 | 150,000 | (1,580) | - | - | (1,580) |
| R04844 BEAUTIFICATION PROJECT FY2010 | 100,000 | 20,000 | - | - | 20,000 |
| R04871 PCC SCHOOL OF EXCELENCE FY2010 | 300,000 | - | - | - | - |
| R04872 BASKETBALL COURTS FY2010 | 150,000 | 68 | - | - | 68 |
| R04873 MOE SOLAR PROJECT FY2010 | 600,000 | - | - | - | - |
| TOTAL FY2010 STIMULUS GRANTS | 10,000,000 | 76,388 | 76,386 | - | 2 |
| STATE ECONOMIC STIMULUS PACKAGE 2011 | | | | | |
| B10101 KOKSAI-NEKKEN RD. FY2011 | 525,000 | (101,007) | 100,000 | - | (1,007) |
| B10201 RABIT FISH HATCH EQP FY11 | 30,000 | - | - | - | - |
| B10202 AIRAI ROAD FY2011 | 350,000 | (200) | - | - | (200) |
| B10601 NGERMID RD PROJ. PHI FY11 | 400,000 | (350) | - | - | (350) |
| B10602 T/M-DOCK RD. REHAB FY2011 | 500,000 | (639) | - | - | (639) |
| B10701 MELKEOK HIST PIER FY2011 | 200,000 | (280) | - | - | (280) |
| B10801 NGARARD RD. ULI-ELAB FY11 | 150,000 | 98,061 | 97,961 | - | 100 |
| B10802 NGARARD RD. NGKEKLAU FY11 | 250,000 | 22,808 | - | - | 22,808 |
| B10901 NGARCHELONG ROAD FY2011 | 275,000 | (4) | - | - | (4) |
| B10902 BADRULCHAU TOUR.CNTR FY11 | 50,000 | 66 | - | - | 66 |
| B11001 NGARDMAU RD. PHIII FY2011 | 250,000 | (5,314) | - | - | (5,314) |
| B11101 NGERML ROAD REHAB FY2011 | 500,000 | (19,223) | - | - | (19,223) |
| B11201 TWN EXPERT AQUA FY201 | 29,000 | (9,500) | - | - | (9,500) |
| B11301 NGCHESAR ST. ROAD FY2011 | 250,000 | 3,294 | - | - | 3,294 |
| C14821 JUDICIARY INFO SYST FY'11 | 820,000 | (11,001) | - | - | (11,001) |
| R14824 KOKSAI-NGCHSR RD PII FY11 | 4,000,000 | 3,569 | - | - | 3,569 |
| R14830 LIVESTOCK DEV. PROJ FY'11 | 173,000 | 47,468 | 17,706 | - | 29,762 |
| R14837 MALAKAL MRN RES PHII FY11 | 500,000 | (2) | - | - | (2) |
| R14842 TWN EXPERT AGRI FY2011 | 29,000 | (10,500) | - | - | (10,500) |
| R14844 GREEN REVLTN PHII FY'11 | 300,000 | (416) | - | - | (416) |
| R14971 KOR SEWER PMP UPG FY2011 | 400,000 | (1,163) | - | - | (1,163) |
| R1PE01 TWN INFRA PROJ. EVAL FY11 | 19,000 | - | - | - | - |
| TOTAL FY2011 STIMULUS GRANTS | 10,000,000 | 15,667 | 215,667 | - | - |
| STATE ECONOMIC STIMULUS PACKAGE 2012 | | | | | |
| B20104 KOKS-NEKN RD PH II FY2012 | 500,000 | 100,908 | (100,000) | (933) | (25) |
| B20105 AIM CONN. ROAD PHII 2012 | 150,000 | (10,135) | - | | (10,135) |
| B20202 RBT FISH FLTING CAGE 2012 | 60,000 | (10,000) | - | | (10,000) |
| B20203 AIRAI RD REHAB PH VI 2012 | 600,000 | (18,006) | (17,707) | | (299) |
| B20204 OMIKOLL WATER LINE 2012 | 50,000 | (5,748) | - | | (5,748) |
| B20205 NGRKIIL WTR DIST SYS 2012 | 300,000 | (9,357) | - | | (9,357) |
| B20305 ANGAUR BUCKHOE X2 FY2012 | 100,000 | (50,000) | (49,978) | | (22) |
| B20501 KAYANGEL SOLAR FY2012 | 100,000 | (37,600) | (37,600) | | - |
| B20601 NGERMID RD REHAB P11 2012 | 320,000 | 11,401 | - | (11,401) | - |
| B20602 T-DOCK PHASE II 2012 | 320,000 | (5,983) | - | | (5,983) |
| B20603 IYEBUKEL ROAD REHAB 2012 | 400,000 | (1,713) | - | | (1,713) |
| B20604 NGERBECHED RD REHAB 2012 | 335,000 | (1,925) | - | | (1,925) |
| B20605 MALAKAL PRT RD REHAB 2012 | 120,000 | (3,734) | - | | (3,734) |
| B20606 YANOS MARKT ACCES RD 2012 | 55,000 | (11,805) | (11,805) | | - |
| B20607 DESEKEL RD. REHAB 2012 | 250,000 | (57) | - | | (57) |

# REPUBLIC OF PALAU

## OTHER COUNTRY GRANTS FUND

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

| Fund 440100 Grantor Account Title | Budget Authorizations | Receivable from Grantor (Deferred Revenue) at 10/01/13 | Cash Receipts FY2014 | Expenditures FY2014 | Receivable from Grantor (Deferred Revenue) at 9/30/14 |
|---|---|---|---|---|---|
| B20608 PPUC/MALAKAL RD 2012 | 100,000 | (1,368) | - | | (1,368) |
| B20609 POST TO HEADSTART RD 2012 | 150,000 | 15,799 | - | (15,800) | (1) |
| B20802 NGARAARD ROAD REHAB 2012 | 100,000 | (97,962) | (97,961) | | (1) |
| B20901 NGERCH WATER SYST 2012 | 350,000 | (8,544) | - | | (8,544) |
| B21001 NGARDMAU ROAD P IV 2012 | 100,000 | (3,837) | - | | (3,837) |
| B21103 NGRML RD REHAB PH II 2012 | 400,000 | 1,065 | - | (1,092) | (27) |
| B21401 NGIWAL ROAD REHAB 2012 | 100,000 | (1,263) | - | | (1,263) |
| B21502 PELELIU GRADERS X2 FY2012 | 100,000 | 50,000 | - | | 50,000 |
| E24871 PHS DORM PROJ. FY2012 | 700,000 | (92) | - | | (92) |
| R24821 PROJECT EVALUATOR FY2012 | 25,000 | - | - | | - |
| R24824 KOKSAI-NGCHSR RD PII FY12 | 3,500,000 | (190,257) | 1,000 | 213,801 | 22,544 |
| R24830 ANIMAL PRODUCTION 2012 | 492,400 | 1,050 | - | (7,050) | (6,000) |
| R24837 GROUPER PROJECT FY2012 | 182,600 | - | - | | - |
| R24840 FISHING AGGR. DEVICE 2012 | 40,000 | 32,995 | 29,156 | (6,252) | (2,413) |
| SUB TOTAL | 10,000,000 | (256,168) | (284,895) | 171,273 | (0) |
| B24996 CERAMIC ARTS PROJ FY2012 | 86,805 | - | - | - | - |
| J24826 KORDA UUDEL BELAU | 100,000 | 455 | - | - | 455 |
| R24901 BUOY REHAB 2012 | 24,242 | (24,242) | (23,787) | - | (455) |
| SUB TOTAL | 211,047 | (23,787) | (23,787) | - | - |
| TOTAL FY2012 STIMULUS GRANTS | 10,211,047 | (279,955) | (308,682) | 171,273 | (0) |
| STATE ECONOMIC STIMULUS PACKAGE 2013 | | | | | |
| A34816 POSTAL SERVICE POS & IT S | 65,000 | 9,864 | - | 107,500 | 117,364 |
| A34820 PVA OMR SCANNER & SOFTWAR | 70,000 | - | - | 52,880 | 52,880 |
| B30101 AIMELIIK HEAVY EQUIPMENT | 225,000 | 10,000 | 272,500 | 269,848 | 7,348 |
| B30102 NGCHEMIANGEL RUMP PROJ. | 50,000 | - | - | 20,000 | 20,000 |
| B30202 NGERIKIIL PUMP STATION | 30,000 | - | - | - | - |
| B30301 ANGAUR STATE BOAT | 150,000 | 119,800 | 127,500 | - | (7,700) |
| B30501 KAYANGEL STATE BOAT | 150,000 | (22,500) | - | 142,300 | 119,800 |
| B30601 KB BRIDGE KOROR-SIDE | 200,000 | (15,000) | - | 178,304 | 163,304 |
| B30602 MEYUNS OLD AIRPORT | 200,000 | (15,000) | - | - | (15,000) |
| B30606 NGERBECHED RD PAVING PROJ | 150,000 | - | - | - | - |
| B30801 NGARAARD RD IMPROVE PROJ | 300,000 | (45,000) | 235,000 | 295,287 | 15,287 |
| B30802 NGERCHOKL SITE DEVEL PROJ | 150,000 | (22,500) | - | 2,765 | (19,735) |
| B31001 NGARDMAU ROAD IMPROVE PRO | 300,000 | (45,000) | 217,000 | 290,291 | 28,291 |
| B31201 NGATPANG ROAD IMPROVE PRO | 500,000 | (75,000) | 125,000 | 414,944 | 214,944 |
| B31203 NGATPANG MILKFISH FARM PR | 65,000 | 65,000 | - | - | 65,000 |
| B31301 NGCHESAR ROAD IMPROVE PRO | 325,000 | (29,483) | 235,000 | 258,442 | (6,041) |
| B31401 NGIWAL ROAD IMPROVE PROJ | 300,000 | 4,801 | 255,000 | 250,178 | (21) |
| B31405 NGIWAL FORCE ACCT PROJECT | 50,000 | - | - | 424 | 424 |
| B31501 PELELIU HEAVY EQUIP REPAI | 14,000 | 9,365 | - | 4,635 | 14,000 |
| B31601 TELECOMMUNICATION UPGRADE | 75,000 | - | - | - | - |
| C34943 BELAU GAMES | 16,000 | 15,500 | - | - | 15,500 |
| E34874 JUNIOR STATESMEN CONTRIBU | 10,000 | 10,000 | - | - | 10,000 |
| F34815 BUD SUPPORT TYPHOON BOPHA | 4,000,000 | - | 1,000,000 | 1,001,223 | 1,223 |
| F34817 CUSTOMS INFO SYS IMPROVE | 1,100,000 | (495,302) | 600,000 | 1,100,869 | 5,567 |
| F34818 INFO & TELEC SYS & TECH U | 400,000 | (83,805) | 90,000 | 312,429 | 138,624 |
| F34847 BBP INSTITUTIONAL STRENGT | 100,000 | (26,840) | - | 74,701 | 47,861 |
| F3DDDU DRUG DETECTOR DOG UNIT | 100,000 | 34,601 | - | 53,781 | 88,382 |
| G3PRO1 PROPERTY REPAIRS & MAINT | 100,000 | 51,224 | - | 37,355 | 88,579 |
| G3VEH1 GOVT VEHICLE REPRS & ACQU | - | 38,182 | - | (38,182) | - |
| H34855 MOH UPS PURCHASE | 150,000 | - | - | 148,900 | 148,900 |
| J34921 PSS REMELIIK HALFLIFE REF | 64,000 | - | - | - | - |
| J34925 JUVENILE DETENTION CENTER | 10,000 | - | - | - | - |
| J3PEFI POLICE EQUIP & FAC IMPROV | 50,000 | - | - | - | - |
| M34834 INVASIVE SPECIES COMMITTE | 25,000 | 25,000 | - | - | 25,000 |
| P34944 INDEPENDENCE DAY CELEB | 100,000 | 47,059 | - | 16,136 | 63,195 |
| P3PRS1 PRES IT IMPROVEMENTS | 200,000 | 95,319 | 5,090 | 49,521 | 139,750 |
| P3PRS2 PRESIDENT'S SUMMIT | 25,000 | 23,839 | - | - | 23,839 |
| R34809 SOLAR POWER GEN SYST 2013 | 300,000 | - | 250,000 | 268,800 | 18,800 |

See Accompanying Independent Auditors' Report

# REPUBLIC OF PALAU

## OTHER COUNTRY GRANTS FUND

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

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

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, 2014

| Fund 360100 Grantor Account Title | Cost Center | Authorization | Receivable from Grantor (Deferred Revenue) at 9/30/13 | Cash Receipts FY 2014 | Expenditures FY 2014 | Receivable from Grantor (Deferred Revenue) at 9/30/14 |
|---|---|---|---|---|---|---|
| UNFPA Grant | | | | | | |
| MCCA-GENDER POLICY 2013 | C33920 | $ 10,000 | $ (10,000) | $ - | $ 9,642 | $ (358) |
| GENDER FHSS FY'12 MOF | F2FHSS | 53,159 | 30,809 | - | - | 30,809 |
| GENDER FHSS 2013 | F3FHSS | 195,525 | 69,694 | 154,469 | 10,038 | (74,737) |
| GENDER FHSS 2014 | F4FHSS | 46,000 | - | 9,932 | 12,774 | 2,842 |
| GENDER FHSS FY'12 | H2FHSS | 48,665 | 51,802 | - | - | 51,802 |
| RHCS FY'12 | H2RHCS | 15,000 | (105) | (4,000) | - | 3,895 |
| Total UNFPA Grants | | 368,349 | 142,200 | 160,401 | 32,454 | 14,253 |
| UN Pop Education Program | | | | | | |
| 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 | | 75,415 | (10,927) | - | - | (10,927) |
| UNCCD Grant Committee | | | | | | |
| UNCCD 4th National Report | A03923 | 4,000 | 155 | - | - | 155 |
| UNCCD Gran Committee | S03923 | 22,950 | (4,851) | - | - | (4,851) |
| Total UNCCD | | 26,950 | (4,696) | - | - | (4,696) |
| UNESCO-PALAU PUBLIC LIBRARY | | | | | | |
| Unesco-Pal Public Library | E33924 | 15,000 | (546) | - | - | (546) |
| Total UNESCO Grants | | 15,000 | (546) | - | - | (546) |
| WHO APW HEALTH CAREER TRNG | | | | | | |
| WHO APW HLTH CAREER TRNG | H43927 | - | (958) | - | - | (958) |
| WHO APW HLTH CAREER TRNG | H43927 | - | (830) | - | - | (830) |
| WHO PHARMACY MIS | H0WHO1 | 6,790 | 2,862 | 2,862 | - | - |
| WHO OTHERS | H0WHO2 | 28,898 | (1,973) | (1,237) | 736 | - |
| PHARMACY TECH ONLINE TRNG | H0WHO3 | 14,929 | 2,215 | 1,149 | 2,113 | 3,179 |
| CE RESIDENCY PROG FY10 | H0WHO4 | 15,200 | (8,000) | (8,000) | - | - |
| HRD PROGRAMS | H9WHO1 | 16,000 | 996 | 996 | - | - |
| QA PROGRAMS | H9WHO2 | 9,000 | 125 | 125 | - | - |
| BHCS STRATEGIC PLAN | H9WHO3 | 14,000 | (212) | (212) | - | - |
| BPHS STRATEGIC PLAN | H9WHO4 | 24,000 | (1,518) | (1,518) | - | - |
| TOBACCO | H9WHO5 | 3,000 | - | (5,000) | - | 5,000 |
| WHO HEALTHY WORK PLACE | H9WHO6 | 27,000 | 9,515 | 18,095 | 8,580 | - |
| WHO INJURY PREVENTION | H9WHO7 | 12,500 | (1,320) | (1,320) | - | - |
| POLHN | H9WHO8 | 26,000 | 71 | 71 | - | - |
| GENDER TOBACCO | H9WHO9 | 15,000 | (11) | (11) | - | - |
| LF & NTD SUREVEY | H1WHO0 | 12,000 | (4,581) | (4,581) | - | - |
| COLLEGE OF HEALTH | H1WHO1 | 40,200 | 7,615 | 7,615 | - | - |
| STEPS TRAINING FY2011 | H1WHO2 | 5,000 | (9,906) | (9,906) | - | - |
| HLTH COMM TRAINING FY2011 | H1WHO3 | 7,000 | (9,893) | (9,893) | - | - |
| SCHL GARDENING PROG FY11 | H1WHO4 | 20,000 | (13,591) | (11,230) | 2,361 | - |
| WHO FELLOWSHIP PROG FY11 | H1WHO5 | 45,000 | 23,104 | 23,104 | - | - |
| MOH LIBRARY UPGRD POLN | H1WHO6 | 39,700 | (1,510) | (2,210) | - | 700 |
| WHO TOBACCO | H1WHO7 | 34,400 | 3,735 | 3,735 | - | - |

See Accompanying Independent Auditors' Report.

# REPUBLIC OF PALAU

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

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

| Fund 360100 Grantor Account Title | Cost Center | Authorization | Receivable from Grantor (Deferred Revenue) at 9/30/13 | Cash Receipts FY 2014 | Expenditures FY 2014 | Receivable from Grantor (Deferred Revenue) at 9/30/14 |
|---|---|---|---|---|---|---|
| CLIMATE CHANGE FY11 | H1WHO8 | 5,000 | (1,450) | (1,450) | - | - |
| PW NTAT'L STEPS SURVEY | H1WHO9 | 84,700 | (17,454) | (6,293) | 11,161 | - |
| WHO IMMUNIZATION TRNG '12 | H23927 | 15,300 | (6,324) | (4,151) | 2,173 | - |
| MALE HEALTH WORKSHOP FY '12 | H2WHO1 | 9,600 | 7,482 | 7,482 | - | - |
| STAKEHOLDERS WHO TCTC FY '12 | H2WHO2 | 9,900 | 8,910 | 8,910 | - | - |
| WORLD DIABETES DAY FY '12 | H2WHO3 | 9,500 | 7,770 | 7,770 | - | - |
| 2ND PNEC NCD PREVENTION & CONTROL | H2WHO4 | 9,900 | 8,201 | 8,201 | - | - |
| ICS MEETING MOH F/UP FY '12 | H2WHO5 | 9,800 | 9,800 | 9,800 | - | - |
| NCP PREVENTION WORKSHOP MOE FY '12 | H2WHO6 | 23,180 | (12,063) | (12,063) | - | - |
| INT'L HEALTH LOGISTIC SUPP | H2WHO7 | 64,558 | (3,383) | 34,773 | 38,156 | - |
| INT'L HEALTH STRATEGIC PLAN | H2WHO8 | 15,450 | 4,950 | 4,950 | - | - |
| NCD WORKSHOP YOUTH CONF | H2WHO9 | - | 7,175 | 4,590 | (2,585) | - |
| RETAILER & SALT REDUCTION | H3WHO0 | 8,500 | (8,500) | (7,625) | 875 | - |
| PEN TRAINING | H3WHO1 | 9,700 | (3,350) | (2,066) | 1,284 | - |
| WORLD NO TOBACCO DAY 2013 | H3WHO2 | 11,960 | (3,275) | (2,795) | 480 | - |
| PW HALF MARATHON 2013 | H3WHO3 | 9,254 | (9,254) | (2,603) | 6,651 | - |
| PW BLUE RIBBON CAMPGN | H3WHO4 | 4,000 | (13,550) | (9,550) | 4,000 | - |
| WROKSHOP ON TOBACCO TAX | H3WHO5 | 9,950 | (9,950) | (3,412) | 6,538 | - |
| PROF DEV ORAL HEALTH WORKFORCE | H3WHO6 | 5,400 | (5,400) | (5,400) | - | - |
| NARCOTICS WORKSHOP | H3WHO7 | 3,581 | (3,581) | (1,468) | 2,113 | - |
| PW MH ASSESMENT | H3WHO8 | 9,550 | - | 7,126 | 7,126 | - |
| NATIONAL STAKEHOLDER MTNG | H4WHO1 | 5,000 | - | 5,000 | - | (5,000) |
| Total WHO APW health Career Trng | | 749,400 | (47,311) | 42,360 | 91,762 | 2,091 |
| Climate Change (UN) GET | | | | | | |
| 2ND National Comm. UNFCCC | A63930 | - | 100,010 | | | 100,010 |
| PAC ADAPT TO CLIMATE CHNG | A93930 | 741,000 | (136,329) | - | - | (136,329) |
| PACC MOH - Implementing Partner | H13930 | 17,000 | 38,375 | - | - | 38,375 |
| PACC BMR - Implementing Partner | M13930 | 11,000 | 54,875 | - | - | 54,875 |
| PACC BOA - Implementing partner | N13930 | 11,000 | 53,805 | - | - | 53,805 |
| PACC Palaris - Implementing Partner | R13930 | 20,000 | 159,306 | - | 4,075 | 163,381 |
| PACC EQPB PROJECT | R23930 | - | 6,174 | - | - | 6,174 |
| Total Climate Change (UN) GET | | 800,000 | 276,216 | - | 4,075 | 280,291 |
| SPREP | | | | | | |
| Ozone Depleting Substance | A33936 | 50,000 | 8,085 | 6,688 | - | 1,397 |
| Ozone Depleting Substance | A73936 | - | 9,037 | - | - | 9,037 |
| Ozone Depleting Substance | A03936 | 60,000 | 5,600 | - | (5,600) | - |
| Ozone Depleting Substance | A13936 | 38,688 | (18,849) | - | 5,600 | (13,249) |
| Ozone Depleting Substance | A23936 | 75,000 | (32,058) | 27,000 | 47,852 | (11,206) |
| Total SPREP | | 223,688 | (28,185) | 33,688 | 47,852 | (14,021) |
| UN Pops Grants | | | | | | |
| EQPB- UNEP POP/NIP 2013 | R33938 | 27,000 | (12,886) | 30,000 | 5,943 | (36,943) |
| Total UN Pops Grants | | 27,000 | (12,886) | 30,000 | 5,943 | (36,943) |
| UNICEF | | | | | | |
| UNICEF - PCPBR | H33940 | 22,450 | (23,310) | (1,361) | 15,889 | (6,060) |
| Total UNICEF Grants | | 22,450 | (23,310) | (1,361) | 15,889 | (6,060) |

See Accompanying Independent Auditors' Report.

# REPUBLIC OF PALAU

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

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

| Fund 360100 Grantor Account Title | Cost Center | Authorization | Receivable from Grantor (Deferred Revenue) at 9/30/13 | Cash Receipts FY 2014 | Expenditures FY 2014 | Receivable from Grantor (Deferred Revenue) at 9/30/14 |
|---|---|---|---|---|---|---|
| Report on Biodiversity | | | | | | |
| 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 | | 31,500 | 22,619 | - | - | 22,619 |
| 8th OEK Orientation & WRKS | | | | | | |
| 8th OEK Oreintation & WRKS | K93948 | 22,000 | (281) | - | - | (281) |
| Support to ROP Congress Projects | K13948 | 200,000 | (5,408) | 15,395 | 18,402 | (2,401) |
| Total Other Grants to OEK | | 222,000 | (5,689) | 15,395 | 18,402 | (2,682) |
| UNEP / FNR-RIO | | | | | | |
| FNR to Rio Convention | A03949 | 34,567 | 1,730 | - | - | 1,730 |
| Total UNEP Grants | | 34,567 | 1,730 | - | - | 1,730 |
| SAICM - EQPB | | | | | | |
| QSP Trust Fund - SAICM | R93951 | 125,000 | (14,664) | - | - | (14,664) |
| Total SAICM Grants | | 125,000 | (14,664) | - | - | (14,664) |
| TNC GRANTS | | | | | | |
| PAN LEGAL FRAMEWORK FY13 | M3TNC1 | 10,000 | (5,000) | 5,000 | 1,497 | (8,503) |
| FISHERY DATA COLLECTION | M3TNC2 | 17,500 | (9,400) | 7,500 | 13,856 | (3,044) |
| Total TNC Grants | | 27,500 | (14,400) | 12,500 | 15,353 | (11,547) |
| 2ND FRANCE-OCEANIA SUMMIT | | | | | | |
| HUMAN RIGHTS ACT FY '12 | S23954 | 40,000 | 9,287 | - | - | 9,287 |
| Total France Grants | | 40,000 | 9,287 | - | - | 9,287 |
| SPREP Grants (Fruit Fly) | | | | | | |
| National Invasive Species | R33957 | 50,860 | 5,505 | 27,612 | 33,784 | 11,677 |
| Total SPREP Grants | | 50,860 | 5,505 | 27,612 | 33,784 | 11,677 |
| Canada Funds | | | | | | |
| Palau National Youth Policy | C43960 | 36,500 | (8) | - | - | (8) |
| Total Canada Funds | | 36,500 | (8) | - | - | (8) |
| Secretariat Pacific Comm | | | | | | |
| Water Conservation Incentives | G43961 | 56,450 | - | 56,450 | 56,475 | 25 |
| MAP Water and Sewer Lines FY14 | R43961 | 6,875 | - | 6,875 | - | (6,875) |
| GCCA/PSIS OERC 2013 | A33961 | 107,352 | (48,405) | 51,174 | 57,376 | (42,203) |
| Total SPC Grants | | 170,677 | (48,405) | 114,499 | 113,851 | (49,053) |
| Pacific Island Forum | | | | | | |
| PAC ISLAND FORUM FY14 | P43963 | 750,000 | - | 750,000 | 157,937 | (592,063) |
| Total Pacific Island Forum Grants | | 750,000 | - | 750,000 | 157,937 | (592,063) |

See Accompanying Independent Auditors' Report.

# REPUBLIC OF PALAU

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

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

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

See Accompanying Independent Auditors' Report.

# REPUBLIC OF PALAU

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

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

| Fund 360100 Grantor Account Title | Cost Center | Authorization | Receivable from Grantor (Deferred Revenue) at 9/30/13 | Cash Receipts FY 2014 | Expenditures FY 2014 | Receivable from Grantor (Deferred Revenue) at 9/30/14 |
|---|---|---|---|---|---|---|
| MOH SMALL GRANTS - OTHERS | | | | | | |
| MOH SEOW FY2011 | H13991 | 100,000 | (9,187) | - | 2,948 | (6,239) |
| MOH SEOW FY2012 | H23991 | 75,000 | (1,668) | - | (2,326) | (3,994) |
| MOH SEOW 2013 | H33991 | 95,000 | (30,577) | 47,500 | 69,168 | (8,909) |
| BHSIS 2014 | H43991 | - | - | - | - | - |
| BUILD EVAL CAPACITY 2014 | H4EDC1 | 24,000 | - | 24,000 | 18,187 | (5,813) |
| Total MOH Small Grants | | 294,000 | (41,432) | 71,500 | 87,977 | (24,955) |
| LSTA State Grants | | | | | | |
| LSTA State Grants | E13992 | 40,377 | (801) | - | - | (801) |
| LSTA State Grants | E93992 | - | (1,035) | - | - | (1,035) |
| PALAU LSTA IMLS GRANT | E23992 | 42,385 | 42,385 | - | (42,385) | - |
| IMLS LSTA 2013 | E33992 | 40,720 | - | - | 40,720 | 40,720 |
| IMLS LSTA 2014 | E43992 | 58,500 | - | - | - | - |
| Total LSTA State Grants | | 181,982 | 40,549 | - | (1,665) | 38,884 |
| ADMINISTRATIVE COST ACCOUNT | | | | | | |
| Other Administative Cost | F33999 | - | 48,624 | - | - | 48,624 |
| UNDP (SEDREA) ENERGY | | | | | | |
| Renewable Energy (SEDREA) | P98922 | 51,870 | 12,882 | - | - | 12,882 |
| Total UNDP SEDREA Energy | | 51,870 | 12,882 | - | - | 12,882 |
| UN CEDAW | | | | | | |
| CEDAW CONSULTATION | S18924 | 1,741 | (1,001) | - | - | (1,001) |
| CEDAW LEGISLATIVE REVIEW | S28924 | 11,095 | (35) | - | - | (35) |
| Total UN CEDAW | | 12,836 | (1,036) | - | - | (1,036) |
| UNEP GRANTS | | | | | | |
| 2ND NAT'L COMM 2013 | M38926 | 50,400 | (556) | 15,400 | 2,706 | (13,250) |
| NBSAP/ 5TH CBD RPT | R28926 | 220,000 | (50,000) | - | 100,839 | 50,839 |
| NBSAP/ 5TH RPT CBD | R38926 | - | 402 | - | 101 | 503 |
| Total UNEP Grants | | 270,400 | (50,154) | 15,400 | 103,646 | 38,092 |
| UOG GRANTS | | | | | | |
| MECHESIL BELAU PROJECT 2012 | C28950 | 20,000 | (132) | - | - | (132) |
| SBDC- UOG PISBDCN 2012 | P28950 | 30,000 | 24,784 | - | - | 24,784 |
| total UOG Grants | | 50,000 | 24,652 | - | - | 24,652 |
| GENEVA GRANTS AND ASSISTANCE | | | | | | |
| GENEVA- GICHD 2012 | S38951 | 34,300 | (33) | - | - | (33) |
| REGIONAL UXO WORKSHOP | S48951 | 13,943 | - | 8,500 | 8,191 | (309) |
| Total Geneva Grants and Assistance | | 48,243 | (33) | 8,500 | 8,191 | (342) |
| Other Foreign Grants | | | | | | |
| PIF Expenses | S48952 | 1,650,000 | - | 650,000 | 1,328,301 | 678,301 |
| Total Other Foreign Grants | | 1,650,000 | - | 650,000 | 1,328,301 | 678,301 |

See Accompanying Independent Auditors' Report.

# REPUBLIC OF PALAU

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

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

| Fund 360100 Grantor Account Title | Cost Center | Authorization | Receivable from Grantor (Deferred Revenue) at 9/30/13 | Cash Receipts FY 2014 | Expenditures FY 2014 | Receivable from Grantor (Deferred Revenue) at 9/30/14 |
|---|---|---|---|---|---|---|
| HOSPITAL EQUIP - IINDIA GRT | | | | | | |
| Ministry of State Equipments | S08968 | 100,000 | (3,570) | - | - | (3,570) |
| Submarine Cable Feasabiltiy | S18968 | 100,000 | (947) | - | - | (947) |
| 45TH PIF COMMITTEE | S48968 | 99,000 | - | 99,000 | 99,000 | - |
| Total India Grants | | 299,000 | (4,517) | 99,000 | 99,000 | (4,517) |
| HUMANITARIAN ASSISTANCE TO PSB | | | | | | |
| Humanitarian Assistance to PSB | F18974 | - | 111,687 | - | - | 111,687 |
| Humanitarian Assistance to PSB | F78974 | 3,355,000 | (51,616) | - | - | (51,616) |
| Total Humanitarian Assistance to PSB | | 3,355,000 | 60,071 | - | - | 60,071 |
| IWRM Project (SOPAC) | | | | | | |
| IWRM Project (SOPAC) | A78975 | 31,300 | 8,612 | - | - | 8,612 |
| SOPAC-Ngerikiil Watershed | A98975 | 478,066 | (45,742) | 20,000 | 31,166 | (34,576) |
| IWRM BOA | M98975 | 48,000 | (14,026) | - | 11,278 | (2,748) |
| Water Policy Activities | P18975 | 42,900 | 6,803 | - | - | 6,803 |
| IWRM EQPB LAB | R28975 | 23,500 | (22,747) | - | 20,685 | (2,062) |
| IWRM Palaris | R98975 | 30,000 | (5,343) | - | - | (5,343) |
| Total IWRM | | 653,766 | (72,443) | 20,000 | 63,129 | (29,314) |
| MICRONESIAN CHALANGE DONATION | | | | | | |
| Micronesian Chalange Donation TRKY | A78978 | 75,000 | - | - | (35) | (35) |
| Total MC Donations | | 75,000 | - | - | (35) | (35) |
| ENERGY SECT IN 5 ACP ISLS | | | | | | |
| Energy Sect in 5 ACP Isls | F88979 | 287,650 | 3,094 | - | - | 3,094 |
| PAL renewable energy NPE2 | F8PE02 | 430,170 | (65,387) | - | 65,387 | - |
| Tech. Coop. Facility | F0TFC1 | 147,000 | 26,867 | - | 17,063 | 43,930 |
| TECH COOP FACILITY (2) | F2TCF2 | - | 6,042 | - | - | 6,042 |
| Total Energy Grants | | 864,820 | (29,384) | - | 82,450 | 53,066 |
| Sustainable Land MGMT | | | | | | |
| Sustainable Land MGMT | A88983 | 475,000 | (7,542) | - | - | (7,542) |
| Total SLM Grants | | 475,000 | (7,542) | - | - | (7,542) |
| Taiwan (ROC) Grants | | | | | | |
| Energy Support ASST-OPER | A88984 | 1,669,000 | (231,000) | - | - | (231,000) |
| Total ROC Grants | | 1,669,000 | (231,000) | - | - | (231,000) |
| RESEARCH CORP UH-RCUH | | | | | | |
| PALAU CANCER REGISTRY | H38985 | 46,437 | (9,414) | 31,068 | 25,521 | (14,961) |
| Total RCUH Grants | | 46,437 | (9,414) | 31,068 | 25,521 | (14,961) |
| Turkey Grants | | | | | | |
| Continental Shelf - Ext | R98986 | 150,000 | 848 | - | - | 848 |
| Peleliu Multipurpose Gymnasium | S98686 | 150,000 | - | - | - | - |
| Total Turkey Grants | | 300,000 | 848 | - | - | 848 |
| STATISTICS | F98987 | 4,110 | - | - | - | - |
| Socio Economic Assesment | H18987 | 35,000 | 32,636 | - | - | 32,636 |
| | | 39,110 | 32,636 | - | - | 32,636 |

See Accompanying Independent Auditors' Report.

# REPUBLIC OF PALAU

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

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

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

See Accompanying Independent Auditors' Report.

# REPUBLIC OF PALAU

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## INDEPENDENT AUDITORS' REPORTS ON INTERNAL CONTROL AND ON COMPLIANCE

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## YEAR ENDED SEPTEMBER 30, 2014

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

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

We have audited, 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, the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Republic of Palau (the Republic) as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the Republic's basic financial statements, and have issued our report thereon dated June 30, 2015. Our report includes a reference to other auditors and emphasis-of-matters paragraphs regarding implementation of new accounting standards and an uncertainty. Other auditors audited the financial statements of National Development Bank of Palau, Palau Community College, Palau National Communications Corporation, and Palau District Housing Authority, as described in our report on the Republic's financial statements. This report does not include our consideration of the results of the other auditors' testing of internal control over financial reporting and compliance and other matters that are reported on separately by those other auditors.

For purposes of this report, our consideration of internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts and grants, and other matters did not include the Republic of Palau Social Security Retirement Fund, the Republic of Palau Civil Service Pension Trust Fund, Palau International Coral Reef Center, Palau Visitors Authority, Public Utilities Corporation, and Protected Areas Network, which were all audited by us. We have issued separate reports on our consideration of internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters for these entities. Other auditors issued separate reports on their consideration of internal control over financial reporting and their tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters for National Development Bank of Palau, Palau Community College, Palau National Communications Corporation, and Palau District Housing Authority. The findings, if any, included in those reports are not included herein.

## Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be significant deficiencies. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as items 2014-001, 2014-012 and 2014-013, which we consider to be material weaknesses.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Republic's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2014-014.

## The Republic's Response to Findings

The Republic's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The Republic's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

## Purpose of this Report

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

Deloitte + Touche LLP

June 30, 2015

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# INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133

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

## Report on Compliance for Each Major Federal Program

We have audited the Republic of Palau's (the Republic's) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Republic's major federal programs for the year ended September 30, 2014. The Republic's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

As discussed in Note 2b to the Schedule of Expenditures of Federal Awards, the Republic's basic financial statements include the operations of certain entities whose federal awards are not included in the Schedule of Expenditures of Federal Awards for the year ended September 30, 2014. Our audit, described below, did not include the operations of the entities identified in Note 2b as these entities conducted separate audits in accordance with OMB Circular A-133, if required.

### *Management's Responsibility*

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on compliance for each of the Republic's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Republic's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Republic's compliance.

### *Basis for Qualified Opinion on Certain Major Federal Programs*

As described in items 2014-002 to 2014-006 and 2014-008 to 2014-011 in the accompanying Schedule of Findings and Questioned Costs, the Republic did not comply with requirements regarding the following:

| ***Finding #*** | ***CFDA #*** | ***Program (or Cluster) Name*** | ***Compliance Requirement*** |
|---|---|---|---|
| 2014-008 | 15.875 | Economic, Social and Political Development of the Territories | Equipment and Real Property Management |
| 2014-008 | 84.027 | Special Education - Grants to States | Equipment and Real Property Management |
| 2014-008 | 84.256 | Territories and Freely Associated States Education Grant Program | Equipment and Real Property Management |
| 2014-010 | 84.256 | Territories and Freely Associated States Education Grant Program | Reporting |
| 2014-003 | 84.378 | College Access Challenge Grant Program | Eligibility |
| 2014-004 | 84.378 | College Access Challenge Grant Program | Special Tests and Provisions |
| 2014-006 | 84.378 | College Access Challenge Grant Program | Reporting |
| 2014-008 | 84.378 | College Access Challenge Grant Program | Equipment and Real Property Management |
| 2014-002 | 93.224 | Consolidated Health Centers | Activities Allowed or Unallowed |
| 2014-002 | 93.224 | Consolidated Health Centers | Allowable Costs/Cost Principles |
| 2014-008 | 93.224 | Consolidated Health Centers | Equipment and Real Property Management |
| 2014-009 | 93.224 | Consolidated Health Centers | Reporting |
| 2014-011 | 93.224 | Consolidated Health Centers | Program Income |
| 2014-005 | 93.283 | CDC and Prevention-Investigations and Technical Assistance | Procurement and Suspension and Debarment |
| 2014-008 | 93.283 | CDC and Prevention-Investigations and Technical Assistance | Equipment and Real Property Management |

Compliance with such requirements is necessary, in our opinion, for the Republic to comply with the requirements applicable to each program.

### *Qualified Opinion on Certain Major Federal Programs*

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the Republic complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on CFDA 15.875 Economic, Social, and Political Development of the Territories, CFDA 84.027 Special Education - Grants to States, CFDA 84.256 Territories and Freely Associated States Education Grant Program, CFDA 84.378 College Access Challenge Grant Program, CFDA 93.224 Consolidated Health Centers, and CFDA 93.283 CDC and Prevention-Investigations and Technical Assistance for the year ended September 30, 2014.

### Unmodified Opinion on CFDA 20.106 Airport Improvement Program

In our opinion, the Republic complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on CFDA 20.106 Airport Improvement Program for the year ended September 30, 2014.

***Other Matters***

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2014-007. Our opinion on each major federal program is not modified with respect to this matter.

The Republic's responses to the noncompliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The Republic's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

**Report on Internal Control Over Compliance**

Management of the Republic is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Republic's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Republic's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2014-002 to 2014-006 and 2014-008 to 2014-011 to be material weaknesses.

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned costs as item 2014-007 to be significant deficiencies.

The Republic's responses to the internal control over compliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The Republic's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

**Report on Schedule of Expenditures of Federal Awards Required by OMB A-133**

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Republic as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the Republic's basic financial statements. We issued our report thereon dated June 30, 2015, which contained unmodified opinions on those financial statements, and which report included a reference to other auditors and emphasis-of-matters paragraphs regarding implementation of new accounting standards and an uncertainty. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such 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. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Deloitte + Touche LLP

June 30, 2015

# REPUBLIC OF PALAU

## Schedule of Expenditures of Federal Awards
## Year Ended September 30, 2014

| Grantor/ProgramTitle | Federal CFDA Number | Expenditures |
|---|---|---|
| **U.S. Department of Agriculture:** | | |
| Grants for Agricultural Research, Special Research Grants | 10.200 | $ 6,551 |
| Cooperative Forestry Assistance | 10.664 | 73,160 |
| Community Facilities Loans and Grants | 10.766 | 61,648 |
| **Total U.S. Department of Agriculture** | | 141,359 |
| **U.S. Department of Commerce:** | | |
| Special Oceanic and Atmospheric Projects | 11.460 | 409,554 |
| **Total U.S. Department of Commerce** | | 409,554 |
| **U. S. Department of Labor:** | | |
| WIA Cluster: | | |
| WIA Adult Program | 17.258 | 74,863 |
| WIA Youth Activities | 17.259 | 79,565 |
| WIA Dislocated Workers | 17.278 | 120,010 |
| **Total U.S. Department of Labor** | | 274,438 |
| **U.S. Department of Education:** | | |
| Adult Education - Basic Grants to States | 84.002 | 7,013 |
| Special Education - Grants to States | 84.027 | 908,547 |
| Career and Technical Education - Basic Grants to States | 84.048 | 238,091 |
| Territories and Freely Associated States Education Grant Program | 84.256A | 1,379,805 |
| College Access Challenge Grant Program | 84.378A | 1,127,431 |
| **Total U.S. Department of Education** | | 3,660,887 |

See accompanying notes to schedule of expenditures of federal awards.

# REPUBLIC OF PALAU

## Schedule of Expenditures of Federal Awards, Continued
## Year Ended September 30, 2014

| Grantor/ProgramTitle | Federal CFDA Number | Expenditures |
|---|---|---|
| **U.S. Department of Health and Human Services:** | | |
| Civil Rights and Privacy Rule Compliance Activities | 93.001 | (2,100) |
| Public Health Emergency Preparedness | 93.069 | 306,611 |
| Comprehensive Community Mental Health Services for Children with SED | 93.104 | 118,366 |
| Maternal and Child Health Federal Consolidated Programs | 93.110AR | 212,165 |
| Project Grants and Cooperative Agreements for Tuberculosis Control Programs | 93.116 | 336,114 |
| Emergency Medical Services for Children | 93.127 | 46,536 |
| Family Planning - Services | 93.217 | 86,362 |
| Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care) | 93.224 | 920,599 |
| Substance Abuse and Mental Health Services - Projects of Regional and National Significance | 93.243 | 158,931 |
| Universal Newborn Hearing Screening | 93.251 | 169,504 |
| Immunization Cooperative Agreements | 93.268 | 288,970 |
| CDC and Prevention - Investigations and Technical Assistance | 93.283 | 1,158,921 |
| PPHF 2012 National Public Health Improvement Initiative | 93.507 | 232,254 |
| The Affordable Care Act: Building Epidemiology, Laboratory, and Health Information Systems Capacity in ELC and EIP Cooperative Agreements; PPHF | 93.521 | 92,014 |
| ACA authorizes Coordinated Chronic Disease prevention and Health Promotion Program | 93.544 | 98,799 |
| National Bioterrorism Hospital Preparedness Program | 93.889 | 220,059 |
| HIV Care Formula Grants | 93.917 | 46,589 |
| Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems | 93.938 | 8,999 |
| Block Grants for Community Mental Health Services | 93.958 | 50,283 |
| Block Grants for Prevention and Treatment of Substance Abuse | 93.959 | 144,959 |
| Preventive Health and Health Services Block Grant | 93.991 | 9,432 |
| Maternal and Child Health Services Block Grant to the States | 93.994 | 130,593 |
| **Total Department of Health and Human Services** | | 4,834,960 |
| **Total U.S. Federal Grants Fund (Fund 350100)** | | $ 9,321,198 |
| **U.S. Department of the Interior:** | | |
| Economic, Social, and Political Development of the Territories | 15.875 | $ 829,717 |
| **Total U.S. Department of the Interior** | | 829,717 |
| **Total U.S. Federal Grants Fund (Fund 350200)** | | $ 829,717 |
| **U.S. Department of Transportation:** | | |
| Airport Improvement Program | 20.106 | 4,011,850 |
| **Total U.S. Department of Transportation** | | 4,011,850 |
| **Total U.S. Federal Grants Fund (Fund 420100)** | | $ 4,011,850 |

See accompanying notes to schedule of expenditures of federal awards.

**REPUBLIC OF PALAU**

Schedule of Expenditures of Federal Awards, Continued
Year Ended September 30, 2014

| Economic, Social and Political Development of the Territories Compact of Free Association CFDA #15.875 | Authorizations | Expenditures and Transfers |
|---|---|---|
| 211(a) & 215 Compact Current Account | | |
| Compact Section 211(a) | $ 6,000,000 | $ 6,000,000 |
| Compact Section 215 | 5,147,000 | 5,147,000 |
| Total 211(a) & 215 Current Account | $ 11,147,000 | $ 11,147,000 |
| 211(f) Trust Fund | | |
| Executive Branch | $ 5,000,000 | $ 5,000,000 |
| Total 211(f) Trust Fund | $ 5,000,000 | $ 5,000,000 |
| 221(b)(1) & (2) Special Block Grant & Education Special Grant | | |
| Ministry of Education | $ 2,000,000 | $ 2,000,000 |
| Total 221(b) Special Block Grant | $ 2,000,000 | $ 2,000,000 |
| Total Compact of Free Association CFDA #15.875 | | $ 18,147,000 |
| Less Compact Section 211(a) Current Account | | (6,000,000) |
| Less Compact Section 215 Current Account | | (5,147,000) |
| Less Compact Section 211(f) Trust Fund Investment Earnings | | (5,000,000) |
| Total Compact of Free Association CFDA #15.875 expenditures subject to detailed compliance testing | | $ 2,000,000 |
| Total Federal Awards | | $ 16,162,765 |

The above awards are received in a direct capacity.

See accompanying notes to schedule of expenditures of federal awards.

## (1) Scope of Audit

The Republic of Palau (the "Republic") is a governmental entity governed by its own Constitution. All significant operations of the Republic are included in the scope of the OMB Circular A-133 audit (the "Single Audit"). The U.S. Department of the Interior has been designated as the Republic's cognizant agency for the Single Audit.

- Programs Subject to Single Audit

  The Schedule of Expenditures of Federal Awards presents each federal program related to the following agencies:

  - U.S. Department of Agriculture
  - U.S. Department of Commerce
  - U.S. Department of Labor
  - U.S. Department of Education
  - U.S. Department of Health and Human Services
  - U.S. Department of the Interior
  - U.S. Department of Transportation

## (2) Summary of Significant Accounting Policies

### a. Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Republic and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133. All expenses and capital outlays are reported as expenditures.

### b. Reporting Entity

For purposes of complying with the Single Audit Act of 1984, as amended in 1996, the Republic's reporting entity is defined in Note 1A to its September 30, 2014 basic financial statements; except that the Republic of Palau Social Security Retirement Fund, the Republic of Palau Civil Service Pension Trust Fund, and all of the discretely presented component units are excluded. Accordingly, the accompanying Schedule of Expenditures of Federal Awards presents the federal award programs administered by the Republic, as defined above, for the year ended September 30, 2014. The following component units incurred federal expenditures during the year ended September 30, 2014:

| | |
|---|---|
| Republic of Palau Social Security Retirement Fund | $ 142,575 |
| Palau Community College | $ 3,132,779 |
| Public Utilities Corporation | $ 45,000 |

(2) Summary of Significant Accounting Policies, Continued

c. Matching Costs

Matching costs, i.e., the nonfederal share of certain program costs, are not included in the accompanying Schedule of Expenditures of Federal Awards.

d. Indirect Cost Allocation

The Republic has entered into an approved indirect cost negotiation agreement covering fiscal year 2014. The approved rate was 7.87%. Federal programs were charged for indirect costs at the approved rate, unless awards specified a lower allowable rate.

e. CFDA # 15.875

CFDA # 15.875 represents funding from the Office of Insular Affairs (OIA), U.S. Department of the Interior. Funding from this source is subject to varying rules and regulations since OIA administers the Compact of Free Association (the Compact), which is a treaty, and is not a federal program. The Compact is comprised of various funded programs, each with separate compliance requirements. To maximize audit coverage of OIA funding, the U.S. Department of the Interior, Office of the Inspector General (OIG) has recommended that programs administered under CFDA # 15.875 be grouped by like compliance requirements and such groupings be separately evaluated as major programs.

For purposes of the Single Audit, Compact Section 211(a) Current Account Funding and Compact Section 215 Current Account Funding has been excluded from the dollar threshold used to distinguish between Type A and Type B programs. The requirement to exclude such funding was recommended by the OIG. The OIG took this position since there was no compliance requirement imposed on the abovementioned funds. The same is the case for the Section 211(f) Compact Trust Fund. There is no compliance requirement associated with the use of this funding and therefore, such has been excluded from the dollar threshold used to distinguish between Type A and Type B programs, but such funding has been subject to Single Audit tests.

**REPUBLIC OF PALAU**

Schedule of Findings and Questioned Costs
Year Ended September 30, 2014

## Section I - Summary of Auditors' Results

*Financial Statements*

| | | |
|---|---|---|
| 1. | Type of auditors' report issued: | Unmodified |
| | Internal control over financial reporting: | |
| 2. | Material weakness(es) identified? | Yes |
| 3. | Significant deficiency(ies) identified? | None noted |
| 4. | Noncompliance material to financial statements noted? | Yes |

*Federal Awards*

| | | |
|---|---|---|
| | Internal control over major federal programs: | |
| 5. | Material weakness(es) identified? | Yes |
| 6. | Significant deficiency(ies) identified? | Yes |
| 7. | Type of auditors' report issued on compliance for major federal programs: | |
| | CFDA 20.106 | Unmodified |
| | All other major federal programs | Qualified |
| 8. | Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? | Yes |
| 9. | Identification of major federal programs: | |

| CFDA Number(s) | Name of Federal Program or Cluster |
|---|---|
| 84.027 | Special Education - Grants to States |
| 84.256 | Territories and Freely Associated States Education Grant Program |
| 84.378 | College Access Challenge Grant Program |
| 93.224 | Consolidated Health Centers |
| 93.283 | CDC and Prevention-Investigations and Technical Assistance |
| 20.106 | Airport Improvement Program |
| 15.875 | Economic, Social, and Political Development of the Territories |
| 15.875 | Economic, Social, and Political Development of the Territories, Compact of Free Association |

| | | |
|---|---|---|
| 10. | Dollar threshold used to distinguish between Type A and Type B Programs: | $ 484,883 |
| 11. | Auditee qualified as low-risk auditee? | No |

**REPUBLIC OF PALAU**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

## Section II - Financial Statement Findings

| Finding Number | Findings |
|---|---|
| 2014-001 | Capital Assets |
| 2014-012 | Revenues |
| 2014-013 | Revenues |
| 2014-014 | Local Noncompliance - Procurement |

## Section III - Federal Award Findings and Questioned Costs

| Finding Number | CFDA # | Findings | Questioned Costs |
|---|---|---|---|
| 2014-008 | 15.875 | Equipment and Real Property Management | $ - |
| 2014-008 | 84.027 | Equipment and Real Property Management | - |
| 2014-008 | 84.256 | Equipment and Real Property Management | - |
| 2014-010 | 84.256 | Reporting | - |
| 2014-003 | 84.378 | Eligibility | 9,914 |
| 2014-004 | 84.378 | Special Tests and Provisions | 4,000 |
| 2014-006 | 84.378 | Reporting | - |
| 2014-007 | 84.378 | Allowable Costs/Cost Principles | - |
| 2014-008 | 84.378 | Equipment and Real Property Management | - |
| 2014-002 | 93.224 | Activities Allowed or Unallowed | 1,013 |
| 2014-002 | 93.224 | Allowable Costs/Cost Principles | 52,867 |
| 2014-008 | 93.224 | Equipment and Real Property Management | - |
| 2014-009 | 93.224 | Reporting | - |
| 2014-011 | 93.224 | Program Income | - |
| 2014-005 | 93.283 | Procurement and Suspension and Debarment | 5,081 |
| 2014-008 | 93.283 | Equipment and Real Property Management | - |
| | | | $ 72,875 |

Capital Assets

Finding No. 2014-001

Criteria: The Republic's Property Management Policies, and Procedures Manual (RPPM) Chapter IV, Section 203.4 (d), stipulates that the total value of capitalized property recorded in the property accountability records will be compared with the related balances shown in the general ledger control account at least quarterly. Property records must be integrated with or reconciled with the related general ledger account. Any differences will be documented, reconciled, and adjusted in accordance with sound accounting practices to bring the two records into complete agreement.

Condition: Capital assets were reconciled only at year-end September 30, 2014. The net capital assets presented for audit were overstated by $1,771,512. Audit adjustments were proposed to correct the misstatements.

Cause: There appears to be lack of resources dedicated to facilitating timely reconciliation of capital assets account balances.

Effect: The effect of the above condition is a weakness in the financial reporting process and material misstatements of the financial statements prior to proposed audit adjustments.

Recommendation: We recommend that management implement internal control policies and procedures to determine that the above criteria are met.

Prior Year Status: Weaknesses in controls over capital asset schedules were reported as findings in prior Single Audits of the Republic as items 2013-001 and 2012-21.

Auditee Response and Corrective Action Plan: ROP concurs with the finding. Since we have hired qualified people to help with the workload, we will reconcile on a quarterly basis as required.

Full name of the person responsible for the corrective action plan:

Caryn L. Koshiba, Chief, Finance & Accounting-MOF
Masato Ushibata, System Accountant

Date the corrective action plan will be implemented:

July 2015

| | |
|---|---|
| Finding No.: | 2014-002 |
| Federal Agency: | U.S. Department of Health and Human Services |
| CFDA Program: | 93.224 Consolidated Health Centers |
| Award Number: | 2 H80CS02467-28-00, 6 H80CS02467-29-02 |
| Area: | Activities Allowed or Unallowed |
| Questioned Costs: | $1,013 |
| Area: | Allowable Costs/ Cost Principles |
| Questioned Costs: | $52,867 |

Criteria: In accordance with applicable activities allowed or unallowed requirements and allowable costs/ cost principle requirements, costs must be adequately documented.

Condition: Of 25 expenditures tested totaling $83,780, of a total population of $202,222, the following was noted:

1. For three (or 15%), supporting invoices were not provided.

| Acct. no. | Cost Center | General Ledger Date | Description | Amount |
|---|---|---|---|---|
| 1321 | H33690 | 01/08/14 | DF140011 | $ 15,068 |
| 1425 | H33690 | 01/08/14 | DF140011 | 9,439 |
| 1430 | H33690 | 01/06/14 | DF140011 | 28,360 |
| | | | Total | $ 52,867 |

2. For two (or 8%), personnel attended training that did not appear relevant to their position.

| Acct. no. | Cost Center | General Ledger Date | Description | Amount |
|---|---|---|---|---|
| 1325 | H33690 | 01/16/14 | T4018101 | $ 755 |
| 1325 | H33690 | 01/29/14 | T30800 | 258 |
| | | | Total | $ 1,013 |

It appears that additional training expenses (airfare, per diem, hotel) have been incurred, but were not tested and are not included in the above questioned costs.

Cause: The cause of the above condition is lack of recordkeeping and monitoring controls over compliance with applicable activities allowed or unallowed requirements and allowable costs/cost principles requirements.

Effect: The effect of the above condition is noncompliance with activities allowed or unallowed requirements and allowable costs/cost principles requirements. Questioned costs of $1,013 and $52,867 exist, respectively.

Recommendation: We recommend that the Republic strengthen procedures over maintenance of adequate documentation to support program expenditures and over monitoring of activities for allowability under the program.

Prior Year Status: Noncompliance with allowable costs/cost principles requirements was reported as findings in the prior Single Audits of the Republic as items 2010-12, 2012-11 and 2013-15.

| | |
|---|---|
| Finding No.: | 2014-002, Continued |
| Federal Agency: | U.S. Department of Health and Human Services |
| CFDA Program: | 93.224 Consolidated Health Centers |
| Award Number: | 2 H80CS02467-28-00, 6 H80CS02467-29-02 |
| Area: | Activities Allowed or Unallowed |
| Questioned Costs: | $1,013 |
| Area: | Allowable Costs/ Cost Principles |
| Questioned Costs: | $52,867 |

Auditee Response and Corrective Action Plan:

Item 1: The amount transferred to communication totaling $15,068 is supported by invoices for the following months:

| | | |
|---|---|---|
| 1. | October 2013 | $ 2,082.11 |
| 2. | November 2013 | $ 2,714.83 |
| 3. | December 2013 | $ 3,341.89 |
| | Total | $ 8,138.83 |

The difference of $6,929.41 were allocated to pay for CHC share of the internet connection for the month of October 2013 totaling $4,559 and partial payment for the month of December 2013 totaling $2,370.41

For medical supplies, we concur with the finding. The quantity is based on the distribution list to CHC on quarterly basis. Freight shared estimated cost which we only pay for what is for CHC. We will work on our basis of determination in order to identify the cost for CHC medical supplies.

For electricity, we concur with this finding. Again, this is estimated to support OPD services located in BNH. Efforts to cost out electricity for OPD is ongoing that will identify percentage of shared for OPD that is housed in BNH building.

Item 2: The activities followed the procurement process and supports CHC program.

T4018101 –Supporting Ghandi Ngirmidol to attend UDS training. To ensure that program, Ministry and National understand the requirements of UDS especially for the finance section. The traveling went through proper ROP process.

T30800 – Sukrad Sbal attended a bio-med training. This trip supports CHC. It will help improve equipment & minor supplies maintenance to decrease costs for the program. Mr. Sbal, although a maintenance service technician, has expertise in general technology and completing his AAS degree with our local community college, once trained, will help improve maintenance plan for CHC's equipment & minor equipments/supplies.

Although not specifically written in our budget narrative, Both expenditures are within the 25% redirection allowance for CHC funding.

| | |
|---|---|
| Finding No.: | 2014-003 |
| Federal Agency: | U.S. Department of Education |
| CFDA Program: | 84.378 College Access Challenge Grant Program |
| Grant Number: | P378A120057; P378A130057 |
| Area: | Eligibility |
| Questioned Costs: | $9,914 |

Criteria: In accordance with US Code Title 20, Chapter 28, subchapter IV, part F, section 1091, a student to be eligible to receive a grant aid must file a statement as part of the original financial aid application process, a certification, which need not be notarized, but which shall include—

(a) a statement of educational purpose stating that the money attributable to such grant, loan, or loan guarantee will be used solely for expenses related to attendance or continued attendance at such institution; and
(b) such student's social security number;

Further, the Program must establish policies and procedures to verify an applicant's information from a reliable third party. The Program is responsible for determining if the verification documentation is adequate and credible. If written third-party verification is not used, supporting documents and signed affidavits by the applicant must be submitted. All student files must be reviewed prior to eligibility approval.

Condition: Of thirty grant-aid expenditures tested aggregating $69,010 of a population of $496,105, the following were noted:

1. For thirty (or 100%), the Program did not require students to certify that the grant aid will be used solely for educational purposes.

2. For twenty-two (or 73%), there were no evidence of review and approval of student files/applications.

3. For five (or 17%), the estimated educational cost detail and financial aid was not certified by the school official.

| Check No. | Check Date | Amount | Questioned Cost |
|---|---|---|---|
| 367014 | 10/08/2014 | $ 2,349 | $ - |
| 367416 | 10/22/2014 | 5,730 | 5,730 |
| 367415 | 10/22/2014 | 5,730 | - |
| 367039 | 10/08/2014 | 3,638 | - |
| 367023 | 100/8/2014 | 4,184 | 4,184 |
| | Total | $ 21,631 | $ 9,914 |

| | |
|---|---|
| Finding No.: | 2014-003, Continued |
| Federal Agency: | U.S. Department of Education |
| CFDA Program: | 84.378 College Access Challenge Grant Program |
| Grant Number: | P378A120057; P378A130057 |
| Area: | Eligibility |
| Questioned Costs: | $9,914 |

Condition, Continued:

4. FY 2014 checks pertain to students who were ascertained to be eligible at the time of application; however, the students have not furnished required enrollment verification documents or have dropped out of school upon issuance of checks. The checks were held by the Program Office 3 to 4 months after the check date and four months from the start of the semester. The checks were not cancelled, and expenditures were not reversed:

| # | Check No. | Check date | Amount |
|---|---|---|---|
| 1 | 367055 | 10/8/2014 | $ 2,562 |
| 2 | 367069 | 10/8/2014 | 2,938 |
| 3 | 367052 | 10/8/2014 | 3,584 |
| 4 | 367028 | 10/8/2014 | 4,141 |
| 5 | 365105 | 09/3/2014 | 500 |
| 6 | 365178 | 09/3/2014 | 500 |
| 7 | 365192 | 09/3/2014 | 500 |
| 8 | 365142 | 09/3/2014 | 500 |
| 9 | 354095 | 09/3/2014 | 500 |
| 10 | 365145 | 09/3/2014 | 500 |
| 11 | 365111 | 09/3/2014 | 500 |
| | Total | | $ 16,725 |

Cause: The cause of the above condition is lack of controls over eligibility requirements.

Effect: The effect of the above condition is questioned costs of $9,914. No questioned cost is presented in condition 1 and 2, as student files show that participants met eligibility requirements. A questioned cost for check #, 367014, 367415 and 367039 per condition 3 is not raised as the Program subsequently provided documents to support the educational cost (estimated tuition fee and other cost from the school's website). Further, no questioned costs are presented in condition 4 as the specified checks were subsequently cancelled and the related expenditures were subsequently reversed in FY 2015 by program management to correct the stated deficiency.

Recommendation: We recommend that the Program comply with eligibility requirements in US Code Title 20, Chapter 28, subchapter IV, part F, section 1091 and establish policies and procedures to verify applicant information.

| | |
|---|---|
| Finding No.: | 2014-003, Continued |
| Federal Agency: | U.S. Department of Education |
| CFDA Program: | 84.378 College Access Challenge Grant Program |
| Grant Number: | P378A120057; P378A130057 |
| Area: | Eligibility |
| Questioned Costs: | $9,914 |

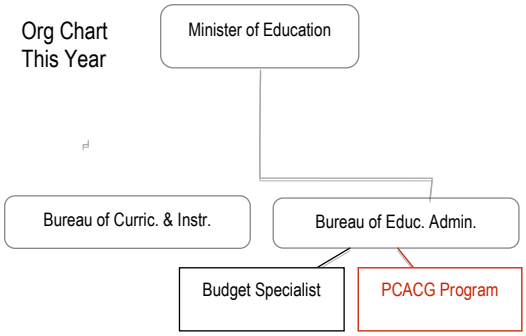
Auditee Response and Corrective Action Plan:

Terms used by Auditee in the responses below:

MOF = Ministry of Finance
MOE = Ministry of Education (Grantee Agency)
PCACGP = Palau College Access Challenge Grant Project (Grantee Project)
BEA = Bureau of Education Administration; this is the MOE unit that is responsible for the PCACGP.
BEA Budget Specialist = The budget specialist for the BEA. This position monitors financial compliance for the bureau.
DPM = Division of Personnel Management, the human resources unit of the BEA.

We concur with this finding. Due to extraordinary circumstances, PCACGP leadership changed hands four times during the year. Such frequent change unavoidably introduced gaps in PCACGP continuity.

For this year we have implemented a procedure that is institutionalized at the BEA and which the PCACGP follows by virtue of its position in the organizational chart below. This procedure meets the requirements of the grant and will be applied to any direct aid expenditure.




Full Name of the person responsible for the corrective action plan:

Andrew Tabelual, Director, Bureau of Education Administration

Date the corrective action plan will be implemented**:**

The corrective action plan has been implemented.

| | |
|---|---|
| Finding No.: | 2014-004 |
| Federal Agency: | U.S. Department of Education |
| CFDA Program: | 84.378 College Access Challenge Grant Program |
| Grant Number: | P378A110057; P378A120057; P378A130057 |
| Area: | Special Tests and Provisions |
| Questioned Costs: | $4,000 |

Criteria: US Code, Title 20, Chapter 28, Subchapter VII, Part E, Section 1141 (G) (2) requires a grantee receiving a grant payment under this section shall, in carrying out any activity or service described in subsection (f) (1) (A) to (G) with the grant funds, prioritize students and families who are living below the poverty line applicable to the individual's family size (as determined under section 9902(2) of title 42).

Condition: All activities and services of the Program, except for subsection (f) (1) (E), are made available to qualified students regardless of income level or student financial need. No evidence of a waiver of this requirement from the Grantor Agency was available.

Of thirty grant-aid expenditures tested aggregating $69,010 of a population of $496,105 (to carry out activity described on subsection (f)(1)(E)), for six (or 20%), no evidence was provided to verify that grant aid was given to students who live below the poverty line.

| Check No. | Check Date | Amount |
|---|---|---|
| 353822 | 01/23/2014 | $ 1,000 |
| 353831 | 01/23/2014 | 1,000 |
| 365158 | 09/03/2014 | 500 |
| 365134 | 09/03/2014 | 500 |
| 365100 | 09/03/2014 | 500 |
| 365165 | 09/03/2014 | 500 |
| Total | | $ 4,000 |

The poverty line used by the Program is based on the US Department of Health and Human Services 2014 guideline for 48 contiguous states and the District of Columbia since poverty guidelines are not defined for some locations, such as for the Republic of Palau. We were not provided communication or approval from the grantor as to the applicable guideline.

Cause: The cause of the above condition is a lack of controls and sufficient understanding over the requirements and applicable guidelines. The policy to determine if grant aid applicants are living below the poverty line has no control procedures in place to verify the validity of the age of household members below 18 years old (through verification of birth certificates) and to obtain statements of unemployment from adult household members without income.

Effect: The effect of the above condition is potential noncompliance with the above criteria, and questioned costs of $4,000 exist as projected questioned costs exceed the threshold.

Recommendation: We recommend that the Program establish policies and procedures to document that students and families who are living below the poverty line are given priority for grant funds and that relevant supporting documents and certifications are filed

| | |
|---|---|
| Finding No.: | 2014-004, Continued |
| Federal Agency: | U.S. Department of Education |
| CFDA Program: | 84.378 College Access Challenge Grant Program |
| Grant Number: | P378A110057; P378A120057; P378A130057 |
| Area: | Special Tests and Provisions |
| Questioned Costs: | $4,000 |

Prior Year Status: Noncompliance with the above criteria was reported as a finding in the prior Single Audit of the Republic as item 2013-006.

Auditee Response and Corrective Action Plan: We concur with this finding. Due to extraordinary circumstances, PCACGP leadership changed hands four times during the year. Such frequent change unavoidably introduced gaps in PCACGP continuity.

For this year we have implemented a procedure that is institutionalized at the BEA and which the PCACGP follows by virtue of its position in the organizational chart below. This procedure meets the requirements of the grant and will be applied to any direct aid expenditure.

Full Name of the person responsible for the corrective action plan: Andrew Tabelual, Director, BEA

Date the corrective action plan will be implemented**:** The corrective action plan has been implemented.

| | |
|---|---|
| Finding No.: | 2014-005 |
| Federal Agency: | U.S. Department of Health and Human Services |
| CFDA Program: | 93.283 CDC and Prevention – Investigations and Technical Assistance |
| Grant Number: | 5U58SO000023-04 Revised, 5U50CK000219-02, 5U58DP003939-02, 5U58DP001952-05, 5UR3DD000809-03 |
| Area: | Procurement and Suspension and Debarment |
| Questioned Costs: | $5,081 |

Criteria: It is the policy of the Republic that all procurement and procurement actions be executed in a manner that provides open and free competition and avoids purchasing unnecessary or duplicative items. When appropriate, an analysis shall be made of lease and purchase alternatives to determine which would be the most economical and practical procurement. Any allowable exceptions must be properly documented and approved in accordance with applicable Republic of Palau procurement requirements, and such approvals should be documented in the procurement file.

Purchases over $10,000 require a formal bidding process. Public notice of the invitation for bid shall be announced on all radio or television stations and at a reasonable time, at least fifteen days prior to the date of the initial day of the bidding time. Contacts must be awarded with reasonable promptness, but in no event later than 30 days after opening of the bids, by written notice to the responsible bidder whose bid fully meets the requirements of the invitation for bids. Unsuccessful bidders also shall be promptly notified. Procurement file should contain public notice, invitation for bids or request for proposal, notice of unsuccessful bidder or offeror, basis for cost or price and determination.

Condition: Of twenty-five nonpayroll expenditures tested, totaling $67,711, there was no comparative analysis or written documentation to determine that the basis of the award was the most economical or practical procurement, as follows:

1. For one (4%), no evidence was on file that changes in the request for quotation were communicated to all available vendors; thus, potentially contravening open competition:

| Cost Center | Amount | P.O. Number | Check No. |
|---|---|---|---|
| H33683 | $ 3,735 | S40430 | 363663 |

2. For two (8%), the lowest available quotation that met all criteria in the solicitation was not selected.

| | Cost Center | Amount | P.O. Number | Check No. | Questioned Costs |
|---|---|---|---|---|---|
| a. | H33682 | $ 3,289 | T40398 | 363183 | $ 728 |
| b. | H38652 | $ 1,998 | L40417 | 355846 | $ 618 |

The difference between the lowest and selected quotation is the amount questioned above.

| | |
|---|---|
| Finding No.: | 2014-005, Continued |
| Federal Agency: | U.S. Department of Health and Human Services |
| CFDA Program: | 93.283 CDC and Prevention – Investigations and Technical Assistance |
| Grant Number: | 5U58SO000023-04 Revised, 5U50CK000219-02, 5U58DP003939-02, 5U58DP001952-05, 5UR3DD000809-03 |
| Area: | Procurement and Suspension and Debarment |
| Questioned Costs: | $5,081 |

Cause: The cause of the above conditions is weaknesses in controls over documenting compliance with applicable procurement regulations.

Effect: The effect of the above condition is noncompliance with applicable procurement regulations which result in questioned costs of $5,081 as projected questioned costs exceed the threshold.

Recommendation: We recommend that the Republic strengthen controls over procurement procedures to maximize competition while maintaining the best interests of the Republic. If exceptions are allowed by procurement regulations, they should be reviewed and be approved, and the reasons should be documented in procurement files.

Prior Year Status: Weaknesses in internal controls over adequate file maintenance requiring that underlying accounting records exist to support reported program expenditures was reported as a finding in the Single Audits of the Republic for fiscal year 2012 and 2013.

Auditee Response and Corrective Action Plan:

1. We do not concur with this finding. Changes were communicated to all available vendors via phone. Employee has noted the communication and it was on their file. Document is available for your review.

2. We do not concur for the above findings.

    a. For the first question cost of $728, although the lowest available quotation met all criteria, we did not select it for these reasons:

        1. The lowest quoted airline is scheduled to fly to and from Palau only 2 or 3 times a week. The chosen airline is scheduled everyday to and from Palau.

        2. If we have chosen the lowest quoted airline, the employee has to leave 2 days prior to her training and would need additional per diem to accommodate her for the 2 days that's not scheduled for the training week. In addition, prior to her returning, she has to stay 2 days after her training to catch the lowest quoted airline so additional per diem should be given to her as well to accommodate her stay without doing anything. We calculate both airlines and based on our judgmental that employee may be wasting time for those days that she has to leave early and depart later date, we chose the airline that fly to and from Palau every day to meet the training schedule.

| | |
|---|---|
| Finding No.: | 2014-005, Continued |
| Federal Agency: | U.S. Department of Health and Human Services |
| CFDA Program: | 93.283 CDC and Prevention – Investigations and Technical Assistance |
| Grant Number: | 5U58SO000023-04 Revised, 5U50CK000219-02, 5U58DP003939-02, 5U58DP001952-05, 5UR3DD000809-03 |
| Area: | Procurement and Suspension and Debarment |
| Questioned Costs: | $5,081 |

Auditee Response and Corrective Action Plan, Continued

b. For the second question cost of $618, we do not concur because Computers Plus did not have them in stock at that time. It was noted that if they will order them, it will take 3 to 4 weeks for them to arrive. Requested items were needed right away to print encounter form which were out and we needed them for daily encounters of patients coming into the clinics. Encounter forms are also the main data collection tool used to capture services rendered and diagnosis for all patients coming into public health clinics as well as the hospital. These data are used to generate various public health reports for grant reporting in addition to surveillance and monitoring of reportable diseases and potential outbreaks of said diseases.

Full name of the person responsible for the corrective action plan:

Date the corrective action plan will be implemented:

Auditor Response:

1. A note from the second offeror affirmed its response to the original signed request for quotation based on fifty (50) pax and did not specifically indicate it was not able to accommodate subsequent addition of fifteen (15) pax. Thus, the finding remains.

2. a. Basis for selection was not made part of the criteria for solicitation; thus, the finding remains.
   b. Basis for selection was not made part of the criteria for solicitations; thus, the finding remains.

Finding No.: 2014-006
Federal Agency: U.S. Department of Education
CFDA Program: 84.378A College Access Challenge Grant Program
Grant Number: P378A110057; P378A120057
Area: Reporting
Questioned Costs: $0

Criteria: US Code Title 20, Chapter 28, subchapter VII, part e, section 1141 (h) requires the Program to prepare and submit an annual report to the Secretary on the activities and services carried out under this section, and on the implementation of such activities and services which include (2) the cost of providing each activity or service; (4) the total contributions from private organizations included in the grantee's non-Federal share for the fiscal year. An effective system of internal control includes policies and procedures so that transactions reported as Federally funded costs and local match are substantiated by accounting records.

Condition: The Program does not have policies and procedures in place that require costs reported on the annual performance report (APR) be substantiated by accounting records.

1. Federal costs of activities and services reported in the APR were overstated compared with expenditures per the general ledger.

| Grant Award No. | APR submission date | Period covered by our testing | Federal Expenditures Per general ledger | Per APR | Variance |
|---|---|---|---|---|---|
| P378A120057 | 5/09/2014 | 8/14/12-4/15/14 | $1,378,102 | $1,434,675 | $(56,573) |

2. The reported local match for grant award P378A120057, scholarship grant aid, is understated by $481,982, when compared with underlying accounting records for reports submitted on May 9, 2014.

3. Local matching expenditures of $37,000 are not supported by detailed schedules or invoices or billings for reports submitted on May 9, 2014.

4. Local matching salaries and wages and employee benefits of $64,882 are not supported by timesheets/or other evidence that tracks actual program hours for reports submitted on May 9, 2014.

Cause: The cause of the above condition is the lack of conformance with existing procedures that require annual performance reports be based on actual costs incurred.

Effect: The effect of the above condition is noncompliance with applicable requirements. No questioned costs result as only recorded expenditures were reimbursed by the grantor agency.

Recommendation: We recommend that the Program prepare reports substantiated by actual expenditure records.

Prior Year Status: Noncompliance with applicable requirements was reported as a finding in the prior Single Audit of the Republic of Palau as item 2013-005.

| | |
|---|---|
| Finding No.: | 2014-006, Continued |
| Federal Agency: | U.S. Department of Education |
| CFDA Program: | 84.378A College Access Challenge Grant Program |
| Grant Number: | P378A110057; P378A120057 |
| Area: | Reporting |
| Questioned Costs: | $0 |

Auditee Response and Corrective Action Plan:

1. We concur with this finding. There is lag time between internal PCACGP activity approval/requisitioning and posting by MOF to the general ledger.

   Internal PCACGP record keeping is required to account for all budget allocation, including those transactions still in the pipeline to the general ledger, so that the project does not over-allocate budget.

   The PCACGP used reports from the MOF accounting system in addition to internal records for the APR. The variance is between internal and MOF records.

   The condition has been well clarified by the auditor.

   The whole responsibility for this item has been moved to the BEA Budget Specialist. Based on prior training from the Ministry of Finance and ROP sources, the budget specialist follows the auditor's recommendation, using only the "Subledger Status Report", printed for the period in question by the Ministry of Finance, to complete the expenditure column in the appropriate table on the APR.

   Further, the budget specialist maintains a separate APR file, into which this "Sub Ledger Status Report" is filed, to ensure that proper support documentation exists and to allow "third party" oversight of PCACGP's APR documentation.

2. We concur this finding. PCACGP staff relied on Palau National Scholarship Board (PNSB) internal records of expenditure.

   The whole responsibility for this item has been moved to the BEA Budget Specialist. The BEA Budget Specialist uses the "Status Report (Sub Ledger)" for two consecutive Palau fiscal years, printed for the period in question by the Ministry of Finance. The figure below illustrates how the expenses are appropriately reported given that the PCACGP budget period overlaps two Republic of Palau fiscal years. The orange marks indicate the two awards that are to be reported for the given PCACGP budget period.

   So, this expenditure is now reported based on the appropriate subsidiary ledger from the MOF for both award awards.

   Further, the budget specialist maintains a separate APR file, into which this "Sub Ledger Status Report" is filed, to ensure that proper support documentation exists and to allow "third party" oversight of PCACGP's APR documentation.

| | |
|---|---|
| Finding No.: | 2014-006, Continued |
| Federal Agency: | U.S. Department of Education |
| CFDA Program: | 84.378A College Access Challenge Grant Program |
| Grant Number: | P378A110057; P378A120057 |
| Area: | Reporting |
| Questioned Costs: | $0 |

Auditee Response and Corrective Action Plan, Continued:

3 and 4. We concur with the findings. PCACGP record keeping was being improved, but due to recent personnel turnover, certain records have been difficult to find in spite of staff responses that the documentation was done.

The BEA has implemented procedures, subsequent to the completion of its comprehensive review of audit weaknesses (September 30, 2014), that tracks the PCACGP's use of local resources. The results of this procedure(s) will be used to complete the upcoming APR.

Modifying the MOE timekeeping process to implement the sort indicated by the auditor places an onerous burden on the local system, which is set up for job description based time keeping that is recorded on a daily basis.

While efforts will continue to appropriately document all local salary and wages contribution, PCACGP will only report in future APRs the cases where compliant documentation is available.

Full Name of the person responsible for the corrective action plan:

Andrew Tabelual, Director, Bureau of Education Administration (and CACG Project Coordinator).

Date the corrective action plan will be implemented**:**

The corrective action plan has been implemented.

| | |
|---|---|
| Finding No.: | 2014-007 |
| Federal Agency: | U.S. Department of Education |
| CFDA Program: | 84.378A College Access Challenge Grant Program |
| Grant Number: | P378A110057; P378A120057 |
| Area: | Allowable Costs/Cost Principles |
| Questioned Costs: | $0 |

Criteria: In accordance with applicable allowable costs/cost principles requirements, semi-annual employee certifications are required from employees working solely for one federal program.

Condition: For three payroll activities tested aggregating $1,307 of a population of $48,854, required semi-annual certifications were not obtained for employees working full-time on one federal program. Although employees are signing timesheets evidencing hours worked on a federal program, the signature does not indicate if the employee actually performed activities solely for the federal program.

Cause: The cause of the above condition is the lack of adherence to applicable federal requirements.

Effect: No questioned cost is presented due to our inability to assess the time spent by employees, if any, on nonfederal related activities.

Recommendation: We recommend that the Program comply with applicable federal requirements.

Prior Year Status: Lack of adherence to applicable federal requirements was reported as a finding in the prior Single Audit of the Republic of Palau as item 2013-007.

Auditee Response and Corrective Action Plan: We concur with this finding. The BEA's comprehensive review of audit weaknesses completed on September 30, 2014, exposed gaps in PCACGP records. Time and effort assurance was being done by PCACGP staff, but was not an institutionalized MOE process and therefore not filed with personnel records.

The BEA has implemented procedures that institutionalize this process. PCACGP staffs along with the DPM now implement this procedure. The procedure ensures that the time and effort assurances are filed with personnel records.

The current procedure however is for the annual employment period. Based on the auditor's indication that it should be semi-annual, the procedure will be changed immediately to require semi-annual assurance.

Full Name of the person responsible for the corrective action plan:

Andrew Tabelual, Director, Bureau of Education Administration

Date the corrective action plan will be implemented**:** The corrective action plan has been implemented.

| | |
|---|---|
| Finding No: | 2014-008 |
| CFDA Program: | DOI 15.875 Economic, Social, and Political Development of the Territories |
| CFDA Program: | ED 84.027 Special Education – Grants to States |
| CFDA Program: | ED 84.256 Territories and Freely Associated States Education Grant Program |
| CFDA Program: | ED 84.378 College Access Challenge Grant Program |
| CFDA Program: | HHS 93.224 Consolidated Health Centers |
| CFDA Program: | HHS 93.283 CDC and Prevention – Investigations and Technical Assistance |
| Grant Number.: | H027A120006-12A, H027A130161, H027A130161-13A, S256A120005, S256A120005 -13, P378A110057; P378A120057, 2 H80CS02467-28-00, 6 H80CS02467-29-02, 5U58DP001952-05, 5U58SO000023-03, 5U58SO000023-04 Revised, 5U50CK000219-02, 5U58DP003939-02, 5U58DP003939-03, 5UR3DD000809-03, 5UR3DD000809-04 |
| Area: | Equipment and Real Property Management |
| Questioned Costs: | $0 |

Criteria: In accordance with applicable equipment and real property management requirements, procedures for managing equipment (including replacement equipment), whether acquired in whole or in part with grant funds, until disposition takes place will, as a minimum, meet the following requirements:

(1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.
(2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.
(3) A control system must be developed to confirm adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft shall be investigated.
(4) Adequate maintenance procedures must be developed to keep the property in good condition.

In addition, in accordance with, 34 CFR section 74.34 (b), the recipient shall not use equipment acquired with Federal funds to provide services to non-Federal outside organizations for a fee that is less than private companies charge for equivalent services, unless specifically authorized by Federal statute, for as long as the Federal Government retains an interest in the equipment.

Condition: For six programs (CFDA numbers 15.875, 84.027, 84.256, 84.378, 93.224, 93.283), the following were noted:

#15.875
Tests of twenty-two assets noted the following:

1. Three (or 14%) could not be located:

| Date Acquired | Property Number | Cost |
|---|---|---|
| 3/01/2005 | RP-3509 | $ 6,280 |
| 3/01/2005 | RP-3503 | 8,290 |
| 1/12/2005 | SWR-1035 | 22,000 |
| | | $ 36,570 |

| | |
|---|---|
| Finding No: | 2014-008, Continued |
| CFDA Program: | DOI 15.875 Economic, Social, and Political Development of the Territories |
| CFDA Program: | ED 84.027 Special Education – Grants to States |
| CFDA Program: | ED 84.256 Territories and Freely Associated States Education Grant Program |
| CFDA Program: | ED 84.378 College Access Challenge Grant Program |
| CFDA Program: | HHS 93.224 Consolidated Health Centers |
| CFDA Program: | HHS 93.283 CDC and Prevention – Investigations and Technical Assistance |
| Grant Number.: | H027A120006-12A, H027A130161, H027A130161-13A, S256A120005, S256A120005 -13, P378A110057; P378A120057, 2 H80CS02467-28-00, 6 H80CS02467-29-02, 5U58DP001952-05, 5U58SO000023-03, 5U58SO000023-04 Revised, 5U50CK000219-02, 5U58DP003939-02, 5U58DP003939-03, 5UR3DD000809-03, 5UR3DD000809-04 |
| Area: | Equipment and Real Property Management |
| Questioned Costs: | $0 |

Condition, Continued

2. Four (or 3%) were included in the property listing, but are unserviceable and could not be used for Program activities:

| Date Acquired | Property Number | Cost |
|---|---|---|
| 05/10/2005 | RP-3522 | $ 8,495 |
| 03/01/2005 | RP-3504 | 6,280 |
| 03/01/2005 | RP-3511 | 6,280 |
| 01/12/2005 | RP-3498 | 20,000 |
| Total | | $ 41,055 |

3. There is no documentation that a complete physical inventory of equipment and property and a reconciliation was performed of fixed asset records over the last two fiscal years.

4. There is no evidence of effective maintenance and safekeeping procedures (e.g., invoices for regular maintenance checks, vehicle use logs, vehicle authorization forms, etc.).

#84.027, #84.256, #93.224, #93.283
There is no documentation that a complete physical inventory of equipment and property and reconciliation with fixed asset records was performed over the last two fiscal years.

#84.256
Of twenty-one fixed assets listed as program equipment totaling $472,774 acquired between 1998 to 2014, nine (or 43%) totaling $107,075 were tested for verification. Five (tag numbers RP-99637, RP-99638, RP-99639, RP99640, and RP-99641) were not operable, but are listed in the property records.

| | |
|---|---|
| Finding No: | 2014-008, Continued |
| CFDA Program: | DOI 15.875 Economic, Social, and Political Development of the Territories |
| CFDA Program: | ED 84.027 Special Education – Grants to States |
| CFDA Program: | ED 84.256 Territories and Freely Associated States Education Grant Program |
| CFDA Program: | ED 84.378 College Access Challenge Grant Program |
| CFDA Program: | HHS 93.224 Consolidated Health Centers |
| CFDA Program: | HHS 93.283 CDC and Prevention – Investigations and Technical Assistance |
| Grant Number.: | H027A120006-12A, H027A130161, H027A130161-13A, S256A120005, S256A120005 -13, P378A110057; P378A120057, 2 H80CS02467-28-00, 6 H80CS02467-29-02, 5U58DP001952-05, 5U58SO000023-03, 5U58SO000023-04 Revised, 5U50CK000219-02, 5U58DP003939-02, 5U58DP003939-03, 5UR3DD000809-03, 5UR3DD000809-04 |
| Area: | Equipment and Real Property Management |
| Questioned Costs: | $0 |

Condition, Continued

#84.378

1. Vehicle no. 1236 (property tag #RP-4104), equipment purchased with Program grant funds, was issued to the Director of the Bureau of Education and Administration for the Bureau's projects and activities. This vehicle was replaced by the Ministry of Education issued vehicle no. 1153 (property tag # RP-3959) for Program use. There was no grantor approval provided to support the replacement .

2. There is no evidence of effective maintenance and safekeeping procedure for vehicle no. 1236 during fiscal year 2014.

#93.224

1. A variance of $492,300 exists between the listing prepared by the Procurement and Supply office ($208,633) and the Program Office ($700,933).

2. Of 13 fixed assets tested for existence, one (tag no. RP-2688) could not be located and one (tag no. RP-3387) was disposed of in FY2014, but remains on the equipment listing.

#93.283

1. A variance of $11,251 exists between the listing prepared by the Procurement and Supply office ($317,106) and the Program Office ($305,855).

2. Of nine fixed assets tested, one (RP-4194) was disposed of in prior years, but continues to remain on the listing.

Cause: The cause of the above condition is a lack of adherence to established policies and procedures for conducting required annual physical inventory counts of property and equipment and failure to reconcile property records.

Effect: The effect of the above condition is noncompliance with applicable equipment and real property management requirements. No questioned cost is presented as the fixed assets that are specifically identified above have reached their estimated useful life and are considered inoperable. Furthermore, we are unable to quantify the cumulative dollar amount of the deficiencies.

| | |
|---|---|
| Finding No: | 2014-008, Continued |
| CFDA Program: | DOI 15.875 Economic, Social, and Political Development of the Territories |
| CFDA Program: | ED 84.027 Special Education – Grants to States |
| CFDA Program: | ED 84.256 Territories and Freely Associated States Education Grant Program |
| CFDA Program: | ED 84.378 College Access Challenge Grant Program |
| CFDA Program: | HHS 93.224 Consolidated Health Centers |
| CFDA Program: | HHS 93.283 CDC and Prevention – Investigations and Technical Assistance |
| Grant Number.: | H027A120006-12A, H027A130161, H027A130161-13A, S256A120005, S256A120005 -13, P378A110057; P378A120057, 2 H80CS02467-28-00, 6 H80CS02467-29-02, 5U58DP001952-05, 5U58SO000023-03, 5U58SO000023-04 Revised, 5U50CK000219-02, 5U58DP003939-02, 5U58DP003939-03, 5UR3DD000809-03, 5UR3DD000809-04 |
| Area: | Equipment and Real Property Management |
| Questioned Costs: | $0 |

Recommendation: We recommend that ROP maintain complete records of property and equipment acquired with grant funds, perform physical inventories at least once every two year, and comply with applicable property management policies and procedures.

Prior Year Status: Lack of compliance with equipment and real property management requirements was reported as a finding in the Single Audits of ROP for fiscal years 1988 through 2013.

Auditee Response and Corrective Action Plan:

#17.875, #84.027, #84.256

Biannual physical inventory was done in FY2013 and physical inventory is ongoing right now for FY2015. In addition, reconciliation is ongoing as well in FY2015. We will have documentation evidencing proof that physical inventory of equipment and property and reconciliation of fixed assets are being done.

#84.378

1. We concur with this finding. MOE practice, which applies to the vehicle in question, assigns assets to the program or project that requests and secures funds for it. After acquisition, this vehicle was assigned to and has remained under the control of the PCACGP.

   Operationally, the location of the vehicle when idle is at the Ministry of Education's parking lot, the same as for any other MOE vehicle. Also, as with any other vehicle, the location of the key is at the "owner's" office. In this case, the key is located at the PCACGP Director's office. Recently, because of changes resulting from the comprehensive review of audit weaknesses, the key is located at the PCACGP Coordinator's office.

   The location of the key is one of the ways to ensure that vehicles are used for official purposes. Staff who needed the vehicle can pick it up after they adequately justify its use to the program manager/coordinator/head.

| | |
|---|---|
| Finding No: | 2014-008, Continued |
| CFDA Program: | DOI 15.875 Economic, Social, and Political Development of the Territories |
| CFDA Program: | ED 84.027 Special Education – Grants to States |
| CFDA Program: | ED 84.256 Territories and Freely Associated States Education Grant Program |
| CFDA Program: | ED 84.378 College Access Challenge Grant Program |
| CFDA Program: | HHS 93.224 Consolidated Health Centers |
| CFDA Program: | HHS 93.283 CDC and Prevention – Investigations and Technical Assistance |
| Grant Number.: | H027A120006-12A, H027A130161, H027A130161-13A, S256A120005, S256A120005 -13, P378A110057; P378A120057, 2 H80CS02467-28-00, 6 H80CS02467-29-02, 5U58DP001952-05, 5U58SO000023-03, 5U58SO000023-04 Revised, 5U50CK000219-02, 5U58DP003939-02, 5U58DP003939-03, 5UR3DD000809-03, 5UR3DD000809-04 |
| Area: | Equipment and Real Property Management |
| Questioned Costs: | $0 |

Auditee Response and Corrective Action Plan, Continued:

At a certain point last year, staff requests for more control of the vehicle were reviewed. It was determined by the then PCACGP Director that breaking from the existing MOE practice was not justified. All PCACGP related staff activities were fully and conveniently serviceable with current practice.

However, consideration was given to staff who had to be located across the street due to lack of space within the main PCACGP office. For every little errand, they had to cross the street, and may have to wait if the PCACGP Director was away. Because of this, an additional vehicle was assigned closer to these staff, with the key under the control of the remote office's supervisor. The result of this was that PCACGP now had two assets under its control.

The key point to consider is that, at no time were the positions of the Bureau of Education considered in assignment of assets. The assignment and control strictly followed the PCACGP positions of Director or Coordinator. The confusion may be because the BEA and PCACGP positions coincide. That being so, BEA needs were not considered.

2. We concur with reservations. The maintenance of this vehicle follows existing MOE practice. The vehicle has been serviced several times during the period, same as any other MOE vehicle. Such service has been sufficient to keep the vehicle operational, non-stop since acquisition.

   Presently, we are looking into comprehensive maintenance procedures to be adhered, followed and documented evidencing required maintenance.

#93.224

Physical inventory and Item 1: Annual inventory is performed in accordance with ROP Regulations. Assets mentioned have been on previous audit report and have been addressed; ROP grants division alongside with division of supply, are working this year to reconcile program fixed assets with the master list. ROP finance and MOH continue to work together to ensure proper disposal of assets.

| | |
|---|---|
| Finding No: | 2014-008, Continued |
| CFDA Program: | DOI 15.875 Economic, Social, and Political Development of the Territories |
| CFDA Program: | ED 84.027 Special Education – Grants to States |
| CFDA Program: | ED 84.256 Territories and Freely Associated States Education Grant Program |
| CFDA Program: | ED 84.378 College Access Challenge Grant Program |
| CFDA Program: | HHS 93.224 Consolidated Health Centers |
| CFDA Program: | HHS 93.283 CDC and Prevention – Investigations and Technical Assistance |
| Grant Number.: | H027A120006-12A, H027A130161, H027A130161-13A, S256A120005, S256A120005 -13, P378A110057; P378A120057, 2 H80CS02467-28-00, 6 H80CS02467-29-02, 5U58DP001952-05, 5U58SO000023-03, 5U58SO000023-04 Revised, 5U50CK000219-02, 5U58DP003939-02, 5U58DP003939-03, 5UR3DD000809-03, 5UR3DD000809-04 |
| Area: | Equipment and Real Property Management |
| Questioned Costs: | $0 |

Auditee Response and Corrective Action Plan, Continued:

For Item 2:

- RP-2688 – Pick-Up Truck that was Purchased in 2001. Vehicle was properly surveyed. (See attached supporting documents)

- RP-3387 – ProCART that was purchased in 2003. Survey#ROP-S13-95; This was officially cleared from ROP Inventory list on 11/17/14.

#93.283

RPPM policy require complete physical inventory bi-annually and it was conducted in 2013. Physical inventory is ongoing in FY2015. However, for reconciliation with grants fixed assets, ROP is currently reconciling program fixed assets with ROP master list.

1. With reconciliation, ROP and MOH will work together to reconcile variances.

2. We concur with this finding. Survey documents have been prepared and submitted to MOF to be surveyed out of the list. On 11/17/14, the fixed asset was surveyed out of the list.

Full name of the person responsible for the corrective action plan:

Millan Isack, Chief, Property and Supply Div.
Janice Mathew, Administrator, Health Administrative and Support Services
Andrew Tabelual, Director, BEA

Date the corrective action plan will be implemented**:** Ongoing

Finding No.: 2014-009
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.224 Consolidated Health Centers
Grant Number: 2H80CS02467-28-00
Area: Reporting
Questioned Costs: $0

Criteria: Reports submitted to a grantor agency should include all activities of the reporting period, should be supported by underlying accounting or performance records, and be fairly presented in accordance with program requirements.

Condition: The 2014 universal data system (UDS) report due on February 15, 2015 reported program revenues and expenditures. The Program provided various reports utilized in preparation of the UDS report. We examined the reports and traced the amounts to the general ledger (DILOG System) noting the following:

1. The total accrued cost reported in the UDS report of $1,230,839 comprises total medical care, other clinical services, other services and total facility and other non-clinical services including personnel costs aggregating $961,683. However, the underlying records provided indicated personnel costs of $627,873 resulting in a variance of $333,810.

| Personnel Cost per UDS report | Personnel Cost per General Ledger | Variance |
|---|---|---|
| $ 961,683 | $ 627,873 | $333,810 |

2. Medical and pharmaceutical supplies aggregated $143,087 of which only $11,039 could be agreed to the general ledger.

| Description | Per UDS Report 2014 | Per General Ledger | Difference |
|---|---|---|---|
| Non-Pharmaceuticals | $ 41,835 | $ 9,439 | $ 32,396 |
| Pharmaceuticals | 101,252 | 1,600 | 99,652 |
| Total | $ 143,087 | $ 11,039 | $ 132,048 |

3. The Program reported donated facility and services totaling $955,515, but no underlying accounting records were provided to support that amount.

4. No underlying accounting records for $1,540,008 of self-pay revenues were available. It was represented that the amount is the difference between full charges of the service less the sliding discount. It was also represented that the full charge amount comes from all encounter forms (a form that records services performed for the patient) during the fiscal year which are maintained in a separate database which tracks all encounter forms during the year. However, only $386,176 could be traced to the general ledger.

Cause: The cause of the above condition is the lack of internal controls over adequate file maintenance so that underlying accounting records exist to support reported program revenues and expenditures.

| | |
|---|---|
| Finding No.: | 2014-009, Continued |
| Federal Agency: | U.S. Department of Health and Human Services |
| CFDA Program: | 93.224 Consolidated Health Centers |
| Grant Number: | 2H80CS02467-28-00 |
| Area: | Reporting |
| Questioned Costs: | $0 |

Effect: The effect of the above condition is noncompliance with above criteria. No questioned cost results from this finding as only the recorded expenditures were reimbursed by the grantor agency.

Recommendation: We recommend that management establish internal control procedures over adequate file maintenance so that underlying records support reported program activities.

Prior Year Status: Weaknesses in controls over internal controls over adequate file maintenance requiring that underlying accounting records exist to support reported program activities was reported as findings in the prior Single Audits of the Republic as items 2010-18, 2012-15 and 2013-017.

Auditee Response and Corrective Action Plan:

Item 1a – UDS reports all Federally paid and Non-federally paid personnel that supports the operation for CHC. Whereas, Personnel General Ledger only reports those paid directly from Federal funding. In order to make a comparison, salaries & FTES of those not paid under CHC Org. should be calculated and considered.

Item 1b – Again, UDS reports all cost incurred for medical & Pharmaceuticals for both Grant, Local, and Program Income.

Cost Analysis Study was completed for early 2015 year. We are hoping that results of this study will help improve our systems, processes and standards that will improve reporting. General ROP Ledgers does not capture the details of internal controls and may also need to be addressed.

Item 2 – Donated services are based on facility spaces that are not assets to CHC, personnel costs not directly paid from CHC and general daily operation costs support from other Grant funded programs. Corrective Action Plan: Develop Standard internal program templates to capture formulas and details of what data are used for UDS reporting.

Item 3 – We Concur – the process mentioned is how collecting of data is currently done. Improvement in how we reconcile with General ledger needs to be discussed and improved. Whether it is system issue or communication improvement, this remains an area that needs improvement.

Full name of the person responsible for the corrective action plan:

Darnelle Decherong, Program Manager-CHC-MOH

Date the corrective action plan will be implemented**:** Ongoing

Finding No.: 2014-010
Federal Agency: U.S. Department of Education
CFDA Program: 84.256 Territories and Freely Associated States Education Grant Program
Grant Number: S256A120005, S256A120005-13
Area: Reporting
Questioned Costs: $0

Criteria: Reports submitted to the grantor agency should include all activities of the reporting period and should agree with underlying accounting and performance records.

Condition: Total expenditures and encumbrances reported in the annual performance report (APR) do not agree with expenditures and encumbrances per the general ledger as follows:

| Cost Center No. | Period Covered | Expenditures and encumbrances per APR | Expenditures and encumbrances per general ledger | Variance |
|---|---|---|---|---|
| E33595 | 10/01/13 – 06/30/14 | $ 745,289 | $ 684,157 | $ 61,131 |

Cause: The cause of the above condition is lack of adherence to existing procedures that require adequate documentation in support of APR balances.

Effect: The effect of the above condition is potential noncompliance with applicable reporting requirements. No questioned costs result as only recorded expenditures were reimbursed by the grantor.

Recommendation: We recommend that the Program strengthen procedures to verify that expenditures and encumbrances reported to the grantor agency agree with underlying accounting records.

Auditee Response and Corrective Action Plan: In preparing last year's annual performance report, program staff used the "Subledger Status Report" as well as transactions already processed by the Ministry of Education but probably have not been entered in the Ministry of Finance accounting system.

Corrective Action: In preparing future grant annual and final performance reports, MOE will use only the "Subledger Status Report" printed for the period in question by the Ministry of Finance to complete the Budget Expenditures section of the APR (Grant Performance Report Cover Sheet (ED 524B)).

Full Name of the person responsible for the corrective action plan:

Debbie Tkel-Sbal and Gandhi Ngirmidol

Date the corrective action plan will be implemented**:**

July 30, 2015 (due date for the next APR for project period 10/01/14-06/30/15)

| | |
|---|---|
| Finding No.: | 2014-011 |
| Federal Agency: | U.S. Department of Health and Human Services |
| CFDA Program: | 93.224 Consolidated Health Centers |
| Grant Number: | 6H80CS02467-27-01, 2H80CS02467-28-00 |
| Area: | Program Income |
| Questioned Costs: | $0 |

Criteria: In accordance with standard operating procedures, non-grant funds (i.e., State, Local and other operational funding and fees, premiums, and third-party reimbursements) which the program may reasonably be expected to receive, including any such funds in excess of those originally expected, shall be used as permitted under law and may be used for such other purposes as are not specifically prohibited under the law if such use furthers the objectives of the project.

Condition: The program performs billing and collection functions. All fees collected are deposited and recorded in the Hospital Trust Fund Account, which is a Special Revenue Fund. However, since this Fund was only implemented in February 2014, cumulative program income was not accounted for. Further, there is no evidence available that program-related fees are used to further the objective of the program. The Executive Director has represented that the program monitors collections; however, the collections are comingled with nonfederal funds without evidence to document that collections are used to further program objectives.

Cause: The cause of the above condition is the current fee structure and collections are centralized at the Ministry of Health, and the lack of control over program income tracking.

Effect: The effect of the above condition is potential noncompliance with program requirements. No questioned costs result as we were unable to determine the amount of potential program income.

Recommendation: We recommend that the Republic establish procedures to comply with program income requirements.

Prior Year Status: Noncompliance with program income requirements was reported as findings in the prior Single Audits of the Republic as items 2008-22, 2009-41, 2010-30, 2012-14, and 2013-016.

Auditee Response and Corrective Action Plan: Program Income are used toward pharmaceuticals, medical supplies and medical equipment only. Procurements charged to this account 2180 are available and may be obtained for review. CHC follows the procurement cycle set for MOH and CHC procures the said items according to a quarterly schedule. Prior to February 2014, We concur that program funds were comingled with other funds making it challenging to monitor, however, corrective actions restricting unauthorized use of funds have been sought by program, MOH and ROP.

Full name of the person responsible for the corrective action plan:

Darnelle Decherong, Program Manager-CHC-MOH

Date the corrective action plan will be implemented: Ongoing

Revenues

Finding No.: 2014-012

Criteria: An effective system of internal control includes policies and procedures requiring the completeness of cash receipts issued.

Condition: We noted voided receipts without explanation, and supervisory approval was not evident.

| Date | Receipt no. |
|---|---|
| 10/02/2013 | 1385663,1385670,1385897,1385949,1386031–1386039, 1386068 - 1386073 |
| 10/03/2013 | 1386288 – 1386289, 1386337 |
| 10/09/2013 | 1387504, 1387542 - 1387547 |
| 10/11/2013 | 1387887 |
| 10/14/2013 | 1388164 - 1388169 |
| 10/16/2013 | 1388487,1388556 – 1388563,1388710 - 1388714 |
| 10/17/2013 | 1388844 |
| 10/18/2013 | 1389096, 1389222 |
| 10/21/2013 | 1389379 |
| 10/22/2013 | 1389701 – 1389703, 1389832 - 1389834 |
| 10/23/2013 | 1389869–1389872,1389874–1389875,1389877–1389878, 1389880–1389883, 1389885 |
| 10/25/2013 | 1389967, 1390124 |
| 10/28/2013 | 1390216 |
| 10/30/2013 | 1390632, 1390639 - 1390641 |
| 10/31/2013 | 1390887, 1390998 |
| 11/13/2013 | 1392117 |
| 11/18/2013 | 1392511 - 1392512 |
| 11/19/2013 | 1392692 – 1392695, 1392697 - 1392700 |
| 11/22/2013 | 1393022 |
| 11/26/2013 | 1393323 - 1393324 |
| 12/02/2013 | 1393734 |
| 12/06/2013 | 1394391 |
| 12/16/2013 | 1395537 - 1395543 |
| 12/17/2013 | 1395581, 1395605 – 1395606, 1395608 |
| 12/19/2013 | 1395893 |
| 12/20/2013 | 1396084, 1396086 |
| 12/23/2013 | 1396170 |
| 12/26/2013 | 1396555 - 1396560 |

Revenues, Continued

Finding No.: 2014-012, Continued

Condition, Continued

| Date | Receipt no. |
|---|---|
| 01/03/2014 | 1397311 – 1397312, 1397327 |
| 01/07/2014 | 1397727 |
| 01/10/2014 | 1398281 |
| 01/17/2014 | 1399047 |
| 01/24/2014 | 1399602 |
| 02/04/2014 | 1400600 |
| 02/05/2014 | 1400746 |
| 02/18/2014 | 1401914 |
| 02/20/2014 | 1402263 |
| 03/11/2014 | 1404305 |
| 04/03/2014 | 1406779, 1406842 |
| 04/14/2014 | 1407922 - 1407923 |
| 04/17/2014 | 1408625 - 1408628 |
| 05/02/2014 | 1410270, 1410272 |
| 05/06/2014 | 1410470 |
| 05/09/2014 | 1411024 |
| 05/13/2014 | 1411427 - 1411428 |
| 05/19/2014 | 1412129 |
| 05/20/2014 | 1412387 |
| 05/21/2014 | 1412515 |
| 06/09/2014 | 1414634 - 1414635 |
| 06/19/2014 | 1415814 |
| 06/20/2014 | 1415941 |
| 06/27/2014 | 1416687 - 1416694 |
| 07/04/2014 | 1417518 |
| 07/07/2014 | 1417537 |
| 08/01/2014 | 1420554 |
| 08/11/2014 | 1421533, 1421551 - 1421552 |
| 08/19/2014 | 1422522, 1422527 |
| 09/03/2014 | 1424199 |
| 09/04/2014 | 1424520 - 1424522 |

Revenues, Continued

Finding No.: 2014-012, Continued

Condition, Continued

| Date | Tax Receipt no. |
|---|---|
| 10/21/2013 | 224087, 224092, 224096, 224120, 224121, 224122, 224211 |
| 10/31/2013 | 225982, 225983, 225984, 225985 |
| 11/20/2013 | 227202, 227203, 227204, 227205, 227206, 227207, 227208, 227209, 227210, 227211, 227215 |
| 01/08/2014 | 231436, 231467, 231475 |
| 01/24/2014 | 223123, 223124, 223129, 223133, 223134, 223135, 223136, 223137 |
| 01/30/2014 | 234817 |
| 03/10/2014 | 242802 |
| 04/29/2014 | 241170 |
| 04/30/2014 | 241552 |
| 08/14/2014 | 250098 |

Cause: There were no procedures in place to determine that exceptions in sequential orders of daily receipts are documented and approved by immediate supervisors.

Effect: The absence of an approval for exceptions in the sequential order of daily receipts is a control weakness whereby collections may be subject to malfeasance.

Recommendation: We recommend that policies and procedures to verify that cash receipts are issued in sequential order. Exceptions be established should be documented and be approved by an immediate supervisor on a daily basis.

Prior Year Status: The absence of approval for exceptions of sequential daily receipts was reported as a finding in the prior Single Audit of the Republic of Palau as item 2013-009.

Auditee Response: We concur with the finding. Chief of Treasury is aware of the voided receipts and she review daily receipts at the end of the day. This issue happens because of consistent power outage and system malfunction during working hours. We will work with our IT programmer to solve this issue.

Full Name of the person responsible for the corrective action plan:

Noria Manahane, Chief of Treasury Division

Date the corrective action plan will be implemented**:** July 2015

Revenues

Finding 2015–013

Criteria: An audit trail should exist for all cash receipts.

Condition: Of a population of $4,462,190 of total hospital revenues, seventy recorded receipts totaling $1,583,993 were related and could not be agreed to individual invoices or equivalent. Daily collections could be agreed to a total of supporting invoice listing by invoice number; however, collections are sorted into revenue types and are recorded in the DILOG general ledger without an audit trail.

Cause: The Ministry of Health does not have a process to determine that an audit trail exists for National Government cash receipts.

Effect: The effect of the above condition is potential misstatements of National Hospital revenues.

Recommendation: We recommend that the Ministry of Health implement policies and procedures requiring existence of audit trail in the hospital revenues.

Auditee Response and Corrective Action Plan: We concur with the finding. We do have the details in the System but they are not individually identified on the Cash Receipt Report. We need to go through the Programmer to give us the actual invoice numbers in order for us to print them out.

Full name of the person responsible for the corrective action plan:

Analee R. Maidesil, Budget/Fiscal Manager, Billing & Collections, MOH

Date the corrective action plan will be implemented:

Corrective action plan in process. Will be implemented by the end of FY2015.

Local Noncompliance – Procurement Regulations

Finding No. 2014-014

Criteria: In accordance with applicable procurement regulations, procurement transactions shall provide for full and open competition that is best suited to the circumstances. Further, the ROP Property Management Policies and Procedures Manual, Procurement and Safeguard Section 626 state the following:

(a) When the Procurement Officer determines in a substantiated writing that the use of competitive sealed bidding is either not practical or not advantageous to the government, contracts may be awarded by competitive negotiation.

(h) Award shall be made to the responsible offeror whose proposal is determined in writing to be most advantageous to the Republic taking into consideration price and other evaluation factors set forth in the request for proposals. No other factors or criteria shall be used in the evaluation, and the contract file shall contain a detailed description of the findings and the basis on which the award is made.

Condition: Of fifty three Other Funds non-payroll expenditures tested totaling $1,927,352 of a total population of $3,489,181, twenty-two expenditures aggregating $623,031 represent purchases pursuant to Request for Proposal (RFP) 01-14. Our examination of related bid documents noted the following:

1. An RFP was issued instead of an Invitation for Bids. There was no written determination substantiating that the use of competitive sealed bidding is either not practical or not advantageous to the Republic.

2. The contract file did not contain a detailed description of the findings and the basis on which all nine offerors were awarded in varying amounts. A comparative evaluation of the bids was provided to substantiate the award recommendations in dollar amounts in which the following were noted:

   a. It compares categories of items, but it does not compare the costs of individual items. In addition, award of pharmaceutical drugs appeared to have exceeded requested amounts as follows:

| | Offers | Percentage of Items Quoted | Amount awarded | Percentage of Offer | Percentage of Items awarded |
|---|---|---|---|---|---|
| 1. | $ 4,703,837 | 77% | $ 300,000 | 6% | 6% |
| 2. | $ 1,843,930 | 91% | $ 1,840,000 | 100% | 91% |
| 3. | $ 3,437,890 | 65% | $ - | - | |
| 4. | $ 4,068,381 | 87% | $ - | - | |
| 5. | $ 479,402 | 70% | $ 479,000 | 100% | 70% |
| | | | | Total | 167% |

   b. It does not take into consideration that vendors do not submit price quotations for unavailable items. This causes their total proposal amount to appear lower than the proposal amounts of vendors who quoted all items. Therefore, comparing total proposal amounts does not give an accurate indication of the most competitive prices per item.

   c. It does not indicate who prepared it and whether it was reviewed.

Local Noncompliance – Procurement Regulations, Continued

Finding No. 2014-014, Continued

Cause: The cause of the condition is weakness in controls over determining compliance with applicable procurement regulations.

Effect: The effect of the above condition is noncompliance with applicable procurement regulations.

Recommendation: We recommend that the Republic strengthen controls over procurement procedures to maximize competition while maintaining the best interest of the Republic. If exceptions are allowed by procurement regulations, they should be reviewed and approved and the reasons should be documented in the procurement files.

Auditee Response and Corrective Action Plan:

1. We concur and we will ensure that documents i.e. memo will be included on RFP's.

2. a) The cost was not the basis for our selection because the cost of each individual item requested does not determine quantity of the items needed for patient care. In addition the cost does not guarantee how much the supplier can supply to our patient need. The selection was base on specifications, history, and pre-qualification to determine the amount awarded.

   b) We did review each line item per proposals and evaluated base on quantity quoted verses quantity per specifications requested. We selected the vendor that scored at least 50% of the total proposal. We did not consider proposals for unavailable items because the quantity of the items proposed is required. Vendor who quoted at least 50% or above is best meet our requirements.

   c) Comparative evaluation was prepared by MOH procurement and submitted to Ministry of Finance Procurement Officer Mr. Millan Isack for review and approval. However, we did not indicate on the evaluation form in, therefore we will incorporate in the upcoming bid for medical supplies and drugs for FY2016 & FY2017.

Full name of the person responsible for the corrective action plan:

Milan Isack, Chief Procurement & Supply
Cindy Fritz, Fiscal Manager, MOH
Tasya Worswick, Procurement Officer, MOH

Date the corrective action plan will be implemented:

July 2015

**REPUBLIC OF PALAU**

Unresolved Prior Year Findings and Questioned Costs
Year Ended September 30, 2014

Questioned Costs

The prior year Single Audit report on compliance with laws and regulations noted the following questioned costs and comments that were unresolved at September 30, 2014:

| | Questioned Costs | | |
|---|---|---|---|
| | Republic | Subrecipient | Total |
| Questioned costs of the Republic as previously reported: | | | |
| Fiscal year 2010 Single Audit | $ 1,632,099 | $ - | $ 1,632,099 |
| Fiscal year 2011 Single Audit | 205,723 | - | 205,723 |
| Fiscal year 2012 Single Audit | 669,335 | - | 669,335 |
| Fiscal year 2013 Single Audit | 183,006 | - | 183,006 |
| | 2,690,163 | - | 2,690,163 |
| Less questioned costs resolved in fiscal year 2014: | | | |
| Questioned costs of fiscal year 2010 Single Audit (1) | (1,632,099) | - | (1,632,099) |
| Questioned costs of fiscal year 2011 Single Audit (1) | (205,723) | - | (205,723) |
| Questioned costs of fiscal year 2012 Single Audit reported in: | | | |
| Finding No. 2012-16 (2) | (3,500) | - | (3,500) |
| Finding No. 2012-17 (2) | (13,625) | - | (13,625) |
| Finding No. 2012-18 (2) | (512) | - | (512) |
| | (17,637) | - | (17,637) |
| Questioned costs of fiscal year 2013 Single Audit reported in: | | | |
| Finding No. 2013-002 (3) | (81,052) | - | (81,052) |
| | 753,652 | - | 753,652 |
| Questioned costs of fiscal year 2014 Single Audit | 72,875 | - | 72,875 |
| Unresolved questioned costs of the Republic at September 30, 2014 | $ 826,527 | $ - | $ 826,527 |

(1) Questioned costs considered resolved pursuant to OMB circular A-133 section.315 (b) (4) (i)(ii)(iii) which states when the auditee believes the audit findings are no longer valid or do not warrant further action, the reasons for this position shall be described in the summary schedule. A valid reason for considering an audit finding as not warranting further action is that all of the following have occurred:

   (i) Two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse;

   (ii) The Federal agency or pass-through entity is not currently following up with the auditee on the audit finding; and

   (iii) A management decision was not issued.

(2) Questioned costs considered resolved as the Republic received a final determination letter from the U.S. Department of Health and Human Services, dated April 3, 2015.

(3) Questioned costs considered resolved as the Republic received a final determination letter from the U.S. Department of Health and Human Services, dated April 14, 2015.

Unresolved Findings

The status of unresolved findings is discussed in the Schedule of Findings and Questioned Costs section of this report (pages 12 through 44).

SUMMRY SCHEDULE OF PRIOR AUDIT FINDINGS
REPUBLIC OF PALAU
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2013

| Finding No. | Program Area | Brief Description | Status of Finding | Comments |
|---|---|---|---|---|
| 2013-001 | Local non-compliance Financial Reporting | Capital assets were not reconciled throughout the year and were not recorded in the balance sheet | On going | MOF will reconcile and record in the balance sheet on a quarterly basis as required. |
| 2013-002 | 93.224 Consolidated Health Centers | Noncompliance of procurement requirement | Corrected | Comparative analysis sheet have been implemented to determine the awarded amount to eligible vendors. |
| 2013-003 | 84.378A-U.S. DOE College Access Challenge | Noncompliance of Eligibility | On-going | MOE-CACG staff are working to correct this finding |
| 2013-004 | 93.283-CDC and Prevention-Investigation and Technical Assistance | Noncompliance with Allowable Costs/Cost Principles | Corrected | Implemented |
| 2013-005 | 84.378A-U.S. DOE College Access Challenge | Noncompliance with established procurement requirements | Corrected in FY2015 | BNT-DF&A have asked the program specialist that when they prepare APR's they should reconcile with Finance records before finalizing their report. |
| 2013-006 | 84.378A-U.S. DOE College Access Challenge | Noncompliance with US Code, Title 20, Chapter 28, Subchapter VII, Part E, Section 1141 | On-going | MOE-CACG staff are working to correct this finding |
| 2013-007 | 84.378A-U.S. DOE College Access Challenge | Noncompliance with Allowable Costs/Cost Principles | On going | 1. For this year we have implemented a procedure that is institutionalized at the BEA and which |

SUMMRY SCHEDULE OF PRIOR AUDIT FINDINGS
REPUBLIC OF PALAU
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2013

| Finding No. | Program Area | Brief Description | Status of Finding | Comments |
|---|---|---|---|---|
| | | | | the PCACGP follows by virtue of its position in the organizational chart below. This procedure meets the requirements of the grant and will be applied to any direct aid expenditure.<br><br>2. Employees paid under CACG are required to complete time certification. |
| 2013-008 | 84.378A-U.S. DOE College Access Challenge | Noncompliance with Period of availability of federal funds | Corrected | As stated on auditee response for FY2013 audit. |
| 2013-009 | Revenues | Cash receipts not issued in sequential order | On going | As stated on auditee response for FY2014 audit. |
| 2013-010 | 20.106 Airport Improvement Program | Noncompliance with Procurement policy | Corrected | CIP has corrected it based on the response |
| 2013-011 | 20.106, 84.027, 93.224, 93.283 | Noncompliance with procurement policy | On going | Biannual inventory and reconciliation is on going in FY2015. Report will be ready by end of this year. |
| 2013-012 | 20.106 Airport Improvement Program | Noncompliance with reporting requirements | Corrected | Reports has been submitted to grantors and will continue prepare reports as required. |

SUMMRY SCHEDULE OF PRIOR AUDIT FINDINGS
REPUBLIC OF PALAU
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2013

| Finding No. | Program Area | Brief Description | Status of Finding | Comments |
|---|---|---|---|---|
| 2013-013 | 84.256 | Noncompliance with employee certifications | Corrected | Employees working full time under the grants are required to fill certifications as required. |
| 2013-014 | 84.256 | Noncompliance with period of availability | Corrected | Program managers will get approval from grantors or specify the grants that are to be extended. |
| 2013-015 | 93.224-U.S. DHHS-CHC | Noncompliance with allowable cost/cost principles | On going | We will ensure to document requirement. |
| 2013-016 | 93.224-U.S. DHHS-CHC | Noncompliance with program income requirement | On going | As stated on the auditee response on FY2014 audit response. |
| 2013-017 | 93.224-U.S. DHHS-CHC | Noncompliance with reporting requirements | On going | As stated on the auditee response on FY2014 audit response. |
| 2013-018 | 93.283-U.S. DHHS-CDC and prevention | Noncompliance with allowable cost/cost principles | Corrected | As stated on the auditee response on FY2013 audit. |
| 2013-019 | 93.283-U.S. DHHS-CDC and prevention | Noncompliance with matching, level of effort, earmarking | Partially corrected | Program Manager are working to get the grantors waiver. |
| 2013-020 | 15.875 | Noncompliance with Reporting | Corrected | As stated on the auditee response on FY2013 audit. |
| 2013-021 | 93.283-U.S. DHHS-CDC and prevention | Noncompliance with period of availability | On-going | MOF are working cordially with program managers to correct this finding. |
| 2013-022 | Revenues | No audit trail for cash receipts | On-going | MOF and ISSS staff will work directly with MOH IT's to solve this problem. |