

REPUBLIC OF PALAU

**REPORT ON THE AUDIT OF FINANCIAL
STATEMENTS IN ACCORDANCE
WITH THE UNIFORM GUIDANCE**

YEAR ENDED SEPTEMBER 30, 2016

REPUBLIC OF PALAU

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

YEAR ENDED SEPTEMBER 30, 2016

REPUBLIC OF PALAU

**FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2016**

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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, 2016, and the related notes to the financial statements, which collectively comprise the Republic's basic financial statements as set forth in Section III of the foregoing table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Republic of Palau as of September 30, 2016, 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

New Accounting Pronouncements

As described in Note 1 to the financial statements, the Republic adopted Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, effective October 1, 2015.

Uncertainty

As discussed in Note 14H the Republic of Palau Civil Service Pension Trust Fund's actuarial valuation has determined that the Fund has a net pension liability of \$215,546,176 which would cause the Fund's fiduciary net position to become negative in 2018. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Our opinions are not modified with respect to these matters.

Other Matters

Required Supplementary Information

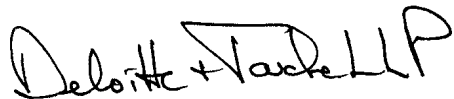
Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 16 as well as the Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund and notes thereto, on pages 81 and 82, the Schedule of Proportionate Share of the Net Pension Liability, on page 83, and the Schedule of Pension Contributions, on page 84, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 14, 2017 on our consideration of the Republic's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Republic's internal control over financial reporting and compliance.

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

July 14, 2017

REPUBLIC OF PALAU

Management's Discussion and Analysis Year Ended September 30, 2016

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, 2016. We encourage readers to consider the information presented here in conjunction with the Republic's basic financial statements, which follow this section. Fiscal year 2015 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 \$210.2 million (net position), which increased by \$6.6 million (or 3.2%) from a net position of \$203.6 million in the prior year. Of this amount, \$134.3 million represents the Republic's investment in capital assets; \$200.9 million represents amounts restricted for various purposes, with the remaining deficiency of \$125 million to be funded from future governmental activities.
- During the current fiscal year, the Republic's expenses for governmental activities were \$142.9 million and were funded in part by \$64.1 million in program revenues and \$66.5 million in taxes and other general revenues. General revenues increased by \$3.3 million (or 5.3%) from \$63.1 million in the prior year to \$66.4 million, which was attributable primarily to the increase in taxes and unrestricted grant revenues of \$2.5 million and \$7 million, respectively. Expenses increased by \$14.4 million (or 11.2%) from \$128.5 million in the prior year to \$142.9 million, which was attributable primarily to the increase in general government expenses.
- The Compact Section 211(f) Trust Fund generated a net gain of \$13.1 million in the current fiscal year, which is net of an appropriation of \$5 million representing the transfer out to the General Fund as budgetary support, increasing the Republic's trust fund balance to \$196.7 million from \$183.6 million in the prior year (up 7.2%).
- For the current fiscal year, the General fund revenues (and other financing sources) of \$106.3 million exceeded general fund expenditures (and other financing uses) of \$82.4 million. General fund revenues (and other financing sources) were up \$20 million (or 23.1%) from prior year primarily due to increases in taxes, license and permits, and loan proceeds received in 2016. General Fund appropriations (and other financing uses) also went up \$9.6 million (or 13%) 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 of the following three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains additional required supplementary information in the form of a budgetary schedule, which is prepared on the budgetary basis of accounting, and other supplementary information, in addition to the basic financial statements themselves, which includes combining statements for governmental funds, fiduciary funds and other supplemental information.

Government-wide Financial Statements

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

REPUBLIC OF PALAU

Management's Discussion and Analysis Year Ended September 30, 2016

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

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

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

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

Fund Financial Statements

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

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

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

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

REPUBLIC OF PALAU

Management's Discussion and Analysis Year Ended September 30, 2016

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 \$210.2 million at the close of the most recent fiscal year. However, all of the 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 \$52.4 million while its current liabilities were \$22.2 million. Restricted net position represents resources that are subject to external constraints. The table below summarizes the Republic's net position at the close of the current year compared with prior year.

REPUBLIC OF PALAU

Management's Discussion and Analysis
Year Ended September 30, 2016

Net Position
As of September 30

	Governmental Activities <u>2016</u>	Governmental Activities <u>2015</u>	Total Percentage Change <u>2016-2015</u>
Current and other assets	\$268,874,305	\$227,895,313	18.0%
Capital assets	<u>142,798,864</u>	<u>155,066,612</u>	-7.9%
Total assets	<u>411,673,169</u>	<u>382,961,925</u>	7.5%
Deferred outflows of resources	<u>19,574,832</u>	<u>13,047,141</u>	50.0%
Long-term debt outstanding	40,551,593	25,237,311	60.7%
Other liabilities	<u>162,166,716</u>	<u>152,754,510</u>	6.2%
Total liabilities	<u>202,718,309</u>	<u>177,991,821</u>	13.9%
Deferred inflows of resources	<u>18,367,890</u>	<u>14,466,855</u>	27.0%
Net position:			
Net investment in capital assets	134,341,707	145,009,457	-7.4%
Restricted	200,891,174	185,660,054	8.2%
Unrestricted	<u>(125,071,079)</u>	<u>(127,119,121)</u>	-1.6%
Total net position	\$ <u>210,161,802</u>	\$ <u>203,550,390</u>	3.2%

At the end of the current fiscal year, the Republic's unrestricted net position deficiency was \$125 million, a decrease from the prior year amount of \$127.1 million (or 1.6%). This deficiency is the result of having long-term commitments that are greater than currently available resources including the Republic's share of the net pension liability. 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 \$6.6 million, representing an increase of 3.2% from the prior year's amount of \$203.6 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.

REPUBLIC OF PALAU

Management's Discussion and Analysis
Year Ended September 30, 2016

Changes in Net Position
For the Years Ended September 30

	Governmental Activities <u>2016</u>	Governmental Activities <u>2015</u>	Total Percentage Change <u>2016-2015</u>
Revenues:			
Program revenues:			
Charges for services	\$ 24,111,779	\$ 23,156,386	4.1%
Operating grants & contributions	31,356,606	25,544,055	22.8%
Capital grants and contributions	<u>8,587,503</u>	<u>7,181,195</u>	19.6%
	<u>64,055,888</u>	<u>55,881,636</u>	14.6%
General revenues:			
Taxes	52,005,432	49,472,061	5.1%
Other general revenues	<u>14,463,287</u>	<u>13,649,126</u>	6.0%
	<u>66,468,719</u>	<u>63,121,187</u>	5.3%
Total revenues	<u>130,524,607</u>	<u>119,002,823</u>	9.7%
Expenses:			
General government	40,567,024	33,839,480	19.9%
Education	17,746,030	17,090,007	3.8%
Health and welfare	21,259,141	19,629,701	8.3%
Public safety	5,792,686	4,995,392	16.0%
Cultural affairs and recreation	3,788,737	2,897,377	30.8%
Transportation and commerce	45,939,237	42,287,266	8.6%
State government appropriations	6,503,600	6,240,830	4.2%
Depreciation - unallocated	787,173	787,173	0.0%
Interest	<u>555,005</u>	<u>734,298</u>	-24.4%
Total expense	<u>142,938,633</u>	<u>128,501,524</u>	11.2%
Contributions from (to) permanent funds	19,025,438	(9,289,179)	304.8%
Change in net position	6,611,412	(18,787,880)	135.2%
Net position at beginning of year	<u>203,550,390</u>	<u>222,338,270</u>	-8.5%
Net position at end of year	\$ <u>210,161,802</u>	\$ <u>203,550,390</u>	3.2%

REPUBLIC OF PALAU

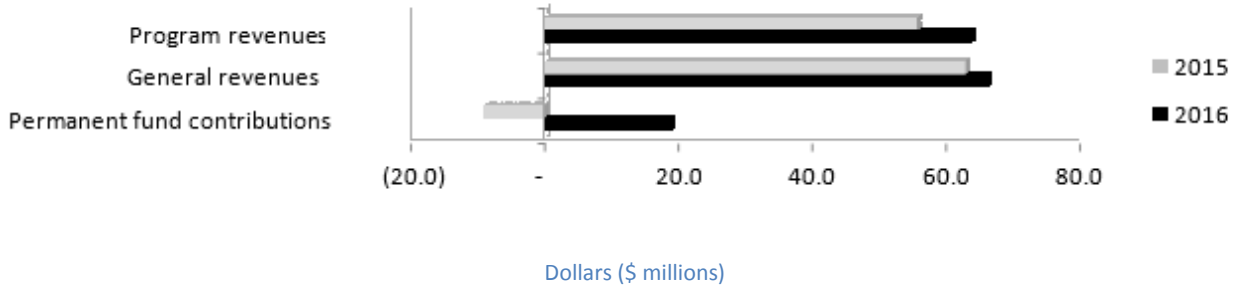
Management’s Discussion and Analysis
Year Ended September 30, 2016

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

- The Compact Section 211(f) Trust Fund contributions of \$19 million increased by \$28.3 million (or 304.8%) from prior fiscal year when the trust fund earnings contributed a loss of \$9.3 million. Overall revenues increased in the current year by \$11.5 million (or 9.7%). Concurrently total expenses increased by \$14.4 million (or 11.2%) in the current year.

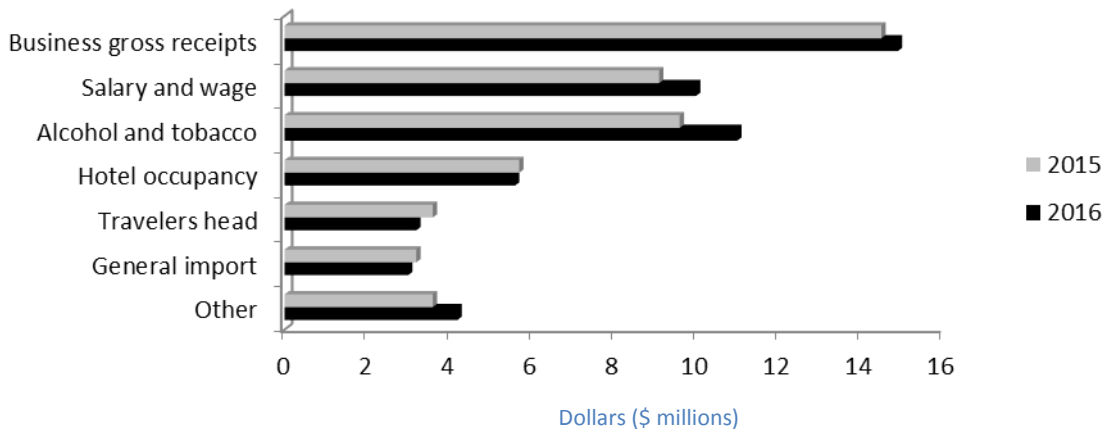
A graphic summary of program revenues, general revenues and permanent fund contributions received by the Republic for the current year compared with prior year follows:

Graph 1
Revenues
For the Years Ended September 30



A significant portion of the Republic’s general revenues involves tax revenue collections. At \$52 million in the current year, tax revenues were higher than the \$49.5 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



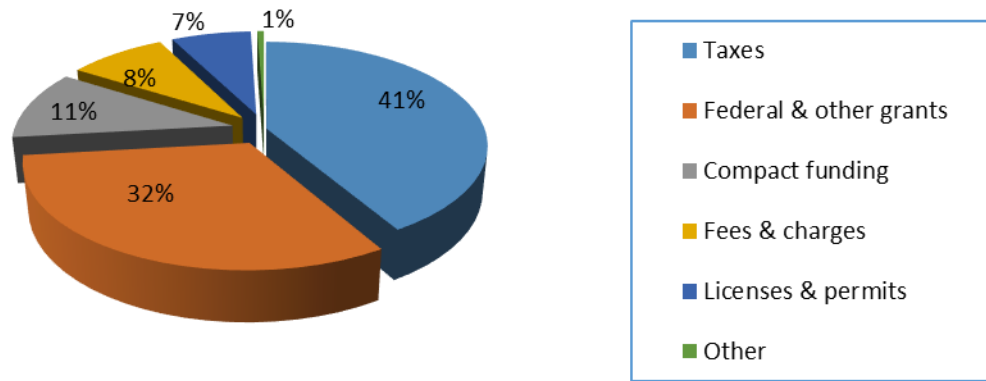
REPUBLIC OF PALAU

Management's Discussion and Analysis Year Ended September 30, 2016

- Cost of governmental activities increased in the current year by \$14.4 million (up 11.2%) compared with prior year. General government significantly increased by \$6.8 million (up 19.9%) compared with prior year. Cost of Education increased by \$.7 million (up 3.8%) in the current year as well as the cost of Health by \$1.6 million (up 8.3%) compared with prior year. Cost of Transportation and commerce also increased by \$3.7 million (or 8.6%) from prior.

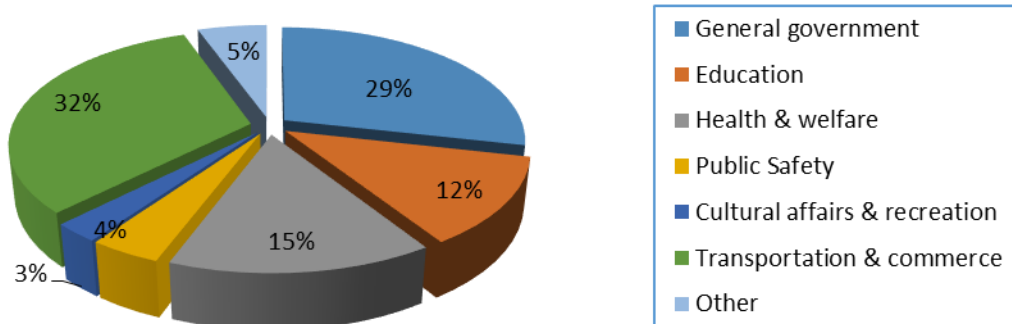
Graphs 3 and 4 below indicate the major component of revenues and cost of governmental activities.

Graph 3
Revenue Sources
For the Year Ended September 30, 2016



Compact funding, local taxes and federal and other grants are the major sources of revenue for the Republic, which comprise over 80% of the total revenues for the current year. The remaining 20% is primarily comprised of various fees and service charges.

Graph 4
Cost of Governmental Activities
For the Year Ended September 30, 2016



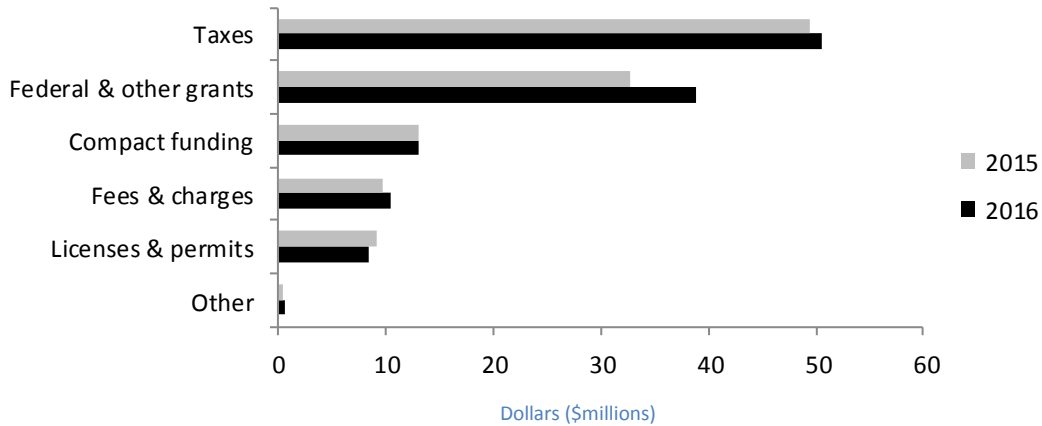
Other expenses that make up a portion of the costs of governmental activities include State government appropriations (\$6.5 million), unallocated depreciation expense (\$0.8 million), and interest expense (\$0.6 million).

REPUBLIC OF PALAU

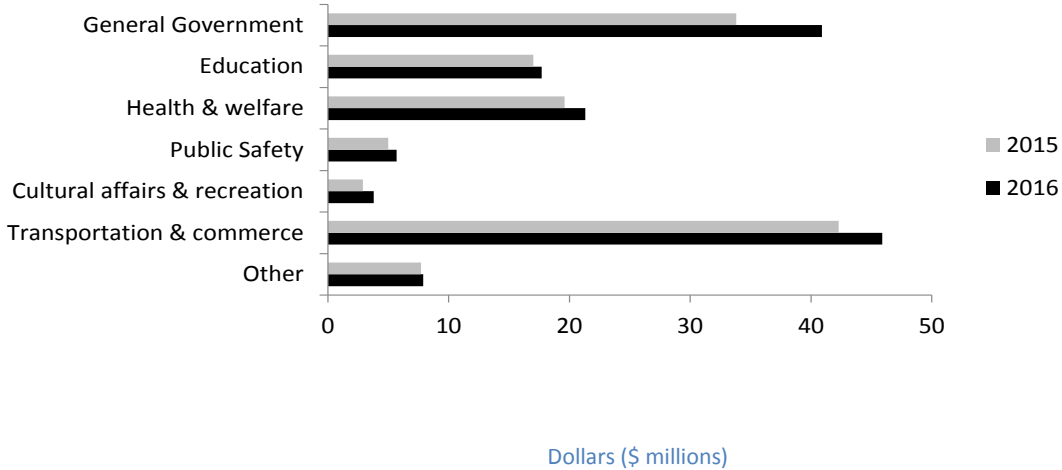
Management’s Discussion and Analysis
Year Ended September 30, 2016

Graphs 5 and 6 below show a comparison of the major components of revenues and cost of governmental activities for fiscal years 2016 and 2015.

Graph 5
Revenue sources
For the Years Ended September 30



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



Other expenses in the current year include State government appropriations of \$6.5 million, which increased by \$0.2 million from the prior year. Overall cost of governmental activities increased by \$14.4 million (up 11.2%) compared to prior fiscal year.

REPUBLIC OF PALAU

Management's Discussion and Analysis
Year Ended September 30, 2016

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 \$251.4 million, which represents an increase of \$39.1 million (or 18.4%) in comparison with the prior year. This increase is primarily attributable to the increase in Compact Trust Fund investments and loan proceeds. Of this total combined fund balance, \$216.8 million is designated as nonspendable and cannot be spent either because it is not in a spendable form or because of legal or contractual constraints; \$3.5 million is designated as restricted and is constrained for specific purposes which are externally imposed; and \$3.6 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 \$27.5 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 \$27.7 million. Total fund balance was \$47.5 million compared with a total fund balance of \$23.6 million at the end of the prior fiscal year.

The Compact Section 211(f) Trust Fund has a total fund balance of \$196.8 million, all of which is restricted for the funding of future operations of the primary government. The net increase in fund balance during the current year in the Compact Section 211(f) Trust Fund was \$13.1 million (or 7.2%), 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 \$19 million.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the course of the fiscal year, budget revisions of \$8 million were made by management and elected officials of the Republic to the General Fund budget. Revenues collected (including other financing sources) of \$90.5 million were higher than budgeted amounts of \$79.8 million due primarily to an increase in local revenue collections and loan proceeds. In addition, charges to appropriations (including other financing uses) of \$74.2 million were lower than budgeted amounts of \$81 million due primarily to expenditures associated with the executive branch and other appropriations of \$38.7 million and \$7.2 million, respectively, which were lower than budgeted amounts of \$43.7 million and \$8.4 million, respectively.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The Republic's investment in capital assets for its governmental activities as of September 30, 2016 amounted to \$443.6 million (including \$33.6 million of land and construction in progress), net of accumulated depreciation of \$300.8 million, leaving a net book value of \$142.8 million. This represents a decrease of \$12.3 million from the amount of \$155.1 reported in the prior year. The Republic's capital assets include machinery and equipment, vehicles, infrastructure, roads, bridges, buildings, land and various projects under construction.

REPUBLIC OF PALAU

Management's Discussion and Analysis
Year Ended September 30, 2016

	Capital Assets September 30, (Net of depreciation)		Total Percentage Change <u>2016-2015</u>
	Governmental Activities <u>2016</u>	Governmental Activities <u>2015</u>	
Buildings and other improvements	\$ 64,495,975	\$ 69,624,010	-7.4%
Machinery and equipment	3,284,421	3,305,542	-0.6%
Vehicles	1,613,087	1,189,483	35.6%
Infrastructure	39,851,585	54,809,533	-27.3%
Land	3,899,403	3,899,403	0.0%
Construction in progress	<u>29,654,393</u>	<u>22,238,641</u>	33.3%
Total	\$ <u>142,798,864</u>	\$ <u>155,066,612</u>	-7.9%

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

- Completion of the following infrastructure projects:

<u>Infrastructure Project</u>	<u>Current Year Additions (\$ millions)</u>	<u>Completed Cost (\$ millions)</u>
Aimeliik-COFA Road	\$ 0.14	\$ 0.14
Aimeliik-Mongami Road	\$ 0.09	\$ 0.09
Koksai-Nekken Road	\$ 0.01	\$ 0.01
Ngerbeched Road	\$ 0.05	\$ 0.05
Melekeok Road	\$ 0.24	\$ 0.24
Ngaraard Road	\$ 0.52	\$ 0.52
Ngarchelong Road	\$ 0.19	\$ 0.19
Ngardmau State Rd	\$ 0.32	\$ 0.32
Ngaremlengui Road	\$ 0.53	\$ 0.53
Ngatpang Road	\$ 0.27	\$ 0.27
Ngchesar Road	\$ 0.19	\$ 0.19
Ngiwal Road	\$ 0.40	\$ 0.40

- Acquisition of the following machinery and equipment:

<u>Machinery & Equipment</u>	<u>Current Year Additions (\$ millions)</u>
Drone, Sense Fly	\$ 0.06
Transformer, 3 Phase	\$ 0.06
Anesthesia Machine	\$ 0.05
Anesthesia Machine	\$ 0.05
Radiography & Fluoroscopy	\$ 0.26
X-Ray, Mobile	\$ 0.19
Endoscopy, Electronic	\$ 0.20

REPUBLIC OF PALAU

Management's Discussion and Analysis
Year Ended September 30, 2016

- Ongoing construction in progress of the following infrastructure projects:

<u>Infrastructure Project</u>	<u>Current Year Additions (\$ millions)</u>	<u>Completed Cost (\$ millions)</u>
PIA Secondary Apron Phase II, Stage 1-A	\$ 3.67	\$ 22.20
Palau International Airport Master Plan	\$ 0.29	\$ 0.55
Melekeok Sewer Pump Improvements	\$ 0.00	\$ 0.52
Rehab Apron Phase II	\$ 3.83	\$ 5.94
Melekeok Waterline-Dispensary	\$ 0.00	\$ 0.14
Capital Archives Building	\$ 0.24	\$ 0.24
BOA Slaughterhouse Building	\$ 0.24	\$ 0.24
New Correctional Facility	\$ 0.16	\$ 0.16

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 ten separate loans with the Mega International Commercial Bank (MICB) and the Asian Development bank (ADB) (See table below). Net long-term debt obligations increased by \$15.3 million (or 60.7%) in the current fiscal year.

	Outstanding Long-term Debt September 30		
	Governmental Activities <u>2016</u>	Governmental Activities <u>2015</u>	Total Percentage Change <u>2016-2015</u>
	Republic of Palau Capitol Building	\$ 4,571,417	\$ 5,714,275
Palau International Airport Repaving	3,885,740	4,342,880	-10.5%
Agriculture & Aquaculture Projects-NDBP	5,000,000	-	100.0%
Palau Housing Projects-PHA	5,000,000	-	100.0%
Water Sector Improvement (Loan #2691)	11,035,510	11,707,422	-5.7%
Water Sector Improvement (Loan # 2692)	3,472,734	3,472,734	0.0%
Koror-Airai Sanitation Loan (Loan #3060)	999,921	-	100.0%
Koror-Airai Sanitation Loan SDR (Loan #3061)	831,435	-	100.0%
North Pacific Regional Connectivity Inv. Loan (Loan # 3346)	3,792,737	-	100.0%
North Pacific Regional Connectivity Inv. Loan (Loan # 3347)	<u>1,962,099</u>	-	100.0%
Total	\$ <u>40,551,593</u>	\$ <u>25,237,311</u>	

During the year ended September 30, 2016, the Republic drew down \$10 million on two MICB loans for the purpose of financing the development of agriculture and aquaculture projects through the National Development Bank of Palau and the development of housing through the Palau District Housing Authority.

REPUBLIC OF PALAU

Management's Discussion and Analysis Year Ended September 30, 2016

In addition, the Republic drew down \$7.6 million on four ADB loans to finance sanitization projects through the Palau Public Utilities Corporation and the connection to the submarine fiber optic cable through the Belau Submarine Cable Corporation.

Additional information on the Republic's long-term debt can be found in note 8 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

In Fiscal Year 2016, Palau's economy grew at 1.6 percent reflecting growth in sustained construction activities. Strong construction activities reflect increased construction and improvements to new and existing hotels and residential units as well as road improvement works. A financing totaling \$10m for agriculture and aquaculture projects and affordable housing development in Babeldaob contributes to the sustained construction and expanded economic activities. These developments, along with the anticipated increase in tourism and related fees, will support continued growth.

Tourist arrivals decreased in FY2016 with 146,634 visitors compared to 166,774 arrivals in FY2015. Tourist arrivals decreased by 13 percent over the previous year with People's Republic of China comprising 48 percent of overall arrivals. The estimated hotel occupancy rate also saw a decrease due to reduced tourist arrivals. Overall tourism revenues decreased by 12.4 percent but the average revenue per visitor and visitor night increased by approximately 4.6 percent in FY2016.

Government revenue saw a 7 percent increase in FY2016. In FY2016, tax collections posted an overall 5 percent increase reflecting anticipated construction activities. Overall, FY2016 expenditures declined slightly because of reduced payments to state owned enterprises. Expenditures on wages and salaries account for 56 percent of the general government operating expenditures.

Following the passage of the minimum wage bill in FY2013, revenues from wages and salaries increased by 13 percent in FY2015 and 21 percent in FY2016. Scheduled increase in the minimum wage and anticipated increases in benefit payments will contribute to sustained growth in consumer spending and tax receipts for the government.

Although revenue collection saw an increase in Fiscal 2016 from previous year the government continues to struggle to balance its budget mainly due to increasing maintenance costs. Additionally, the government has completed some major infrastructure projects that we now have to maintain. The government continues to seek other revenue sources to meet these anticipated costs. New measures have been introduced to try and raise additional revenue, i.e. tax reforms, eliminating import duty exemptions, moving to CIF (cost, insurance, and freight) valuation, and adopting a value-added tax (VAT); however, the proposals have yet to be enacted.

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

REPUBLIC OF PALAU

Management's Discussion and Analysis Year Ended September 30, 2016

Looking beyond Fiscal Year 2016, revenue collections will gradually improve going forward. This can be attributed to the improving global economies as well as improved collections processes by the Bureau of Taxation and Bureau of Customs. Wage gains, tourism, and construction that drove growth in FY2016 are expected to continue in FY2017 and FY2018. Scheduled and planned increases in wages and benefit payments will continue to contribute to consumer spending. Expected expansion of room capacity should support sustained tourism growth. Construction is also expected to perform strongly due to continued construction and improvements to new and existing visitor accommodations, housing developments (subdivision) in Babeldaob, road, sewer-lines and water lines construction. Existing financing to Agriculture and Aquaculture will further encourage commercial activities and increased incomes. The current account deficit is anticipated to continue to narrow with increased tourist arrivals and stable oil import payments.

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, 2016

	<u>Primary Government</u>	<u>Component Units</u>
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 25,244,029	\$ 40,505,411
Investments	3,799,531	-
Receivables, net of allowance for uncollectibles	18,096,696	11,819,265
Inventories	-	8,619,079
Due from primary government	-	1,244,595
Due from component units	820,150	-
Other current assets	1,231,077	311,632
Restricted assets:		
Cash and cash equivalents	3,229,275	-
Time certificates of deposit	-	455,004
Total current assets	<u>52,420,758</u>	<u>62,954,986</u>
Noncurrent assets:		
Investments	-	819,534
Receivables	-	18,364,300
Capital assets:		
Nondepreciable capital assets	33,553,796	6,667,347
Capital assets, net of accumulated depreciation	109,245,068	66,985,288
Indefeasible right to use	-	3,122,200
Foreclosed real estate	-	347,199
Due from component units	15,086,193	-
Other noncurrent assets	1,191,965	51,550
Restricted assets:		
Cash and cash equivalents	-	5,449,441
Investments	200,175,389	4,154,937
Total noncurrent assets	<u>359,252,411</u>	<u>105,961,796</u>
Total assets	<u>411,673,169</u>	<u>168,916,782</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>		
Deferred outflows from pensions	19,574,832	4,458,175
	<u>\$ 431,248,001</u>	<u>\$ 173,374,957</u>
<u>LIABILITIES</u>		
Current liabilities:		
Note payable	\$ 198,142	\$ -
Current portion of long-term obligations	2,324,136	3,004,300
Current portion of compensated absences payable	2,159,715	-
Accounts payable	9,799,630	5,398,071
Contracts payable	1,887,927	945,200
Due to State governments	473,223	-
Due to primary government	-	138,066
Due to fiduciary funds	-	325,469
Due to component units	253,098	-
Accrued payroll and others	2,622,609	1,939,203
Unearned revenue	837,383	1,120,432
Other liabilities	690,961	1,882,195
Income tax refunds	997,357	-
Total current liabilities	<u>22,244,181</u>	<u>14,752,936</u>
Noncurrent liabilities:		
Noncurrent portion of long-term obligations	38,227,457	32,243,489
Compensated absences payable, net of current portion	2,150,383	-
Net pension liability	137,096,288	36,069,816
Due to U.S. Government	3,000,000	-
Due to primary government	-	15,768,277
Due to fiduciary funds	-	2,993,148
Total noncurrent liabilities	<u>180,474,128</u>	<u>87,074,730</u>
Total liabilities	<u>202,718,309</u>	<u>101,827,666</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>		
Deferred inflows from pensions	18,367,890	5,727,241
<u>NET POSITION</u>		
Net investment in capital assets:	134,341,707	42,827,441
Restricted for:		
Future operations	196,761,237	-
Endowment	-	4,253,563
Debt service	-	17,249,555
Compact related	462,165	-
Other purposes	3,667,772	11,512,913
Unrestricted	(125,071,079)	(10,023,422)
Total net position	<u>210,161,802</u>	<u>65,820,050</u>
	<u>\$ 431,248,001</u>	<u>\$ 173,374,957</u>

See accompanying notes to basic financial statements.

REPUBLIC OF PALAU

Statement of Activities
Year Ended September 30, 2016

Functions/Programs	Program Revenues				Net (Expenses) Revenues and Changes in Net Position	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	Component Units
Primary government:						
Governmental activities:						
General government	\$ 40,567,024	\$ 17,862,211	\$ 3,892,266	\$ -	\$ (18,812,547)	\$ -
Education	17,746,030	1,007,024	3,023,733	-	(13,715,273)	-
Health and welfare	21,259,141	4,736,557	5,154,573	-	(11,368,011)	-
Public safety	5,792,686	79,995	8,366	-	(5,704,325)	-
Cultural affairs and recreation	3,788,737	327,199	-	-	(3,461,538)	-
Transportation and commerce	45,939,237	98,793	19,277,668	8,587,503	(17,975,273)	-
State government appropriations	6,503,600	-	-	-	(6,503,600)	-
Depreciation - unallocated	787,173	-	-	-	(787,173)	-
Interest (unallocated)	555,005	-	-	-	(555,005)	-
Total primary government	\$ 142,938,633	\$ 24,111,779	\$ 31,356,606	\$ 8,587,503	(78,882,745)	-
Component units:						
National Development Bank of Palau	\$ 2,240,880	\$ 2,133,028	\$ 1,107,866	\$ -	-	1,000,014
Palau Community College	7,441,884	1,334,777	3,912,306	-	-	(2,194,801)
Palau National Communications Corporation	10,708,491	14,685,309	-	-	-	3,976,818
Palau International Coral Reef Center	1,568,005	396,162	852,639	-	-	(319,204)
Palau Visitors Authority	919,620	42,724	-	-	-	(876,896)
Public Utilities Corporation	24,090,492	23,148,851	1,079,356	1,472,221	-	1,609,936
Palau District Housing Authority	165,177	100,695	-	-	-	(64,482)
Protected Areas Network Fund	1,833,703	-	-	-	-	(1,833,703)
Belau Submarine Cable Corporation	30	-	-	-	-	(30)
Total component units	\$ 48,968,282	\$ 41,841,546	\$ 6,952,167	\$ 1,472,221	-	1,297,652
General revenues:						
Taxes:						
Business gross receipts					14,909,895	-
Salary and wage					10,024,467	-
Alcohol and tobacco					11,045,402	-
Hotel occupancy					5,618,786	-
Travelers head					3,173,450	-
General import					3,000,134	-
Road use					826,449	-
Fuel export					867,163	-
Other					2,539,686	-
Grants and contributions not restricted for specific programs					13,147,000	-
Unrestricted investment earnings					922,392	385,648
Contributions from primary government					-	9,014,008
Other					393,895	-
Total general revenues					66,468,719	9,399,656
Contributions from permanent funds					19,025,438	-
Total general revenues and contributions					85,494,157	9,399,656
Change in net position					6,611,412	10,697,308
Net position at beginning of year, as previously reported					203,550,390	54,694,101
Prior period adjustment (Note 16)					-	428,641
Net position at beginning of year, as restated					203,550,390	55,122,742
Net position at end of year					\$ 210,161,802	\$ 65,820,050

See accompanying notes to basic financial statements.

REPUBLIC OF PALAU

Balance Sheet
Governmental Funds
September 30, 2016

	General	Special Revenue Grants	Permanent Compact Section 211(f)	Other Governmental Funds	Total
ASSETS					
Cash and cash equivalents	\$ 25,244,029	\$ -	\$ -	\$ -	\$ 25,244,029
Investments	3,799,502	-	-	29	3,799,531
Receivables, net:					
Taxes	5,271,995	-	-	-	5,271,995
General	909,164	5,098,600	-	7,658	6,015,422
Federal agencies	-	6,801,668	-	-	6,801,668
Accrued interest	7,611	-	-	-	7,611
Due from component units	15,906,343	-	-	-	15,906,343
Due from other funds	7,671,297	912,218	-	4,674,362	13,257,877
Advances	419,700	350,524	-	4,604	774,828
Prepaid items	190,935	265,314	-	-	456,249
Other assets	1,191,965	-	-	-	1,191,965
Restricted assets:					
Cash and cash equivalents	3,229,275	-	-	-	3,229,275
Investments	-	-	196,761,237	3,414,152	200,175,389
	<u>\$ 63,841,816</u>	<u>\$ 13,428,324</u>	<u>\$ 196,761,237</u>	<u>\$ 8,100,805</u>	<u>\$ 282,132,182</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Note payable	\$ 198,142	\$ -	\$ -	\$ -	\$ 198,142
Accounts payable	5,811,282	2,905,156	-	1,083,192	9,799,630
Contracts payable	-	1,887,927	-	-	1,887,927
Due to State governments	473,223	-	-	-	473,223
Due to component units	253,098	-	-	-	253,098
Due to other funds	5,586,580	7,669,625	-	1,672	13,257,877
Accrued payroll and others	2,360,559	-	-	3,008	2,363,567
Other liabilities	497,607	193,354	-	-	690,961
Unearned revenues	180,453	656,930	-	-	837,383
Income tax refunds	997,357	-	-	-	997,357
Total liabilities	<u>16,358,301</u>	<u>13,312,992</u>	<u>-</u>	<u>1,087,872</u>	<u>30,759,165</u>
Fund balances:					
Nonspendable	19,782,853	265,314	196,761,237	-	216,809,404
Restricted	-	-	-	3,462,165	3,462,165
Committed	-	-	-	3,552,440	3,552,440
Unassigned:					
General fund	27,700,662	-	-	-	27,700,662
Special revenue funds	-	(149,982)	-	(1,672)	(151,654)
Total fund balances	<u>47,483,515</u>	<u>115,332</u>	<u>196,761,237</u>	<u>7,012,933</u>	<u>251,373,017</u>
	<u>\$ 63,841,816</u>	<u>\$ 13,428,324</u>	<u>\$ 196,761,237</u>	<u>\$ 8,100,805</u>	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	142,798,864
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	(40,551,593)
Compensated absences	(4,310,098)
Accrued interest payable	(259,042)
Net pension liability	(137,096,288)
Due to U.S. Government	<u>(3,000,000)</u>
	(185,217,021)
Deferred outflows of resources are charged to future periods and are not reported in the funds. Those deferred outflows consist of deferred outflows on the net pension liability	19,574,832
Deferred inflows of resources benefit future periods and are not reported in the funds. Those deferred inflows consist of deferred inflows on the net pension liability	<u>(18,367,890)</u>
Net position of governmental activities	<u>\$ 210,161,802</u>

See accompanying notes to basic financial statements.

REPUBLIC OF PALAU

Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended September 30, 2016

	Special Revenue		Permanent	Other Governmental Funds	Total
	General	Grants	Compact Section 211(f)		
Revenues:					
Taxes	\$ 50,478,687	\$ -	\$ -	\$ 1,526,745	\$ 52,005,432
Federal and other grants	-	31,356,606	-	-	31,356,606
Compact funding	13,147,000	-	-	-	13,147,000
Net change in the fair value of investments	503,760	-	19,025,439	418,631	19,947,830
Fees and charges	10,404,720	-	-	5,196,727	15,601,447
Licenses and permits	8,452,452	-	-	57,880	8,510,332
Other	393,895	-	-	-	393,895
Total revenues	83,380,514	31,356,606	19,025,439	7,199,983	140,962,542
Expenditures:					
Current:					
Judicial Branch	2,780,886	-	-	-	2,780,886
Legislative Branch	5,358,382	-	-	-	5,358,382
Office of the President	1,260,928	1,969,077	-	-	3,230,005
Office of the Vice-President	410,509	3,567	-	-	414,076
Ministry of Finance	3,438,912	480,622	-	-	3,919,534
Ministry of State	2,970,769	470,349	-	14,615	3,455,733
Ministry of Community and Cultural Affairs	1,316,486	-	-	-	1,316,486
Ministry of Education	7,679,493	3,023,733	-	-	10,703,226
Ministry of Public Infrastructure, Industry and Commerce	5,432,003	64,616	-	102,872	5,599,491
Ministry of Justice	5,299,392	8,366	-	43,015	5,350,773
Ministry of Health	9,781,523	5,154,573	-	4,896,439	19,832,535
Ministry of Natural Resources, Environment and Tourism	1,617,232	50,350	-	84,340	1,751,922
Boards, Commissions, and Authorities	984,401	-	-	-	984,401
State Block Grants	6,503,600	-	-	-	6,503,600
Independent Agencies	2,501,496	249,275	-	9,743	2,760,514
Other Agencies and Activities	7,542,438	-	-	-	7,542,438
Education assistance	6,016,137	-	-	-	6,016,137
Water and Sewer Operation	3,403,500	-	-	-	3,403,500
Financial and Compliance Audit	-	522,210	-	-	522,210
Severe Drought Relief	1,648,363	-	-	-	1,648,363
Investment management fees	-	-	1,146,927	20,802	1,167,729
Health Care Fund Contributions	515,185	-	-	-	515,185
Government base salary increase	953,931	-	-	-	953,931
Belau Sumbarine Cable	305,000	-	-	-	305,000
Twelfth Festival of Pacific Arts	315,225	-	-	-	315,225
Other	75,000	79,951	-	-	154,951
Capital projects	1,091,423	19,124,180	-	-	20,215,603
Debt service:					
Principal retirement	2,271,911	-	-	-	2,271,911
Interest	448,604	-	-	-	448,604
Total expenditures	81,922,729	31,200,869	1,146,927	5,171,826	119,442,351
Excess of revenues over expenditures	1,457,785	155,737	17,878,512	2,028,157	21,520,191
Other financing sources (uses):					
Loan proceeds	17,586,193	-	-	-	17,586,193
Operating transfers in	5,346,092	254,539	252,285	-	5,852,916
Operating transfers out	(506,824)	(309,797)	(5,000,000)	(36,295)	(5,852,916)
Total other financing sources (uses), net	22,425,461	(55,258)	(4,747,715)	(36,295)	17,586,193
Net change in fund balances	23,883,246	100,479	13,130,797	1,991,862	39,106,384
Fund balances at beginning of year	23,600,269	14,853	183,630,440	5,021,071	212,266,633
Fund balances at end of year	\$ 47,483,515	\$ 115,332	\$ 196,761,237	\$ 7,012,933	\$ 251,373,017

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, 2016

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 \$ 39,106,384

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	\$ 13,150,522	
Depreciation expense, net	<u>(26,263,708)</u>	(12,267,748)

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:

Proceeds from MICB loans	\$ (10,000,000)	
Proceeds from ADB loans	(7,586,193)	
Repayment of MICB loans	1,599,998	
Repayment of ADB loan	<u>671,913</u>	(15,314,282)

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

Change in compensated absences payable	\$ (294,705)	
Change in accrued interest payable	(106,401)	
Net pension activity	<u>(4,511,836)</u>	(4,912,942)

Change in net position of governmental activities. \$ 6,611,412

See accompanying notes to basic financial statements.

REPUBLIC OF PALAU

Statement of Fiduciary Net Position Fiduciary Funds September 30, 2016

	<u>Private Purpose Trust</u>	<u>Pension (and Other Employee Benefit) Trust</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 1,784,589	\$ 616,040	\$ 2,400,629
Time certificates of deposit	-	1,965,899	1,965,899
Receivables, net:			
Contributions	4,179,909	193,687	4,373,596
Accrued interest and dividends	286,654	-	286,654
Other	695,585	206	695,791
Investments	99,039,334	27,441,250	126,480,584
Due from component units	3,318,617	-	3,318,617
Prepaid items	11,498	-	11,498
Capital assets, net	113,863	9,953	123,816
Total assets	<u>109,430,049</u>	<u>30,227,035</u>	<u>139,657,084</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			
Deferred outflows from pensions	<u>350,777</u>	<u>176,552</u>	<u>527,329</u>
	<u>\$ 109,780,826</u>	<u>\$ 30,403,587</u>	<u>\$ 140,184,413</u>
<u>LIABILITIES</u>			
Benefits payable	\$ 1,434,271	\$ -	\$ 1,434,271
Other liabilities and accruals	168,470	27,332	195,802
Net pension liability	<u>2,625,302</u>	<u>767,603</u>	<u>3,392,905</u>
Total liabilities	<u>4,228,043</u>	<u>794,935</u>	<u>5,022,978</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Deferred inflows from pensions	<u>279,243</u>	<u>187,339</u>	<u>466,582</u>
<u>NET POSITION</u>			
Held in trust for:			
Social security benefits	105,273,540	-	105,273,540
Pension benefits	<u>-</u>	<u>29,421,313</u>	<u>29,421,313</u>
Total net position	<u>105,273,540</u>	<u>29,421,313</u>	<u>134,694,853</u>
	<u>\$ 109,780,826</u>	<u>\$ 30,403,587</u>	<u>\$ 140,184,413</u>

See accompanying notes to basic financial statements.

REPUBLIC OF PALAU

Statement of Changes in Fiduciary Net Position
Fiduciary Funds
Year Ended September 30, 2016

	Private Purpose Trust	Pension (and Other Employee Benefit) Trust	Total
Additions:			
Contributions:			
Government employees	\$ 10,557,170	\$ -	\$ 10,557,170
Private employees	11,234,956	-	11,234,956
Employer contributions	-	3,177,790	3,177,790
Plan member contributions	247,820	3,149,619	3,397,439
Penalties and interest	459,072	-	459,072
Other	-	-	-
	22,499,018	6,327,409	28,826,427
Allowance for doubtful accounts	(223,283)	-	(223,283)
Total contributions	22,275,735	6,327,409	28,603,144
Investment income:			
Net change in the fair value of investments	5,311,647	1,900,212	7,211,859
Interest and dividends	1,307,036	632,199	1,939,235
Total investment income	6,618,683	2,532,411	9,151,094
Less investment expense	167,142	195,005	362,147
Net investment income	6,451,541	2,337,406	8,788,947
Recovery	-	2,000,000	2,000,000
Other	228,927	574,145	803,072
Total additions	28,956,203	11,238,960	40,195,163
Deductions:			
Benefits	23,027,111	9,506,766	32,533,877
General and administrative	1,615,354	426,021	2,041,375
Total deductions	24,642,465	9,932,787	34,575,252
Change in net position held in trust for:			
Social security benefits	4,313,738	-	4,313,738
Pension benefits	-	1,306,173	1,306,173
	4,313,738	1,306,173	5,619,911
Transfer from primary government	1,930,650	-	1,930,650
Changed in fiduciary net position	6,244,388	1,306,173	7,550,561
Net position at beginning of year	99,029,152	28,115,140	127,144,292
Net position at end of year	\$ 105,273,540	\$ 29,421,313	\$ 134,694,853

See accompanying notes to basic financial statements.

REPUBLIC OF PALAU

Combining Statement of Net Position
Component Units
September 30, 2016

	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	Belau Submarine Cable Corporation	Total
Assets										
Current assets:										
Cash and cash equivalents	\$ 14,049,504	\$ 306,017	\$ 3,025,758	\$ 1,124,797	\$ 78,210	\$ 15,423,579	\$ 3,193,179	\$ 3,028,269	\$ 276,098	\$ 40,505,411
Restricted time certificates of deposit	455,004	-	-	-	-	-	-	-	-	455,004
Receivables, net	2,269,825	2,549,522	951,696	302,367	18,770	3,123,248	2,603,837	-	-	11,819,265
Inventories	415,326	348,511	253,259	73,039	-	7,528,944	-	-	-	8,619,079
Due from primary government	-	352,348	-	-	222,343	669,904	-	-	-	1,244,595
Prepaid expenses and other	29,922	-	25,472	9,222	9,185	234,077	-	3,754	-	311,632
Total current assets	17,219,581	3,556,398	4,256,185	1,509,425	328,508	26,979,752	5,797,016	3,032,023	276,098	62,954,986
Noncurrent assets:										
Investments	-	-	612,313	207,221	-	-	-	-	-	819,534
Receivables	16,020,780	-	-	-	-	194,865	2,148,655	-	-	18,364,300
Capital assets:										
Nondepreciable capital assets	-	-	983,842	100,000	-	2,909,003	-	-	2,674,502	6,667,347
Capital assets, net of accumulated depreciation	623,208	1,370,782	17,205,896	1,963,031	76,946	45,721,048	11,787	12,590	-	66,985,288
Indefeasible right of use	-	-	-	-	-	-	-	-	3,122,200	3,122,200
Foreclosed real estate	347,199	-	-	-	-	-	-	-	-	347,199
Other noncurrent assets	-	-	51,550	-	-	-	-	-	-	51,550
Restricted assets:										
Cash and cash equivalents	50,227	1,582,878	3,816,336	-	-	-	-	-	-	5,449,441
Investments	-	4,154,937	-	-	-	-	-	-	-	4,154,937
Total noncurrent assets	17,041,414	7,108,597	22,669,937	2,270,252	76,946	48,824,916	2,160,442	12,590	5,796,702	105,961,796
Total assets	34,260,995	10,664,995	26,926,122	3,779,677	405,454	75,804,668	7,957,458	3,044,613	6,072,800	168,916,782
Deferred Outflows of Resources										
Deferred outflows from pensions	198,993	1,207,473	763,471	187,679	84,089	1,974,584	41,886	-	-	4,458,175
	\$ 34,459,988	\$ 11,872,468	\$ 27,689,593	\$ 3,967,356	\$ 489,543	\$ 77,779,252	\$ 7,999,344	\$ 3,044,613	\$ 6,072,800	\$ 173,374,957
Liabilities										
Current liabilities:										
Current portion of long-term debt	\$ 655,423	\$ -	\$ 1,776,834	\$ -	\$ -	\$ 572,043	\$ -	\$ -	\$ -	\$ 3,004,300
Accounts payable	474,563	338,016	321,571	60,176	84,034	4,119,711	-	-	-	5,398,071
Contract payable	-	-	945,200	-	-	-	-	-	-	945,200
Due to primary government	138,066	-	-	-	-	-	-	-	-	138,066
Due to fiduciary funds	325,469	-	-	-	-	-	-	-	-	325,469
Accrued payroll and others	-	648,989	434,482	79,168	39,996	725,392	6,751	4,425	-	1,939,203
Unearned revenues	128,175	413,187	7,797	-	-	571,273	-	-	-	1,120,432
Other liabilities	67,957	-	590,189	-	-	1,111,059	-	100,000	12,990	1,882,195
Total current liabilities	1,789,653	1,400,192	4,076,073	139,344	124,030	7,099,478	6,751	104,425	12,990	14,752,936
Noncurrent liabilities:										
Long-term debt, net of current portion	3,639,028	-	20,242,539	-	-	5,861,922	2,500,000	-	-	32,243,489
Net pension liability	1,630,006	11,064,282	7,015,927	1,565,921	785,542	13,674,468	333,670	-	-	36,069,816
Due to primary government	5,682,085	-	-	-	-	1,831,355	2,500,000	-	5,754,837	15,768,277
Due to fiduciary funds	2,993,148	-	-	-	-	-	-	-	-	2,993,148
Total noncurrent liabilities	13,944,267	11,064,282	27,258,466	1,565,921	785,542	21,367,745	5,333,670	-	5,754,837	87,074,730
Total liabilities	15,733,920	12,464,474	31,334,539	1,705,265	909,572	28,467,223	5,340,421	104,425	5,767,827	101,827,666
Deferred Inflows of Resources										
Deferred inflows from pensions	236,574	1,206,588	1,470,707	374,629	190,108	2,211,381	37,254	-	-	5,727,241
Net Position										
Net position:										
Net investment in capital assets	623,208	1,370,782	(3,829,635)	2,063,031	76,946	42,469,857	11,787	12,590	28,875	42,827,441
Restricted:										
Endowment	-	4,253,563	-	-	-	-	-	-	-	4,253,563
Debt service	13,433,219	-	3,816,336	-	-	-	-	-	-	17,249,555
Other purposes	4,433,067	1,522,265	-	289,994	-	-	2,339,989	2,927,598	-	11,512,913
Unrestricted	-	(8,945,204)	(5,102,354)	(465,563)	(687,083)	4,630,791	269,893	-	276,098	(10,023,422)
Total net position	18,489,494	(1,798,594)	(5,115,653)	1,887,462	(610,137)	47,100,648	2,621,669	2,940,188	304,973	65,820,050
	\$ 34,459,988	\$ 11,872,468	\$ 27,689,593	\$ 3,967,356	\$ 489,543	\$ 77,779,252	\$ 7,999,344	\$ 3,044,613	\$ 6,072,800	\$ 173,374,957

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, 2016

	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	Belau Submarine Cable Corporation	Total
Operating revenues:										
Charges for services	\$ 1,587,143	\$ 1,018,995	\$ 14,544,373	\$ 389,189	\$ -	\$ 22,121,925	\$ 88,863	\$ -	\$ -	\$39,750,488
Grants and contributions	-	3,912,306	-	852,639	-	-	-	-	-	4,764,945
Other	545,885	315,782	140,936	6,973	42,724	1,026,926	11,832	-	-	2,091,058
Total operating revenues	2,133,028	5,247,083	14,685,309	1,248,801	42,724	23,148,851	100,695	-	-	46,606,491
Operating expenses:										
Cost of services	-	5,030,872	5,494,416	-	-	17,807,337	-	1,512,076	-	29,844,701
Depreciation	36,953	331,972	2,360,130	265,703	21,258	4,425,371	2,576	4,149	-	7,448,112
Administration costs	905,308	2,049,836	1,495,029	1,288,057	898,362	1,748,036	164,251	321,254	-	8,870,133
Total operating expenses	942,261	7,412,680	9,349,575	1,553,760	919,620	23,980,744	166,827	1,837,479	-	46,162,946
Operating income (loss)	1,190,767	(2,165,597)	5,335,734	(304,959)	(876,896)	(831,893)	(66,132)	(1,837,479)	-	443,545
Nonoperating revenues (expenses):										
Contributions from primary government	-	2,548,515	-	400,000	920,000	2,762,993	70,000	2,007,500	305,000	9,014,008
Net change in the fair value of investments	-	345,512	12,026	12,768	-	-	-	-	-	370,306
Interest income	10,765	-	-	-	-	3,719	855	-	3	15,342
Grant revenues	1,107,866	-	-	-	-	1,079,356	-	-	-	2,187,222
Interest expense	(394,970)	-	(1,150,333)	-	-	(353,445)	-	-	-	(1,898,748)
Other, net	(903,649)	(29,204)	(208,583)	(14,245)	-	243,697	1,650	3,776	(30)	(906,588)
Total nonoperating revenues (expenses), net	(179,988)	2,864,823	(1,346,890)	398,523	920,000	3,736,320	72,505	2,011,276	304,973	8,781,542
Capital contributions	-	-	-	-	-	1,472,221	-	-	-	1,472,221
Change in net position	1,010,779	699,226	3,988,844	93,564	43,104	4,376,648	6,373	173,797	304,973	10,697,308
Net position at beginning of year, as previously reported	17,050,074	(2,497,820)	(9,104,497)	1,793,898	(653,241)	42,724,000	2,615,296	2,766,391	-	54,694,101
Prior period adjustment (Note 16)	428,641	-	-	-	-	-	-	-	-	428,641
Net position at beginning of year, as restated	17,478,715	(2,497,820)	(9,104,497)	1,793,898	(653,241)	42,724,000	2,615,296	2,766,391	-	55,122,742
Net position at end of year	\$18,489,494	\$(1,798,594)	\$(5,115,653)	\$1,887,462	\$(610,137)	\$47,100,648	\$2,621,669	\$2,940,188	\$304,973	\$65,820,050

See accompanying notes to basic financial statements.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2016

(1) Summary of Significant Accounting Policies

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

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

A. Reporting Entity

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

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

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

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

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2016

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

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

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

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2016

(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.
- 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.
- Palau Public Utilities Corporation (PPUC): PPUC 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 PPUC 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 PPUC. The Republic has the ability to impose its will on PPUC.
- 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.
- Belau Submarine Cable Corporation (BSCC): BSCC was created on September 15, 2015, under the provisions of Republic of Palau Public Law (RPPL) 9-47. The law created a wholly-owned government corporation governed 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 BSCC is to procure, own and manage a fiber optic cable on behalf of the Republic. The Republic has the ability to impose its will on BSCC

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2016

(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 OEK. 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 OEK.

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

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

B. Government-Wide Financial Statements

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

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2016

(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 deferred outflows of resources, and liabilities and deferred inflows of resources with the difference reported as net position. Net position is reported in three categories:

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

The government-wide Statement of Net Position reports \$200,891,174 of restricted net position, of which \$3,667,772 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.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2016

(1) Summary of Significant Accounting Policies, Continued

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.

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. 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.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2016

(1) Summary of Significant Accounting Policies, Continued

D. Measurement Focus and Basis of Accounting, Continued

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.

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

Fund Accounting:

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

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

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

In addition, the Republic reports the following fiduciary funds:

- Private Purpose Trust Fund - this fund accounts for resources held in trust by the Republic of Palau Social Security Retirement Fund under which principal and income benefit certain individuals.
- Pension (and Other Employee Benefit) Trust Fund - this fund accounts for resources held in trust by the Republic of Palau Civil Service Pension Trust Fund for members and beneficiaries of the Republic's pension plan.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2016

(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 of the primary government and the discretely presented component units are recorded at fair value using quoted market prices. Fair value is the price that would be received to sell an asset or paid to transfer a liability (i.e., the exit price) in an orderly transaction between market participants at the date as of which the fair value of an asset or liability is determined.

The Republic categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. In certain instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy is based on the lowest level of input that is significant to the fair measurement. Investments not categorized under the fair value hierarchy are shown at either Net Asset Value (NAV) or amortized cost.

G. Receivables

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

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

H. Inventories

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

I. Prepaid Items

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

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2016

(1) Summary of Significant Accounting Policies, Continued

J. Other Assets

The Republic holds approximately 11% of the shares of the United Micronesia Development Association, Inc. (UMDA) in the amount of \$1,191,965. This equity interest does not meet the definition of an investment as the asset is held primarily for economic development and is presented as other assets in the accompanying financial statements.

K. 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.

L. 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.

M. 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, 2016.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2016

(1) Summary of Significant Accounting Policies, Continued

M. Capital Assets, Continued

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

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

N. 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 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.

O. 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.

P. 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.

Q. 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.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2016

(1) Summary of Significant Accounting Policies, Continued

R. Pensions

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

S. 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 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.

T. Fund Equity

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

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

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2016

(1) Summary of Significant Accounting Policies, Continued

T. Fund Equity, Continued

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.

U. 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.

V. New Accounting Standards

During fiscal year 2016, the Republic implemented the following pronouncements:

- GASB Statement No. 72, *Fair Value Measurement and Application*, which addresses accounting and financial reporting issues related to fair value measurements and requires entities to expand their fair value disclosures by determining major categories of debt and equity securities within the fair value hierarchy on the basis of the nature and risk of the investment. The implementation of this statement required additional disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques.
- GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which eliminates two of the four categories of authoritative GAAP that exist under the existing hierarchy prescribed by Statement No. 55. The two categories that will remain under the new standard are (1) GASB Statements and (2) GASB technical bulletins and implementation guides in addition to AICPA guidance that the GASB clears. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, addresses for certain external investment pools and their participants the accounting and financial reporting implications that result from changes in the regulatory provisions referenced by previous accounting and financial reporting standards. Those provisions were based on the Investment Company Act of 1940, Rule 2a7. Rule 2a7 contains the Securities and Exchange Commission's regulations that apply to money market funds and were significantly amended in 2014. The implementation of this statement did not have a material effect on the accompanying financial statements.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2016

(1) Summary of Significant Accounting Policies, Continued

V. New Accounting Standards, Continued

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

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended*, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and addresses financial reporting requirements for governments whose employees are provided with postemployment benefits other than pensions (other postemployment benefits or OPEB). The provisions in Statement No. 74 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended*, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. The provisions in Statement No. 75 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

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

In December 2015, GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, which addresses a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The provisions in Statement No. 78 are effective for fiscal years beginning after December 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14*, which improves financial reporting by clarifying the financial statement presentation requirements for certain component units. The provisions in Statement No. 80 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2016

(1) Summary of Significant Accounting Policies, Continued

V. New Accounting Standards, Continued

In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*, which improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The provisions in Statement No. 81 are effective for fiscal years beginning after December 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In March 2016, GASB issued Statement No. 82, Pension Issues - an amendment of *GASB Statements No. 67, No. 68, and No. 73*, which addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The provisions in Statement No. 82 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

W. Encumbrances

The Republic utilizes encumbrance accounting to identify fund obligations. Encumbrances represent commitments related to unperformed contracts for goods. At September 30, 2016, the Republic has significant encumbrances summarized as follows:

<u>General</u>	<u>Grants</u>	<u>Compact Section 211(f)</u>	<u>Other Governmental</u>	<u>Total</u>
\$ <u>2,070,275</u>	\$ <u>10,548,851</u>	\$ <u>-</u>	\$ <u>884,655</u>	\$ <u>13,503,781</u>

X. Estimates

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

Y. 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, 2015 from which summarized information was derived.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2016

(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 Republic and the U.S. Government in September 2010. The rate was based upon modeling that employed the assumption that future real returns will approximate the long-run rates of return experienced for various asset class.

The investment objective of the Fund is to strive for positive real rates of return (note: the U.S. Consumer Price Index will be used when determining the real rate of returns).

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

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2016

(2) Deposits and Investments, Continued

Asset class	Lower <u>limit</u>	Strategic <u>Allocation</u>	Upper <u>limit</u>
U.S. Equities	28%	38%	48%
Large Cap Value		8%	
Large Cap Core		8%	
Large Cap Growth		8%	
Small/Mid Cap Core		14%	
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		3%	
Master Limited Partnership		3%	
Real Estate		6%	
Private Equity		6%	

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

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

A. Deposits

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

As of September 30, 2016, the carrying amount of the primary government's total cash and cash equivalents was \$28,473,304 and the corresponding bank balances were \$29,957,285. Of the bank balances, \$29,946,120 is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2016, bank deposits in the amount of \$500,000 were FDIC insured. The remaining bank deposits of \$11,165 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, 2016, the carrying amount of the fiduciary fund's total cash and cash equivalents and time certificates of deposit was \$4,366,528 and the corresponding bank balances were \$2,557,608, which are maintained in financial institutions subject to FDIC insurance. As of September 30, 2016, 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.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2016

(2) Deposits and Investments, Continued

A. Deposits, Continued

As of September 30, 2016, the carrying amount in the aggregate of the discretely presented component units' total cash and cash equivalents and time certificates of deposit was \$46,409,856 and the corresponding bank balances were \$46,907,747, which are maintained in financial institutions subject to FDIC insurance or held and administered by investment managers subject to Securities Investor Protection Corporation (SIPC) insurance. As of September 30, 2016, bank deposits in the amount of \$4,138,878 were FDIC or SIPC insured. The component units do not require collateralization of their cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

B. Investments

Primary Government

As of September 30, 2016, investments of the primary government are as follows:

General Fund:	
Fixed income	\$ 725,470
Equities	2,959,528
Money market funds	<u>114,504</u>
	<u>3,799,502</u>
Compact Section 211(f) Trust Fund:	
Fixed income	42,231,186
Equities	123,950,711
Real estate and tangibles	15,072,126
Alternatives	8,546,800
Money market funds	<u>6,960,414</u>
	<u>196,761,237</u>
Nonmajor Governmental Funds:	
Fixed income	679,471
Equities	2,650,047
Money market funds	<u>84,663</u>
	<u>3,414,181</u>
	\$ <u>203,974,920</u>

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, 2016.

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.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2016

(2) Deposits and Investments, Continued

B. Investments, Continued

Primary Government, Continued

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, 2016, there were no investments in any one issuer that exceeded 5% of total investments.

As of September 30, 2016, investments in debt securities for the General Fund were as follows:

<u>Investment Type</u>	<u>Fair value</u>	<u>Investment Maturities (In Years)</u>				<u>Credit Ratings</u>
		<u>Less than 1 year</u>	<u>1 - 5 years</u>	<u>6 - 10 years</u>	<u>More than 10 years</u>	
Treasury Securities	\$ 228,123	\$ 5,015	\$ -	\$ 197,316	\$ 25,792	AAA
Federal Agencies	110,299	30,137	80,162	-	-	AA+
Corporate Bonds	10,236	-	-	10,236	-	A+
Corporate Bonds	100,781	-	10,044	64,705	26,032	A
Corporate Bonds	22,215	-	-	10,376	11,839	AA-
Corporate Bonds	54,435	-	11,050	43,385	-	A-
Corporate Bonds	43,419	-	32,279	11,140	-	BBB+
Corporate Bonds	115,827	-	10,590	105,237	-	BBB
Corporate Bonds	30,590	-	10,013	10,481	10,096	BBB-
Corporate Bonds	<u>9,545</u>	<u>-</u>	<u>-</u>	<u>9,545</u>	<u>-</u>	BB+
	<u>\$ 725,470</u>	<u>\$ 35,152</u>	<u>\$ 154,138</u>	<u>\$ 462,421</u>	<u>\$ 73,759</u>	

As of September 30, 2016, investments in debt securities for the nonmajor governmental funds were as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (In Years)</u>				<u>Credit Rating</u>
		<u>Less than 1 year</u>	<u>1 - 5 Years</u>	<u>6 - 10 years</u>	<u>More than 10 years</u>	
Treasury Securities	\$ 192,149	\$ -	\$ -	\$ 166,358	\$ 25,791	AAA
Federal Agencies	100,273	30,137	70,136	-	-	AA+
Corporate Bonds	10,236	-	-	10,236	-	A+
Corporate Bonds	100,781	-	10,044	64,705	26,032	A
Corporate Bonds	22,215	-	-	10,376	11,839	AA-
Corporate Bonds	54,435	-	11,050	43,385	-	A-
Corporate Bonds	43,420	-	32,279	11,141	-	BBB+
Corporate Bonds	115,827	-	10,590	105,237	-	BBB
Corporate Bonds	30,590	-	10,013	10,481	10,096	BBB-
Corporate Bonds	<u>9,545</u>	<u>-</u>	<u>-</u>	<u>9,545</u>	<u>-</u>	BB+
	<u>\$ 679,471</u>	<u>\$ 30,137</u>	<u>\$ 144,112</u>	<u>\$ 431,464</u>	<u>\$ 73,758</u>	

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2016

(2) Deposits and Investments, Continued

B. Investments, Continued

Primary Government, Continued

As of September 30, 2016, investments in debt securities for the Compact Section 211(f) Trust Fund were as follows:

Investment Type	Fair Value	Investment Maturities (In Years)				Credit Ratings
		Less than 1 year	1 - 5 years	6 - 10 years	More than 10 years	
Treasury Securities	\$ 4,675,760	\$ 100,250	\$ 1,772,814	\$ 2,368,060	\$ 434,636	AA+
Municipal Bonds	349,721	-	203,014	146,707	-	AAA
Municipal Bonds	618,597	250,338	244,294	-	123,965	AA+
Municipal Bonds	55,403	-	-	55,403	-	AA
Municipal Bonds	291,806	140,465	151,341	-	-	A+
Municipal Bonds	548,744	-	-	548,744	-	None
Federal Agencies	7,712,016	1,437,919	5,109,382	620,986	543,729	AA+
Asset-backed Security	285,785	101,176	-	-	184,609	AA+
Asset-backed Security	4,498,481	-	35,429	1,533,031	2,930,021	Not Rated
Corporate Bonds	613,242	-	56,140	109,796	447,306	AAA
Corporate Bonds	178,176	-	-	178,176	-	AA+
Corporate Bonds	797,266	-	100,477	257,510	439,279	AA
Corporate Bonds	1,441,187	-	549,117	452,645	439,425	AA-
Corporate Bonds	706,614	44,928	434,603	227,083	-	A+
Corporate Bonds	1,173,603	100,092	91,698	591,034	390,779	A
Corporate Bonds	2,690,351	59,930	634,803	1,826,822	168,796	A-
Corporate Bonds	1,724,823	117,010	143,285	1,464,528	-	BBB+
Corporate Bonds	860,344	-	55,758	582,335	222,251	BBB
Corporate Bonds	455,000	-	274,998	180,002	-	BBB-
Corporate Bonds	1,134,343	-	536,817	597,526	-	BB+
Corporate Bonds	1,338,204	-	937,916	400,288	-	BB
Corporate Bonds	1,894,385	71,798	829,534	993,053	-	BB-
Corporate Bonds	652,374	-	328,424	323,950	-	B+
Corporate Bonds	394,725	-	287,850	106,875	-	B
Corporate Bonds	160,875	-	84,600	76,275	-	B-
Corporate Bonds	477,755	-	217,136	260,619	-	None
Corporate Bonds	941,400	-	325,651	615,749	-	Not Rated
International	<u>5,560,206</u>	<u>5,560,206</u>	-	-	-	Not Rated
	<u>\$ 42,231,186</u>	<u>\$ 7,984,112</u>	<u>\$ 13,405,081</u>	<u>\$ 14,517,197</u>	<u>\$ 6,324,796</u>	

Investments of the primary government have the following recurring fair value measurements as of September 30, 2016:

General Fund:

	Total	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Investments by fair value level:				
Fixed income:				
U.S. Treasury securities	\$ 228,123	\$ -	\$ 228,123	\$ -
U.S. Government Agencies	110,300	-	110,300	-
Corporate bonds	<u>387,047</u>	<u>-</u>	<u>387,047</u>	<u>-</u>
	725,470	-	725,470	-
Equity securities:				
U.S. equities	<u>2,959,528</u>	<u>2,959,528</u>	<u>-</u>	<u>-</u>
Total investments by fair value level	3,684,998	\$ <u>2,959,528</u>	\$ <u>725,470</u>	\$ <u>-</u>

Investments measured at amortized cost:

Cash management account	<u>114,504</u>
	<u>\$ 3,799,502</u>

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2016

(2) Deposits and Investments, Continued

B. Investments, Continued

Primary Government, Continued

Nonmajor Governmental Funds:

	<u>Fair Value Measurements Using</u>			
<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Investments by fair value level:				
Fixed income:				
U.S. Treasury securities	\$ 192,149	\$ -	\$ 192,149	\$ -
U.S. Government Agencies	100,273	-	100,273	-
Corporate bonds	<u>387,049</u>	<u>-</u>	<u>387,049</u>	<u>-</u>
	679,471	-	679,471	-
Equity securities:				
U.S. equities	<u>2,650,047</u>	<u>2,650,047</u>	<u>-</u>	<u>-</u>
Total investments by fair value level	3,329,518	\$ <u>2,650,047</u>	\$ <u>679,471</u>	\$ <u>-</u>
Investments measured at amortized cost:				
Cash management account	<u>84,663</u>			
	<u>\$ 3,414,181</u>			

Compact Section 211(f) Trust Fund:

	<u>Fair Value Measurements Using</u>			
<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Investments by fair value level:				
Fixed income:				
U.S. Treasury obligations	\$ 4,675,760	\$ -	\$ 4,675,760	\$ -
U.S. Government Agencies	7,712,016	-	7,712,016	-
Asset-backed Securities	4,784,266	-	4,784,266	-
Municipal obligations	1,864,271	-	1,864,271	-
International Equity	5,560,206	5,560,206	-	-
Corporate notes	<u>17,634,667</u>	<u>-</u>	<u>17,634,667</u>	<u>-</u>
	42,231,186	5,560,206	36,670,980	-
Equity securities:				
U.S. equities	73,815,296	73,815,296	-	-
Non-US Equities	50,135,415	50,135,415	-	-
Real Estate and tangibles	<u>15,072,126</u>	<u>-</u>	<u>-</u>	<u>15,072,126</u>
Total investments at fair value	181,254,023	\$ <u>129,510,917</u>	\$ <u>36,670,980</u>	\$ <u>15,072,126</u>
Investments measured at NAV:				
Alternatives	8,546,800			
Investments measured at amortized cost:				
Cash management account	<u>6,960,414</u>			
	<u>\$ 196,761,237</u>			

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2016

(2) Deposits and Investments, Continued

B. Investments, Continued

Fiduciary Funds

Republic of Palau Social Security Retirement Fund:

As of September 30, 2016, investments of the Republic of Palau Social Security Retirement Fund are as follows:

Equities	\$ 15,498,331
Fixed income	32,104,391
Mutual funds	50,404,673
Money market funds	<u>1,031,939</u>
	\$ <u>99,039,334</u>

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

(1) Cash

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;
- 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.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2016

(2) Deposits and Investments, Continued

B. Investments, Continued

Fiduciary Funds, Continued

Republic of Palau Social Security Retirement Fund, Continued

(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, 2016, investments in debt securities for the Republic of Palau Social Security Retirement Fund were as follows:

Investment Type	Fair Value	Investment Maturities (In Years)				Ratings	
		Less Than 1	1 - 5	6 - 10	More Than 10	Moody's	S&P
U.S. Treasury notes	\$ 5,802,133	\$ 451,125	\$ 2,610,637	\$ 2,740,371	\$ -	Aaa	AA+
U.S. Treasury bond	1,064,921	-	-	-	1,064,921	Aaa	AA+
Other U.S. government obligations	483,551	-	203,014	280,537	-	Aaa	AAA
Other U.S. government obligations	153,339	-	-	-	153,339	Aaa	AA+
Other U.S. government obligations	161,982	-	-	161,982	-	Aaa	Unrated
Other U.S. government obligations	125,169	125,169	-	-	-	Aa2	AA+
Other U.S. government obligations	201,788	-	201,788	-	-	Aa2	A+
Other U.S. government obligations	148,862	-	-	27,892	120,970	Aa2	Unrated
Other U.S. government obligations	105,770	-	-	105,770	-	Aa1	AA
State and local government	9,182,103	482,823	4,551,346	1,610,095	2,537,839	Aaa	AA+
Corporate bonds	1,862,606	326,414	407,281	115,286	1,013,625	Aaa	AAA
Corporate bonds	1,044,101	-	309,492	459,312	275,297	Aaa	AA+
Corporate bonds	476,198	-	-	476,198	-	Aaa	Unrated
Corporate bonds	316,473	-	-	-	316,473	Aa3	AA+
Corporate bonds	1,156,534	200,430	610,069	346,035	-	Aa3	AA-
Corporate bonds	552,917	150,428	-	402,489	-	Aa3	A+
Corporate bonds	786,310	-	231,101	184,212	370,997	Aa2	AA
Corporate bonds	268,989	-	167,178	101,811	-	Aa2	AA-
Corporate bonds	203,950	-	-	101,650	102,300	Aa2	A
Corporate bonds	188,358	-	-	188,358	-	Aa1	AA+
Corporate bonds	76,186	-	76,186	-	-	Aa1	AA-
Corporate bonds	569,166	-	569,166	-	-	Aa1	Unrated
Corporate bonds	107,108	-	-	-	107,108	A3	A
Corporate bonds	300,062	-	300,062	-	-	A3	A-
Corporate bonds	430,603	-	170,477	260,126	-	A3	BBB+
Corporate bonds	106,972	-	-	106,972	-	A3	BBB
Corporate bonds	1,022,789	-	494,674	528,115	-	A2	A
Corporate bonds	89,895	89,895	-	-	-	A2	A-
Corporate bonds	169,462	-	-	-	169,462	A1	AA
Corporate bonds	611,314	150,111	-	-	461,203	A1	AA-
Corporate bonds	789,266	174,722	291,360	323,184	-	A1	A+
Corporate bonds	345,048	-	-	345,048	-	A1	A
Corporate bonds	103,299	-	-	103,299	-	A1	A-
Corporate bonds	193,440	-	-	-	193,440	Baa3	BBB
Corporate bonds	332,382	-	-	-	332,382	Baa2	A-
Corporate bonds	109,858	-	109,858	-	-	Baa2	BBB+
Corporate bonds	122,702	-	122,702	-	-	Baa2	BBB
Corporate bonds	481,879	-	-	-	481,879	Baa1	A
Corporate bonds	511,564	-	-	511,564	-	Baa1	A-
Corporate bonds	605,601	-	451,159	154,442	-	Baa1	BBB+
Corporate bonds	490,767	250,963	106,448	133,356	-	Baa1	BBB
Corporate bonds	248,974	-	-	-	248,974	Unrated	AA-
	<u>\$ 32,104,391</u>	<u>\$ 2,402,080</u>	<u>\$ 11,983,998</u>	<u>\$ 9,768,104</u>	<u>\$ 7,950,209</u>		

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2016

(2) Deposits and Investments, Continued

B. Investments, Continued

Fiduciary Funds, Continued

Republic of Palau Social Security Retirement Fund, Continued:

The Republic of Palau Social Security Retirement Fund has the following fair value measurements as of September 30, 2016:

Investments by fair value level:	<u>Total</u>	<u>Fair Value Measurement Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Debt securities:				
U.S. Treasury securities	\$ 6,867,054	\$ 6,867,054	\$ -	\$ -
State and local government	9,182,103	555,907	8,626,196	-
Other U.S. Government obligations	1,380,461	-	1,380,461	-
Corporate bonds	14,674,773	-	14,674,773	-
Equity securities:				
Common stock	<u>15,498,331</u>	<u>15,498,331</u>	-	-
Total investments by fair value level	47,602,722	\$ <u>22,921,292</u>	\$ <u>24,681,430</u>	\$ <u>-</u>
Investments measured at NAV:				
Mutual funds	50,404,673			
Investments measured at amortized cost:				
Money market funds	<u>1,031,939</u>			
	<u>\$ 99,039,334</u>			

Republic of Palau Civil Service Pension Trust Fund:

As of September 30, 2016, investments of the Republic of Palau Civil Service Pension Trust Fund are as follows:

Equities	\$ 14,590,352
Fixed income	9,570,894
Mutual Funds	2,654,707
Money market funds	<u>625,297</u>
	<u>\$ 27,441,250</u>

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

1. Any pertinent restrictions existing under the laws of the Republic with respect to the Fund, that may exist now or in the future, will be the governing restriction.
2. U.S. and non-U.S. equities, American Depository Receipts, convertible bonds, preferred stocks, fixed income securities, mutual funds and short-term securities are permissible investments.
3. No individual security or any issuer, other than that of the United States Government, shall constitute more than 10% (at cost) of any investment manager's portfolio.
4. Holdings of any issuer shall constitute no more than 5% of the outstanding securities of such issuer.
5. Investments in a registered mutual fund managed by the investment manager are subject to the prior approval of the Board of Trustees.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2016

(2) Deposits and Investments, Continued

B. Investments, Continued

Fiduciary Funds, Continued

Republic of Palau Civil Service Pension Trust Fund, Continued:

6. The following securities and transactions are not authorized without prior written Board of Trustees approval: letter stock and other unregistered securities; non-negotiable securities; commodities or other commodity contracts; options; futures; short sales; and, margin transactions.
7. An investment manager's portfolio shall not be excessively over weighted in any one industry (as compared to respective benchmark index) without prior approval by timely reporting and advice to the Board of Trustees.

Investments may be made in the following investment types:

Fixed Income:

- (A) All fixed income securities held in the portfolio shall have a Standard & Poor's credit quality rating of no less "BBB", or an equivalent credit quality rating from Moody's (Baa) or Fitch (BBB). U.S. Treasury and U.S. Government agencies, which are unrated securities, are qualified for inclusion in the portfolio and will be considered to be of the highest rating.
- (B) No more than 20% of the market value of the portfolio shall be rated less than single "A" quality, unless the investment manager has specific prior written authorization from the Board of Trustees.
- (C) Total portfolio quality (capitalization weighted) shall maintain a credit quality rating of no less than "A".
- (D) It is the policy of the Board to place assets in Local Certificates of Deposit (Local CDs) issued by local banking institutions, with the express purpose of making funds available to the local community in the form of loans. While these Local CDs are held, they will be included in the "strategic asset allocation" as fixed income investments. However, these Local CDs and the local banking institutions must meet the following criteria on an ongoing basis:
 - a) Local CDs must offer a competitive return relative to alternative issuers.
 - b) The local banking institutions must provide annual audited financial statements for Board of Trustee review. The Board of Trustees is charged with monitoring the financial health of the local banking institutions. Should concerns arise with respect to the financial condition of the local banking institutions, the Board of Trustees shall take appropriate action.
 - 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.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2016

(2) Deposits and Investments, Continued

B. Investments, Continued

Fiduciary Funds, Continued

Republic of Palau Civil Service Pension Trust Fund, Continued:

Equities:

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

Cash/Cash Equivalents:

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

As of September 30, 2016, investments in debt securities for the Republic of Palau Civil Service Pension Trust Fund were as follows:

Investment Type	Fair Value	Investment Maturities (In Years)				Moody's Rating
		Less Than 1	1 - 5	6 - 10	More Than 10	
Mortgage and asset backed securities	\$ 4,146,444	\$ 886,119	\$ 3,260,325	\$ -	\$ -	AAA
Mortgage and asset backed securities	1,752,700	-	75,424	1,241,869	435,407	Not rated
Government bonds	1,847,026	-	-	-	1,847,026	AAA
Corporate bonds	381,664	-	381,664	-	-	A2
Corporate bonds	867,941	-	384,296	483,645	-	A3
Corporate bonds	221,904	-	-	221,904	-	BAA1
Corporate bonds	353,215	-	-	227,640	125,575	BAA3
	<u>\$ 9,570,894</u>	<u>\$ 886,119</u>	<u>\$ 4,101,709</u>	<u>\$ 2,175,058</u>	<u>\$ 2,408,008</u>	

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2016

(2) Deposits and Investments, Continued

B. Investments, Continued

Fiduciary Funds, Continued

Republic of Palau Civil Service Pension Trust Fund, Continued:

The Republic of Palau Civil Service Pension Trust Fund has the following fair value measurements as of September 30, 2016:

	Total	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Investments by fair value level:				
Debt securities:				
U.S. Treasury Bonds	\$ 1,847,025	\$ 1,847,025	\$ -	\$ -
Federal National Mortgage Association	2,446,609	-	2,446,609	-
Federal Home Loan Mortgage Corporation	1,027,478	-	1,027,478	-
Federal Farm Credit Banks Funding Corporation	2,425,058	-	2,425,058	-
Corporate bonds	<u>1,824,724</u>	<u>-</u>	<u>1,824,724</u>	<u>-</u>
	<u>9,570,894</u>	<u>1,847,025</u>	<u>7,723,869</u>	<u>-</u>
Equity securities:				
Real Estate Investment Trust	2,434,396	2,434,396	-	-
Other - U.S. equities	4,829,646	4,829,646	-	-
Other - Non- U.S. equities	<u>7,326,310</u>	<u>7,326,310</u>	<u>-</u>	<u>-</u>
	<u>14,590,352</u>	<u>14,590,352</u>	<u>-</u>	<u>-</u>
Total investments by fair value level	24,161,246	\$ <u>16,437,377</u>	\$ <u>7,723,869</u>	\$ <u>-</u>
Investments measured at NAV:				
Mutual funds	2,654,707			
Investments measured at amortized cost:				
Money market funds	<u>625,297</u>			
	<u>\$ 27,441,250</u>			

Discretely Presented Component Units

As of September 30, 2016, investments of the discretely presented component units are as follows:

Palau Community College (PCC):

Fixed income	\$ 1,103,965
Domestic equities	1,645,043
Cash management account	143,508
Mutual funds	181,680
Non-U.S. equities	<u>1,080,741</u>
	<u>\$ 4,154,937</u>

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2016

(2) Deposits and Investments, Continued

B. Investments, Continued

Discretely Presented Component Units, Continued

Palau Community College (PCC), Continued:

As of September 30, 2016, maturities of investments in fixed income securities for PCC are as follows:

Investment Type	Fair Value	Investment Maturities (In Years)				Ratings	
		Less Than 1	1 - 5	6 - 10	More than 10	Moody	Standard & Poor's
US Treasury securities	\$ 29,095	\$ -	\$ 29,905	\$ -	\$ -	AAA	No rating
US Treasury securities	32,212	-	32,212	-	-	AAA	No rating
US Treasury securities	68,525	-	68,525	-	-	AAA	No rating
US Treasury securities	62,237	-	62,237	-	-	AAA	No rating
Government securities	77,698	-	77,698	-	-	AAA	AA+
Government securities	87,796	-	87,796	-	-	AAA	AA+
Corporate bonds	29,353	-	29,353	-	-	AA3	BBB+
Mutual Funds	103,303	-	103,303	-	-	No rating	No rating
US Treasury securities	29,558	-	-	29,558	-	AAA	No rating
US Treasury securities	40,709	-	-	40,709	-	AAA	No rating
US Treasury securities	30,764	-	-	30,764	-	AAA	No rating
Corporate bonds	31,045	-	-	31,045	-	BAA1	BAA1
Corporate bonds	31,078	-	-	31,078	-	A2	A
Corporate bonds	32,216	-	-	32,216	-	BAA1	BAA1
Corporate bonds	33,600	-	-	33,600	-	BA3	BB+
Corporate bonds	31,479	-	-	31,479	-	BAA3	BBB
Corporate bonds	32,929	-	-	32,929	-	A3	A-
Corporate bonds	32,278	-	-	32,278	-	BAA1	BBB
Corporate bonds	31,229	-	-	31,229	-	A3	A
Corporate bonds	31,087	-	-	31,087	-	A3	BBB
Corporate bonds	30,201	-	-	30,201	-	A3	A-
Corporate bonds	29,708	-	-	29,708	-	A2	A
US Treasury securities	40,769	-	-	-	40,769	AAA	No rating
US Treasury securities	55,870	-	-	-	55,870	AAA	No rating
US Treasury securities	5,701	-	-	-	5,701	AAA	No rating
Corporate bonds	30,803	-	-	-	30,803	A1	AA-
Corporate bonds	32,722	-	-	-	32,722	A3	A
	<u>\$ 1,103,965</u>	<u>\$ -</u>	<u>\$ 490,219</u>	<u>\$ 447,881</u>	<u>\$ 165,865</u>		

PCC has the following fair value measurements as of September 30, 2016:

Investments by fair value level:	Total	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Debt securities				
U.S. Treasury securities	\$ 395,439	\$ 395,439	\$ -	\$ -
Government securities	165,494	-	165,494	-
Corporate bonds	<u>439,729</u>	<u>-</u>	<u>439,729</u>	<u>-</u>
	1,000,662	395,439	605,223	-
Equity securities:				
Common stock	<u>2,725,784</u>	<u>2,725,784</u>	-	-
Total investments by fair value level	3,726,446	<u>\$ 3,121,223</u>	<u>\$ 605,223</u>	<u>\$ -</u>
Investments measured at the NAV:				
Mutual funds	284,983			
Investments measured at amortized cost				
Cash management account	<u>143,508</u>			
	<u>\$4,154,937</u>			

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2016

(2) Deposits and Investments, Continued

B. Investments, Continued

Discretely Presented Component Units, Continued

Palau National Communications Corporation (PNCC):

	<u>Actual Allocation</u>	<u>Allocation Per Policy</u>	
Cash management account	12%	11%	\$ 74,507
Fixed income	29%	29%	178,071
Domestic equities	48%	43%	292,406
Exchange-traded funds	1%	1%	7,601
Non-U.S. equities	10%	16%	<u>59,728</u>
			<u>\$ 612,313</u>

As of September 30, 2016, maturities of investments in fixed income securities for PNCC are as follows:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment maturities (in years)</u>				<u>Credit Rating</u>	
		<u>Less than</u>		<u>More than</u>		<u>Moody</u>	<u>Standard & Poor</u>
		<u>1</u>	<u>1-5</u>	<u>6-10</u>	<u>10</u>		
Corporate bonds	\$ 6,067	\$ -	\$ -	6,067	\$ -	BAA1	BBB+
Corporate bonds	4,723	-	-	4,723	-	A2	A
Corporate bonds	5,920	-	-	5,920	-	BAA1	BBB+
Corporate bonds	4,801	-	-	4,801	-	BAA2	BBB
Corporate bonds	5,064	-	-	5,064	-	BAA3	BBB
Corporate bonds	6,293	-	-	6,293	-	A1	AA-
Corporate bonds	4,384	-	4,384	-	-	A3	BBB+
Corporate bonds	4,913	-	-	4,913	-	A3	A-
Corporate bonds	5,149	-	-	5,149	-	A3	A
Corporate bonds	4,978	-	-	4,978	-	A3	BBB
Corporate bonds	5,986	-	-	5,986	-	A3	A-
Corporate bonds	2,044	-	-	-	2,044	A3	A
Corporate bonds	5,900	-	-	5,900	-	BAA2	BBB
Corporate bonds	6,163	-	-	6,163	-	A2	A
Federal agencies	31,333	-	31,333	-	-	AAA	AA+
U.S. Treasury	29,666	-	-	-	29,666	AAA	No rating
U.S. Treasury	13,818	-	-	13,818	-	AAA	No rating
U.S. Treasury	<u>30,869</u>	-	<u>30,869</u>	-	-	AAA	No rating
	<u>\$ 178,071</u>	<u>\$ -</u>	<u>\$ 66,586</u>	<u>\$ 79,775</u>	<u>\$ 31,710</u>		

As of September 30, 2016, PNCC maintained investments in short-term money market mutual funds of \$3,816,336 held by the Bank of New York Mellon, an FDIC insured financial institution. Although these mutual funds are not insured by the FDIC, the mutual fund portfolio consists of U.S. Treasury bills and obligations guaranteed by the U.S. Department of the Treasury as well as repurchase agreements which are fully collateralized by such obligations. This mutual fund has a weighted average maturity of 45 days and is rated AAAM by Standard and Poor's and AAA-mf by Moody's.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2016

(2) Deposits and Investments, Continued

B. Investments, Continued

Palau National Communications Corporation (PNCC), Continued

	<u>Total</u>	<u>Fair Value Measurement Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments by fair value level:				
Fixed income securities:				
Corporate bonds	\$ 72,383	\$ -	\$ 72,383	\$ -
U.S. Treasury securities	74,355	74,355	-	-
Federal agencies	<u>31,333</u>	<u>-</u>	<u>31,333</u>	<u>-</u>
	178,071	74,355	103,716	-
Equity securities:				
U.S. equities	292,406	292,406	-	-
Non-U.S. equities	<u>59,728</u>	<u>59,728</u>	<u>-</u>	<u>-</u>
Total investments by fair value level	530,205	\$ <u>426,489</u>	\$ <u>103,716</u>	\$ <u>-</u>
Investments measured at NAV:				
Exchange-traded funds	7,601			
Investments measured at amortized cost:				
Cash management account	<u>74,507</u>			
	\$ <u>612,313</u>			

Palau International Coral Reef Center:

Cash management account	\$ 3,959
Common stocks	122,549
Exchange-traded and closed-end funds	4,757
Fixed income	<u>75,956</u>
	\$ <u>207,221</u>

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

(3) Receivables

Primary Government

Receivables as of September 30, 2016, for the primary government's individual major funds, and nonmajor governmental funds and fiduciary funds in the aggregate, including applicable allowances for uncollectible accounts, are as follows:

	<u>General</u>	<u>Grants</u>	<u>Compact Section 211(f)</u>	<u>Nonmajor Governmental Funds</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Taxes	\$ 5,271,995	\$ -	\$ -	\$ -	\$ -	\$ 5,271,995
General	1,948,018	5,098,600	-	6,880,567	7,425,411	21,352,596
Federal agencies	-	6,801,668	-	-	-	6,801,668
Accrued interest	7,611	-	-	7,611	286,654	301,876
Other	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>695,791</u>	<u>695,791</u>
	7,227,624	11,900,268	-	6,888,178	8,407,856	34,423,926
Less: allowance for uncollectibles	<u>(1,038,854)</u>	<u>-</u>	<u>-</u>	<u>(6,880,520)</u>	<u>(3,051,815)</u>	<u>(10,971,189)</u>
Net receivables	\$ <u>6,188,770</u>	\$ <u>11,900,268</u>	\$ <u>-</u>	\$ <u>7,658</u>	\$ <u>5,356,041</u>	\$ <u>23,452,737</u>

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2016

(3) Receivables, Continued

Discretely Presented Component Units

Receivables as of September 30, 2016, 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	Palau Public Utilities Corporation	Palau District Housing Authority	Total
General	\$ -	\$ 2,725,422	\$ 1,726,491	\$ -	\$ -	\$ 4,232,981	\$ 2,500,497	\$ 11,185,391
Federal agencies	-	1,390,175	-	-	-	-	-	1,390,175
Loans	19,107,993	-	-	-	-	-	2,339,989	21,447,982
Accrued interest	98,580	-	-	-	-	-	-	98,580
Other	<u>80,011</u>	<u>248,903</u>	<u>45,207</u>	<u>302,367</u>	<u>22,852</u>	<u>21,717</u>	<u>-</u>	<u>721,057</u>
	19,286,584	4,364,500	1,771,698	302,367	22,852	4,254,698	4,840,486	34,843,185
Less allowance for uncollectible	<u>(995,979)</u>	<u>(1,814,978)</u>	<u>(820,002)</u>	<u>-</u>	<u>(4,082)</u>	<u>(936,585)</u>	<u>(87,994)</u>	<u>(4,659,620)</u>
	<u>\$ 18,290,605</u>	<u>\$ 2,549,522</u>	<u>\$ 951,696</u>	<u>\$ 302,367</u>	<u>\$ 18,770</u>	<u>\$ 3,318,113</u>	<u>\$ 4,752,492</u>	<u>\$ 30,183,565</u>

National Development Bank of Palau (NDBP):

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

Palau District Housing Authority (PDHA):

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

(4) Interfund Receivables and Payables

Primary Government

Receivables and payables between funds reflected as due to/from other funds in the governmental funds balance sheet at September 30, 2016, are summarized as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Grants	\$ 7,669,625
General	Nonmajor governmental funds	1,672
Grants	General	912,218
Nonmajor governmental funds	General	<u>4,674,362</u>
		<u>\$ 13,257,877</u>

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

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2016

(4) Interfund Receivables and Payables, Continued

Primary Government, Continued

Receivables and payables between funds reflected as due to/from component units at September 30, 2016, are summarized as follows:

	Due From	Due To
General Fund:		
National Development Bank of Palau	\$ 5,820,151	\$ -
Palau District Housing Authority	2,500,000	-
Palau Public Utilities Corporation	1,831,355	-
Belau Submarine Cable Corporation	5,754,837	-
Palau Community College	-	<u>253,098</u>
	<u>15,906,343</u>	<u>253,098</u>
Republic of Palau Social Security Retirement Fund:		
National Development Bank of Palau	<u>3,318,617</u>	-
	<u>\$ 19,224,960</u>	<u>\$ 253,098</u>

The amount recorded as due from component units by the General Fund of \$15,906,343 represents loans due from the National Development Bank of Palau (NDBP), Palau District Housing Authority (PDHA), Palau Public Utilities Corporation (PPUC), and Belau Submarine Cable Corporation summarized as follows:

NDBP: 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.

NDBP: Initial amount of \$5,000,000 for the purpose of financing development of agriculture and aquaculture projects in the Republic. The loan is uncollateralized and is due and payable on March 31, 2036, with interest at six month LIBOR plus 1% 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.

PDHA: Initial amount of \$5,000,000 for the purpose of financing housing development in the Republic. The loan is uncollateralized and is due and payable on March 31, 2036, with interest at six months LIBOR plus 1% 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. As of September 30, 2016, the Republic paid PDHA \$2,500,000 of the \$5,000,000.

PPUC: Initial amount of \$26,900,000 for twenty years with grace period and bears interest equal to the sum of LIBOR plus 0.60% and a maturity premium of 0.10% to finance sanitation projects in the Koror and Airai areas. The loan is uncollateralized with principal to be repaid semi-annually beginning April 1, 2018 at 2.5% of the total principal amount outstanding on each payment date.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2016

(4) Interfund Receivables and Payables, Continued

Primary Government, Continued

PPUC: Initial amount of SDR 1,258,000 for twenty years with grace period and bears interest at 1% per annum during the period prior to the first principal payment date and 1.5% per annum thereafter. Principal is to be repaid semi-annually beginning April 1, 2018 in installments of \$26,208.

BSCC: Loan payable under the Ordinary Operations Loan Agreement, with a 20-year term after the grace period ends on June 1, 2021 when the first principal repayment becomes due, interest at LIBOR plus 0.50% per annum and payable every June 1 and December 1. Principal is to be repaid at 2.5% of the total principal amount outstanding on each payment date.

BSCC: Loan payable under the Ordinary Operations Loan Agreement, with a 20-year term after the grace period ends on June 1, 2021 when the first principal repayment of \$213,250 becomes due, interest at two percent (2%) per annum and payable every June 1 and December 1.

The amount recorded as due from component units by the Republic of Palau Social Security Retirement Fund (the Fund) due from NDBP of \$3,318,617 represents a loan agreement entered into in the initial amount of \$3,000,000 with a subsequent \$2,000,000 line of credit to be made available with terms and conditions to be agreed to by the parties at that time. On August 7, 2008, the Fund entered into a new agreement to restructure the existing loan with NDBP with the loan ceiling increasing to \$6,000,000. Principal and interest are payable in equal semi-annual installments of \$554,392 through December 31, 2025, with interest at a variable annual rate equal to the Fund's Fixed Income Fund Return Rate as reported monthly by the Fund's investment consultant, plus 0.5%; provided, that the interest rate to be charged and paid by NDBP shall not be less than 4.5% per annum nor more than 7.5% per annum after addition of the 0.5% to the prime rate. The loan is collateralized by the full faith and credit of the Republic.

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

<u>Year ending</u> <u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 424,442	\$ 522,585	\$ 947,027
2018	463,309	492,085	955,394
2019	787,683	473,921	1,261,604
2020	1,087,405	439,034	1,526,439
2021	1,263,795	403,098	1,666,893
2022 - 2026	6,953,069	1,795,593	8,748,662
2027 - 2031	3,290,473	951,237	4,241,710
2032 - 2036	3,290,478	514,613	3,805,091
2037 - 2041	1,543,048	141,200	1,684,248
Thereafter	<u>121,258</u>	<u>7,276</u>	<u>128,534</u>
	<u>\$ 19,224,960</u>	<u>\$ 5,740,642</u>	<u>\$ 24,965,602</u>

The amount recorded as due to component units of the primary government of \$253,098 does not equal the corresponding due from primary government of the discretely presented component units of \$1,244,595 due to the recording of due from primary government by the Palau Public Utilities Corporation (PPUC) of \$669,904 for utility services of the water and wastewater operations of the Republic prior to its transfer to PPUC and timing differences recorded by Palau Community College and Palau Visitors Authority of \$99,250 and \$222,343, respectively.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2016

(4) Interfund Receivables and Payables, Continued

Discretely Presented Component Units

Receivables and payables between funds reflected as due to/from primary government at September 30, 2016, are summarized as follows:

	Due From	Due To
National Development Bank of Palau	\$ -	\$ 5,820,151
Republic of Palau Social Security Retirement Fund	-	3,318,617
Palau District Housing Authority	-	2,500,000
Palau Public Utilities Corporation	669,904	1,831,355
Palau Visitors Authority	222,343	-
Belau Submarine Cable Corporation	-	5,754,837
Palau Community College	<u>352,348</u>	<u>-</u>
	<u>\$ 1,244,595</u>	<u>\$ 19,224,960</u>

(5) Capital Assets

Capital asset activities for the year ended September 30, 2016, are as follows:

Primary Government

	Balance at October 1, 2015	Additions	Deletions and Transfers	Balance at September 30, 2016
Depreciable capital assets:				
Buildings and other improvements	\$ 144,975,629	\$ 816,926	\$ 832,521	\$ 146,625,076
Machinery and equipment	25,415,907	879,454	(120,000)	26,175,361
Vehicles	7,315,059	1,072,545	(457,690)	7,929,914
Infrastructure	<u>226,308,311</u>	<u>2,978,762</u>	<u>-</u>	<u>229,287,073</u>
Total capital assets being depreciated	<u>404,014,906</u>	<u>5,747,687</u>	<u>254,831</u>	<u>410,017,424</u>
Accumulated depreciation:				
Buildings and other improvements	(75,351,619)	(6,777,482)	-	(82,129,101)
Machinery and equipment	(22,110,365)	(900,575)	120,000	(22,890,940)
Vehicles	(6,125,576)	(648,941)	457,690	(6,316,827)
Infrastructure	<u>(171,498,778)</u>	<u>(17,936,710)</u>	<u>-</u>	<u>(189,435,488)</u>
Total accumulated depreciation	<u>(275,086,338)</u>	<u>(26,263,708)</u>	<u>577,690</u>	<u>(300,772,356)</u>
Total depreciable capital assets, net	<u>128,928,568</u>	<u>(20,516,021)</u>	<u>832,521</u>	<u>109,245,068</u>
Non-depreciable capital assets:				
Land	3,899,403	-	-	3,899,403
Construction in progress	<u>22,238,641</u>	<u>8,915,278</u>	<u>(1,499,526)</u>	<u>29,654,393</u>
Total non-depreciable capital assets	<u>26,138,044</u>	<u>8,915,278</u>	<u>(1,499,526)</u>	<u>33,553,796</u>
Capital assets, net	<u>\$ 155,066,612</u>	<u>\$ (11,600,743)</u>	<u>\$ (667,005)</u>	<u>\$ 142,798,864</u>

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

General government	\$ 668,378
Education	353,033
Health and welfare	926,844
Public safety	413,956
Cultural affairs and recreation	225,408
Transportation and commerce	22,888,916
Unallocated	<u>787,173</u>
Total depreciation expense	<u>\$ 26,263,708</u>

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2016

(5) Capital Assets, Continued

Fiduciary Funds

	Estimated Useful Lives	Balance at October 1, 2015	Additions	Deletions	Balance at September 30, 2016
Depreciable capital assets:					
Office equipment and furniture	4 - 13 yrs	\$ 526,143	\$ 5,813	\$ -	\$ 531,956
Building and improvements	30 yrs	136,413	62,764	-	199,177
Vehicles	5 yrs	<u>138,344</u>	<u>-</u>	<u>-</u>	<u>138,344</u>
		800,900	68,577	-	869,477
Less accumulated depreciation		<u>(696,772)</u>	<u>(48,889)</u>	<u>-</u>	<u>(745,661)</u>
		<u>\$ 104,128</u>	<u>\$ 19,688</u>	<u>-</u>	<u>\$ 123,816</u>

Discretely Presented Component Units

	Estimated Useful Lives	Balance October 1, 2015	Additions	Retirements	Balance September 30, 2016
Depreciable capital assets:					
Buildings	3 - 30 yrs	\$ 21,203,303	\$ 129,243	\$ (1,899)	\$ 21,330,647
Utility plant	2 - 30 yrs	167,056,128	3,788,014	(612,322)	170,231,820
Machinery and equipment	2 - 20 yrs	3,990,225	278,610	(649,737)	3,619,098
Infrastructure	2 - 15 yrs	<u>3,588,860</u>	<u>77,795</u>	<u>(40,988)</u>	<u>3,625,667</u>
		195,838,516	4,273,662	(1,304,946)	198,807,232
Less accumulated depreciation		<u>(125,415,610)</u>	<u>(7,661,969)</u>	<u>1,255,635</u>	<u>(131,821,944)</u>
Total depreciable capital assets, net		70,422,906	(3,388,307)	(49,311)	66,985,288
Nondepreciable capital assets:					
Construction in progress		<u>3,175,323</u>	<u>6,783,843</u>	<u>(3,291,819)</u>	<u>6,667,347</u>
		<u>\$ 73,598,229</u>	<u>\$ 3,395,536</u>	<u>\$ (3,341,130)</u>	<u>\$ 73,652,635</u>

(6) Indefeasible Right of Use (IRU) Agreement

The Belau Submarine Cable Corporation (BSCC) and a third party IRU provider entered into an agreement in February 2016 for the acquisition of the exclusive right to use the optical wavelength channels in the IRU provider's fiber between the Guam Cable Landing Station and the West Subsystem near the coast of Palau (the "Branching Unit"), as required for BSCC's use of capacity in such optical wavelength channels to transmit telecommunication traffic (the "Purchased Waves"); as well as the exclusive right to connect the submarine fiber optic cable spur to the Branching Unit and to connect to the optical add-drop multiplexer inside the Branching Unit. The agreement is effective for 25 years starting on the date BSSC issues its notice of acceptance to the IRU provider of the first activated Purchase Wave's conformity to all applicable requirements (the "IRU RFS date"). Total purchase price of \$6,666,534 is due and payable in installments through the IRU RFS date, of which \$885,400 is due in 2017 and \$2,658,934 is due on or before the IRU RFS date. As of September 30, 2016, \$3,122,200 of the purchase price has been paid. Since the IRU RFS date has not yet commenced, no amortization of the IRU has been recognized for the year ended September 30, 2016.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2016

(7) Note Payable

Primary Government

On June 28, 2002, the Republic's Washington Embassy entered into a loan agreement with a bank in the amount of \$160,000 for the purpose of funding overdraft facilities. Although the loan was due on May 20, 2004, including interest at 7% per annum, \$198,142 remains outstanding at September 30, 2016. No change occurred in the loan payable during the year ended September 30, 2016. This loan is in noncompliance with local requirements since only the President of the Republic is authorized to enter into debt agreements.

(8) Long-Term Obligations

Primary Government

As of September 30, 2016, 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. \$ 4,571,417

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. 3,885,740

Loan payable to the MICB in the amount of \$5,000,000, interest based on six month LIBOR plus 1% per annum, principal payable in semi-annual installments of \$285,714 plus interest, due March 31, 2036. This loan was used to finance the development of agriculture and aquaculture projects through National Development Bank of Palau and is uncollateralized. 5,000,000

Loan payable to the MICB in the amount of \$5,000,000, interest based on six month LIBOR plus 1% per annum, principal payable in semi-annual installments of \$285,714 plus interest, due March 31, 2036. This loan was used to finance the development of housing through Palau District Housing Authority and is uncollateralized. 5,000,000

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 (1.09% at September 30, 2016), a front-end fee of 1%, and a commitment charge of 0.15% per annum on the amount of the loan unwithdrawn from the Loan Account. Semi-annual loan payments commenced May 1, 2014 with graduated increases of 5% through November 1, 2025. 11,035,510

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2016

(8) Long-Term Obligations, Continued

Primary Government, Continued

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
Loan Number 3060 PAL - Koror-Airai Sanitation Loan (\$26,900,000), interest at the ADB's pool-based variable lending rate system for U.S. dollar loans (1.2889% at September 30, 2016). Semi-annual loan payments commence on April 1, 2018 in an amount of 2.5% of the total principal amount of the loan payable.	999,921
Loan Number 3061 PAL (SF) - Koror-Airai Sanitation Loan (SDR 1,258,000), interest at 1% per annum on the amount of the loan withdrawn from the Loan Account. Semi-annual loan payments commence on April 1, 2021 in an amount of SDR 26,208, at which time the interest increases to 1.5% per annum.	831,435
Loan Number 3346 PAL - North Pacific Regional Connectivity Investment Loan (SDR 1,258,000), interest at the ADB's pool-based variable lending rate system for U.S. dollar loans (1.4681% at September 30, 2016). Semi-annual loan payments commence on June 1, 2021 in an amount of 2.5% of the total principal amount of the loan payable.	3,792,737
Loan Number 3347 PAL (SF) - North Pacific Regional Connectivity Investment Loan (SDR 6,032,000), interest at 2% per annum. Semi-annual loan payments commence on June 1, 2021 in an amount of SDR 150,800.	<u>1,962,099</u>
	<u>\$ 40,551,593</u>

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

<u>Year Ending</u> <u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 2,324,136	\$ 872,983	\$ 3,197,119
2018	2,423,358	800,733	3,224,091
2019	2,924,426	756,103	3,680,529
2020	3,408,868	720,732	4,129,600
2021	2,526,685	628,237	3,154,922
2022 - 2026	13,996,840	2,604,926	16,601,766
2027 - 2031	5,804,280	1,371,962	7,176,242
2032 - 2036	5,478,694	641,658	6,120,352
2037 - 2041	1,543,046	141,201	1,684,247
2042 - 2045	<u>121,260</u>	<u>7,276</u>	<u>128,536</u>
	<u>\$ 40,551,593</u>	<u>\$ 8,545,811</u>	<u>\$ 49,097,404</u>

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2016

(8) Long-Term Obligations, Continued

Primary Government, Continued

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, 2016 and therefore has restricted assets of \$3,414,152 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).

Changes in long-term liabilities of the primary government for the year ended September 30, 2016, are as follows:

	Balance October <u>1, 2015</u>	Additions	Reductions	Balance September <u>30, 2016</u>	Due Within <u>One Year</u>
Loans payable:					
MICB loans	\$ 10,057,155	\$ 10,000,000	\$ (1,599,998)	\$ 18,457,157	\$ 1,599,998
ADB loans	<u>15,180,156</u>	<u>7,586,193</u>	<u>(671,913)</u>	<u>22,094,436</u>	<u>724,138</u>
	25,237,311	17,586,193	(2,271,911)	40,551,593	2,324,136
Other:					
Compensated absences	4,015,393	9,591,509	(9,296,804)	4,310,098	2,159,715
Net pension liability	129,957,796	7,138,492	-	137,096,288	-
Due to U.S. Government	<u>3,000,000</u>	<u>-</u>	<u>-</u>	<u>3,000,000</u>	<u>-</u>
	<u>\$ 162,210,500</u>	<u>\$ 34,316,194</u>	<u>\$ (11,568,715)</u>	<u>\$ 184,957,979</u>	<u>\$ 4,483,851</u>

Discretely Presented Component Units

National Development Bank of Palau (NDBP):

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

\$ 2,285,698

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.

2,008,753

\$ 4,294,451

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2016

(8) Long-Term Obligations, Continued

Discretely Presented Component Units, Continued

National Development Bank of Palau (NDBP), Continued

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

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 655,423	\$ 163,927	\$ 819,350
2018	670,147	137,560	807,707
2019	688,367	110,541	798,908
2020	706,587	82,716	789,303
2021	716,809	54,084	770,893
2022 - 2026	<u>857,118</u>	<u>44,997</u>	<u>902,115</u>
	\$ <u>4,294,451</u>	\$ <u>593,825</u>	\$ <u>4,888,276</u>

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.

\$ 21,577,580

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

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 1,335,041	\$ 971,131	\$ 2,306,172
2018	1,397,625	908,547	2,306,172
2019	1,463,143	843,029	2,306,172
2020	1,531,732	774,439	2,306,171
2021	1,603,537	702,635	2,306,172
2022 - 2026	9,218,246	2,312,246	11,530,492
2027 - 2029	<u>5,028,256</u>	<u>345,502</u>	<u>5,373,758</u>
	\$ <u>21,577,580</u>	\$ <u>6,857,529</u>	\$ <u>28,435,109</u>

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

In December 2009, PNCC recorded and capitalized the costs of the build-up of the earth station and related equipment and improvements for PNCC's mobile and satellite network services, in exchange for a non-interest bearing note with Chunghwa Telecom Co. Ltd (CHT), a contractor from Taiwan, Republic of China, totaling \$3,067,830, payable monthly in ninety (90) installments of \$34,087 including interest, starting in January 2010 through July 2017. The liability recorded in the financial statements reflects future payments discounted at an imputed interest rate of 4.90%, which was the assumed long-term borrowing rate in December 2009. At December 31, 2016, the future note payments to CHT with a present value of note was \$275,228 with discount amortization of \$3,849 in 2017. Pursuant to the repayment terms stated in the ESLA, in addition to non-interest bearing note disclosed in the preceding paragraph, PNCC is required to pay a monthly bandwidth fee of \$14,000, net of a \$1,000 courtesy discount, throughout the term of the note agreement maturing July 2017.

REPUBLIC OF PALAU

Notes to Financial Statements September 30, 2016

(8) Long-Term Obligations, Continued

Discretely Presented Component Units, Continued

Palau National Communications Corporation (PNCC), Continued:

New billing and customer care information technology system

In August 2012, PNCC entered into a note agreement with the National Information Solutions Cooperative (NISC) for the acquisition of a new billing and customer care information technology system, and for the improvement of the communication system between the PNCC sales sites and its main office. In 2012, the capitalized costs of the new information system approximates \$1,180,000 with an outstanding note payable balance with NISC amounting to \$764,298 as of December 31, 2012. The note was non-interest bearing, payable in fifty-eight (58) monthly installments of \$10,482 from January 2013 through March 2013, and thereafter at \$13,325 monthly from April 2013 through October 2017. The liability recorded in the financial statements reflects future payments discounted at an imputed interest rate of 4.59%, which was the assumed long-term borrowing rate of PNCC from the Federal Government at December 31, 2013. At December 31, 2016, the future note payments to NISC with a present value of noted was \$166,565 with discount amortization of \$2,651 in 2017.

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. At December 31, 2016, the future payments under this contract was \$945,200 with discount amortization of \$19,136 in 2017.

Palau Public Utilities Corporation (PPUC):

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

\$ 4,200,000

Loan payable to the National Development Bank of Palau in the amount of \$3,000,000, due April 21, 2025 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.

2,233,965

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2016

(8) Long-Term Obligations, Continued

Discretely Presented Component Units, Continued

Palau Public Utilities Corporation (PPUC), Continued:

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

1,910,229
\$ 8,344,194

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

<u>Year Ending</u> <u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 572,043	\$ 368,059	\$ 940,102
2018	612,369	342,863	955,232
2019	623,732	313,542	967,274
2020	668,898	283,656	952,554
2021	722,577	250,998	973,575
2022 - 2026	3,865,557	738,882	4,604,439
2027 - 2031	898,021	250,769	1,148,790
2032 - 2036	269,699	218,778	488,477
2037 - 2039	<u>81,298</u>	<u>60,847</u>	<u>142,145</u>
	\$ <u>8,344,194</u>	\$ <u>2,828,394</u>	\$ <u>11,172,588</u>

Palau District Housing Authority (PDHA):

On April 8, 2016, the Republic entered into a \$5,000,000 loan agreement with Mega International Commercial Bank Co., Ltd, to finance housing to be administered by PDHA. The loan is to be repaid in thirty-five (35) consecutive equal semi-annual installments of \$142,857 beginning on April 12, 2019 at the rate equal to six (6) months LIBOR plus one (1%) per annum. As of September 30, 2016, PDHA received \$2,500,000 of the \$5,000,000 of the loan from the Republic.

Belau Submarine Cable Corporation (BSCC):

In March 2016, BSCC and ADB entered into an agreement to establish a submarine cable connection from Palau to the international cable hub. The Republic executed a subsidiary loan agreement with BSCC to re-lend the amounts disbursed by ADB to the Republic under the same terms and conditions of the loan agreements (see Note 4).

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2016

(8) 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, 2016, are as follows:

	Balance October <u>1, 2015</u>	<u>Additions</u>	<u>Reductions</u>	Balance September <u>30, 2016</u>	Due Within <u>One Year</u>
Loans payable:					
NDBP	\$ 4,935,150	\$ -	\$ (640,699)	\$ 4,294,451	\$ 655,423
PNCC	23,797,534	-	(1,778,161)	22,019,373	1,776,834
PPUC	7,979,944	923,332	(559,082)	8,344,194	572,043
PDHA	-	2,500,000	-	2,500,000	-
Other liabilities:					
Contracts payable	2,145,200	-	(1,200,000)	945,200	945,200
Net pension liability	35,425,838	643,978	-	36,069,816	-
Due to primary government	955,486	15,178,058	(227,201)	15,906,343	138,066
Due to fiduciary funds	<u>3,587,578</u>	<u>-</u>	<u>(268,961)</u>	<u>3,318,617</u>	<u>325,469</u>
	<u>\$ 78,826,730</u>	<u>\$ 19,245,368</u>	<u>\$ (4,674,104)</u>	<u>\$ 93,397,994</u>	<u>\$ 4,413,035</u>

(9) Restricted Assets

Primary Government

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

Proceeds from MICB loan for the purpose of development of agriculture and aquaculture through a subsidiary loan with National Development Bank of Palau. \$ 2,500,000

Deposit accounts established for the purpose of accounting of funds held by the Republic in a custodial capacity relating to court-ordered settlements and membership terms with the IMF. 729,275

\$ 3,229,275

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. \$ 196,761,237

Investments held in a trust fund for the purpose of funding a liability to the United States government. 3,414,152

\$ 200,175,389

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. \$ 455,004

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2016

(9) Restricted Assets, Continued

Discretely Presented Component Units, Continued

National Development Bank of Palau, Continued:

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. 50,227

Palau Community College:

Deposit accounts established for library fund and endowment fund. 1,582,878

Palau National Communications Corporation:

Account established in accordance with Rural Utilities Service loan agreement for the purposes of a reserve account. 3,816,336

\$ 5,905,445

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

Palau Community College:

Investments held for endowment purposes. \$ 4,154,937

(10) 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, 2016, the Republic made no payments under this agreement.

(11) Pension Plan

A. General Information About the Pension Plan:

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

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2016

(11) Pension Plan, Continued

A. General Information About the Pension Plan, Continued:

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

Plan Membership: As of September 30, 2015, the date of the most recent valuation, plan membership consisted of the following:

Inactive members currently receiving benefits	1,507
Inactive members entitled to benefits but not yet receiving them	1,151
Active members	<u>3,120</u>
	<u>5,778</u>

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

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

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2016

(11) Pension Plan, Continued

A. General Information About the Pension Plan, Continued:

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

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

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

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

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

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

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

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2016

(11) Pension Plan, Continued

A. General Information About the Pension Plan, Continued:

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

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

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

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

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

The Republic's contributions to the Plan for the years ended September 30, 2016, 2015 and 2014 were \$2,016,822, \$1,858,478 and \$1,785,089, respectively, which were equal to the required contributions for the respective years then ended.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2016

(11) Pension Plan, Continued

A. General Information About the Pension Plan, Continued:

Actuarial Assumptions: Actuarially determined contribution rates are calculated as of September 30, 2015, for the same measurement date, using the following actuarial assumptions:

Valuation Date:	September 30, 2015	
Actuarial Cost Method:	Entry age normal	
Expected Rate of Return:	7.5%, net of investment expenses	
Expenses:	\$300,000 each year.	
Inflation:	3.0%	
Salary Increases:	3.0% per year	
Mortality:	RP-2000 combined mortality table set forward by 4 years for all members except disability recipients, where the table is set forward ten years.	
Termination of Employment:	5% per year prior to age 35; none after 35	
Retirement age:	100% at age 60	
Disability:	<u>Age</u>	<u>Disability</u>
	25	0.21%
	30	0.18%
	35	0.25%
	40	0.35%
	45	0.50%
	50	0.76%
	55	1.43%
	60	2.12%
Form of payment:	Single: Straight life annuity; Married: 100% joint and survivor	
Duty vs Non-duty related disability:	100% duty related	
Pre-retirement Beneficiary Benefit Members:	Present value of accrued benefit earned by the member. 80% of the workers are assumed to be married and males are assumed to be 3 years older than their spouses.	

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2016

(11) Pension Plan, Continued

A. General Information About the Pension Plan, 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.

Investment Rate of Return

The long-term expected rate of return on the Bank's investments of 7.5% was determined using log-normal distribution analysis, creating a best-estimate range for each asset class.

As of September 30, 2015, the arithmetic real rates of return for each major investment class are as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Expected Rate of Return</u>
Cash	3%	4.55%
Equity	61%	6.35%
Governmental fixed income	31%	7.75%
Corporate fixed income	<u>5%</u>	4.00%
	<u>100%</u>	

Discount Rate: The discount rate used to measure the total pension liability was 3.83%. The discount rate was determined using the current assumed rate of return until the point where the plan fiduciary net position is negative. Using the current contribution rates, a negative position happens in 2018 for 2015. For years after 2018, a discount rate of 3.87% is used. This rate is based on the Bond Buyer General Obligation 20-year Municipal Bond Index for September 30, 2015.

The total pension liability is calculated using a discount rate of 3.83% that is a blend of the expected investment rate of return and a high quality bond index rate. There was no change in the discount rate since the previous year. The expected investment rate of return applies for as long as the plan assets (including future contributions) are projected to be sufficient to make the projected benefit payments. If plan assets are projected to be depleted at some point in the future, the rate of return of a high quality bond index is used for the period after the depletion date.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2016

(11) Pension Plan, Continued

A. General Information About the Pension Plan, Continued:

Discount Rate Sensitivity Analysis: The following schedule shows the impact of the Net Pension Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (4.83%) in measuring the 2015 Net Pension Liability.

	1% Decrease in Discount Rate <u>2.83%</u>	Current Discount Rate <u>3.83%</u>	1% Increase in Discount Rate <u>4.83%</u>
Net Pension Liability	<u>\$ 158,540,060</u>	<u>\$ 137,096,288</u>	<u>\$ 119,269,556</u>

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

Pension Liability: At September 30, 2016, the Republic reported a liability of \$137,096,288 for its proportionate share of the net pension liability. The Republic's proportion of the net pension liability was based on projection of the Republic's long-term share of contributions to the pension plan relative to the projected contributions of the Republic and the Republic's component units, actuarially determined. At September 30, 2016, the Republic's proportion was 63.6040%.

Pension Expense: For the year ended September 30, 2016, the Republic recognized pension expense of \$6,365,540.

Deferred Outflows and Inflows of Resources: At September 30, 2016, the Republic reported total deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 11,247,923	\$ 5,618,911
Net difference between projected and actual earnings on pension plan investments	1,555,244	4,908,518
Contributions subsequent to the measurement date	2,016,822	-
Changes in proportion and difference between Republic contributions and proportionate share of contributions	<u>4,754,843</u>	<u>7,840,461</u>
	<u>\$ 19,574,832</u>	<u>\$ 18,367,890</u>

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2016

(11) Pension Plan, Continued

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

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions at September 30, 2016 will be recognized in pension expense as follows:

<u>Year Ended</u> <u>September 30</u>	
2017	\$ 1,211,164
2018	\$ (805,658)
2019	\$ (800,887)
2020	\$ 1,473,322
2021	\$ 184,798
Thereafter	\$ (55,697)

(12) 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, 2016, are as follows:

	<u>Transfer Out</u>	<u>Transfer In</u>
General Fund:		
Grants Fund	\$ 254,539	\$ 309,797
Other Governmental Funds	-	36,295
Compact Section 211(f) Fund	<u>252,285</u>	<u>5,000,000</u>
	<u>506,824</u>	<u>5,346,092</u>
Grants Fund:		
General Fund	<u>309,797</u>	<u>254,539</u>
Compact Section 211(f) Fund:		
General Fund	<u>5,000,000</u>	<u>252,285</u>
Other governmental funds:		
General Fund	<u>36,295</u>	-
	<u>\$ 5,852,916</u>	<u>\$ 5,852,916</u>

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

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2016

(13) Fund Balances

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

	<u>General</u>	<u>Grants</u>	<u>Compact Section 211 (f)</u>	<u>Nonmajor Governmental Funds</u>	<u>Totals</u>
Fund balances:					
Nonspendable:					
UMDA investment	\$ 1,185,575	\$ -	\$ -	\$ -	\$ 1,185,575
Loan receivable	15,906,343	-	-	-	15,906,343
Undisbursed loan - PDHA	2,500,000	-	-	-	2,500,000
Prepayments	190,935	265,314	-	-	456,249
Permanent fund principal	-	-	<u>196,761,237</u>	-	<u>196,761,237</u>
	<u>19,782,853</u>	<u>265,314</u>	<u>196,761,237</u>	-	<u>216,809,404</u>
Restricted:					
Compact Section 211(b)					
Energy	-	-	-	<u>3,462,165</u>	<u>3,462,165</u>
	-	-	-	<u>3,462,165</u>	<u>3,462,165</u>
Committed:					
Environmental protection	-	-	-	298,895	298,895
Hospital	-	-	-	508,152	508,152
Road maintenance	-	-	-	1,791,368	1,791,368
Publication law access unit	-	-	-	49,620	49,620
Forfeited property	-	-	-	151,119	151,119
Non-Communicable Diseases	-	-	-	700,296	700,296
Other	-	-	-	<u>52,990</u>	<u>52,990</u>
	-	-	-	<u>3,552,440</u>	<u>3,552,440</u>
Unassigned	<u>27,700,662</u>	<u>(149,982)</u>	-	<u>(1,672)</u>	<u>27,549,008</u>
	<u>\$ 47,483,515</u>	<u>\$ 115,332</u>	<u>\$ 196,761,237</u>	<u>\$ 7,012,933</u>	<u>\$ 251,373,017</u>

(14) 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, 2016, amounted to \$4,384,553.

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, 2016, 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.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2016

(14) Commitments and Contingencies, Continued

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, 2016. The ultimate disposition of these questioned costs can be determined only by final action of the respective grantor agencies. Therefore, no provision for any liability that may result upon resolution of this matter has been made in the accompanying financial statements.

D. Insurance Coverage

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

E. Unfunded Liability

An actuarial valuation of the Republic of Palau Social Security Retirement Fund has determined that the Fund has an actuarial deficiency of approximately \$176,995,000 as of October 1, 2015. 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, 2016 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, 2016, are as follows:

- a) Guaranteed bank debt of the National Development Bank of Palau (NDBP) with letters of guarantee. At September 30, 2016, NDBP had guaranteed debt totaling \$4,294,451.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2016

(14) Commitments and Contingencies, Continued

G. Debt Commitments, Continued

- 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, 2016, NDBP had guaranteed debt associated with this loan totaling \$3,318,617
- 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, 2016, PNCC had guaranteed debt totaling \$21,577,580.
- d) Guaranteed bank debt of the Palau Public Utilities Corporation (PPUC) with a letter of guarantee. At September 30, 2016, PUC had guaranteed debt totaling \$4,200,000.
- e) Guaranteed a debt of PPUC in respect of a loan from NDBP with a letter of guarantee. At September 30, 2016, PUC had guaranteed debt associated with this loan totaling \$2,233,965.

H. Civil Service Pension Trust Fund

As of September 30, 2016, 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 \$393,090. 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, 2016, 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.

The Pension Fund's actuarial valuation has determined that the Fund has a net pension liability of \$215,546,176 which would cause the Fund's fiduciary net position to become negative in 2018.

I. Budgetary Compliance

For the year ended September 30, 2016, significant over-expenditures exceeding appropriations within the General Fund were as follows:

Compact Section 211(f)	\$ 252,285
Other Non U.S. Grants Fund	\$ 179,539

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

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2016

(14) Commitments and Contingencies, Continued

J. Other

In the normal course of business, the Republic periodically engages in disputes with its vendors. Management of the Republic is of the opinion that resolution of such disputes existing as of September 30, 2016, will not have a material impact on the accompanying financial statements.

K. Asian Development Bank (ADB) Loans

On March 28, 2014, the Republic entered into two loan agreements (Loan Number 3060-PAL and Loan Number 3061-PAL (SF)) with the Asian Development Bank in the combined amount of approximately \$28,800,000 for the Koror-Airai Sanitation Project. The proceeds are to be on lent to the Palau Public Utilities Corporation under a separate Financing Agreement for the purpose of financing sanitation infrastructure improvements identified in the Koror-Airai Sanitation Master Plan. As of September 30, 2016, the Republic had drawn down \$1,831,356 against these loans. A substantial portion of the ADB loans are subject to currency exchange adjustments that can ultimately impact the carrying values of the debt.

On March 7, 2016, the Republic entered into two loans (Loan Number 3346-PAL and Loan Number 3347-PAL(SF)) with the Asian Development Bank in the combined amount of SDR 7,290,000. As of September 30, 2016, the Republic had drawn \$5,754,837 against these lines.

(15) Subsequent Events

On April 16, 2017, the Board of Trustees of the Civil Service Pension Trust Fund adopted a formal funding plan to correct the potential funding deficiency. The funding plan has not yet been implemented.

The Palau National Communications Corporation (PNCC) entered into an agreement on March 22, 2017. Under this agreement, PNCC agreed to purchase parts and software to build 23 full site power antenna for Third Generation (3G) and Fourth Generation (4G) Mobile Networks. PNCC agreed to purchase a turnkey complete 4G network for Palau for a total of \$2,650,000. The contract calls for a first payment of \$500,000 within 30 days after contract signing, \$300,000 within 30 days after the first payment and \$168,750 per month for the next eight months after the second payment. The remaining \$500,000 will be paid on or before the one year anniversary of the service launch date. Interest will be applied to the unpaid balance at the rate of 2% per month. This project is part of PNCC's modernization plans.

In December 2016, the Board of Directors of the Palau Public Utilities Corporation approved separation of the water and wastewater operations. The two divisions will be managed separately.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2016

(16) Restatement

Subsequent to the issuance of the Republic's 2015 financial statements, the management of the National Development Bank of Palau (NDBP) determined that deferred loan origination fees was overstated by \$428,641. As a result of this determination, beginning net position of the aggregate discretely presented component units has been restated from the amount previously reported.

REPUBLIC OF PALAU

**REQUIRED SUPPLEMENTARY INFORMATION
- BUDGETARY REPORTING**

YEAR ENDED SEPTEMBER 30, 2016

REPUBLIC OF PALAU

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
General Fund (Fund 100100)
Year Ended September 30, 2016

	Original Budget	Final Budget	Actual - Budgetary Basis (see note 1)	Variance
Revenues:				
Local revenue	\$52,036,000	\$59,168,325	\$ 61,679,290	\$ 2,510,965
Compact funding - Section 211(a)	6,000,000	6,000,000	6,000,000	-
Compact funding - Section 215 inflation adjustment	5,147,000	5,147,000	5,147,000	-
Net change in the fair value of investments	-	-	45,790	45,790
Other	-	415,318	339,572	(75,746)
Total revenues	<u>63,183,000</u>	<u>70,730,643</u>	<u>73,211,652</u>	<u>2,481,009</u>
Expenditures - budgetary basis:				
Office of the President	1,214,543	1,654,115	1,331,208	322,907
Office of the Vice-President	484,314	484,314	411,360	72,954
Ministry of Finance	3,471,054	3,690,073	3,447,873	242,200
Ministry of State	3,221,955	3,421,955	3,023,117	398,838
Ministry of Community and Cultural Affairs	1,287,309	1,407,934	1,181,266	226,668
Ministry of Education	8,672,919	8,841,919	7,851,609	990,310
Ministry of Public Infrastructure, Industry and Commerce	6,344,019	6,480,922	5,536,494	944,428
Ministry of Justice	5,118,761	5,617,761	5,106,244	511,517
Ministry of Health	10,082,134	10,614,861	9,437,302	1,177,559
Ministry of Natural Resources, Environment and Tourism	1,396,699	1,501,699	1,380,936	120,763
Boards, Commissions and Authorities	1,058,219	1,181,219	896,102	285,117
Judicial Branch	2,836,300	3,001,300	2,780,886	220,414
Legislative Branch	5,307,388	5,807,388	5,489,607	317,781
State Block Grants	6,503,600	6,503,600	6,503,600	-
Independent Agencies	2,641,759	2,796,759	2,504,958	291,801
Other Agencies and Activities	1,808,025	1,908,025	1,743,736	164,289
Education Assistance	3,380,515	3,430,515	3,380,515	50,000
Other Appropriations	3,866,167	8,340,367	7,241,634	1,098,733
Total expenditures	<u>68,695,680</u>	<u>76,684,726</u>	<u>69,248,447</u>	<u>7,436,279</u>
Excess (deficiency) of revenues over (under) expenditure	<u>(5,512,680)</u>	<u>(5,954,083)</u>	<u>3,963,205</u>	<u>9,917,288</u>
Other financing sources (uses):				
Loan proceeds	-	-	7,586,193	7,586,193
Operating transfers in	8,603,500	9,073,500	9,697,589	624,089
Operating transfers out	(4,482,000)	(4,510,597)	(4,942,012)	(431,415)
Total other financing sources (uses), net	<u>4,121,500</u>	<u>4,562,903</u>	<u>12,341,770</u>	<u>7,778,867</u>
	(1,391,180)	(1,391,180)	16,304,975	17,696,155
Other changes:				
Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary purposes but in the year the supplies are received for financial reporting purposes	<u>1,391,180</u>	<u>1,391,180</u>	<u>1,027,068</u>	<u>(364,112)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 17,332,043</u>	<u>\$ 17,332,043</u>

See Accompanying Notes to Required Supplementary Information - Budgetary Reporting.

REPUBLIC OF PALAU

Notes to Required Supplementary Information - Budgetary Reporting September 30, 2016

(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	
	<u>Fund Balance</u>	<u>Encumbrances</u>
General Fund (Fund 100100):		
Budgetary basis	\$ <u>17,332,043</u>	\$ <u>1,027,068</u>
Other reconciliation item:		
Transfer to Treasury Fund (Fund 109999)	1,349,897	-
GASB 54 Funds included within the General Fund:		
PAN Fund (Fund 100110)	(67,497)	-
Financial Institutions Commission Fund (Fund 100116)	53,049	8,539
Scholarship Fund (Fund 100150)	417,520	-
Non-Lapsing Fund (Fund 100200)	(2,943,290)	133,745
Receivable Fund (Fund 100900)	(56,536)	26,649
Treasury Fund (Fund 109999)	1,349,897	-
Compact Section 211(c) (Fund 311300)	(102,889)	-
Compact Section 211(d) (Fund 311400)	(48,136)	-
Compact Section 211(e) Fund (Fund 311500)	(433,465)	-
Compact Section 213 Fund (Fund 313000)	434,051	-
Compact Section 212 Fund (Fund 500100)	(115,213)	-
Local CIP Fund (Fund 410100)	9,377,124	874,274
Debt Service Fund (Fund 600000)	36,485	-
	<u>7,901,100</u>	<u>1,432,206</u>
	\$ <u>23,883,246</u>	\$ <u>2,070,275</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Pension Fund total net pension liability	\$ 215,546,175	\$ 204,281,232	\$ 182,080,330
The Republic's proportionate share of the net pension liability	\$ 137,096,288	\$ 129,957,796	\$ 117,770,883
The Republic's proportion of the net pension liability	63.60%	63.62%	64.68%
The Republic's covered employee payroll**	\$ 23,568,110	\$ 23,572,912	\$ 23,967,024
The Republic's proportionate share of the net pension liability as a percentage of its covered employee payroll	581.70%	551.30%	491.39%
Pension Fund fiduciary net position as a percentage of the total pension liability	11.54%	14.01%	15.84%

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

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

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Statutorily required contribution	\$ 1,838,448	\$ 1,761,120	\$ 1,627,361
Contribution in relation to the contractually required contribution	<u>1,858,478</u>	<u>1,785,089</u>	<u>1,666,717</u>
Contribution excess	<u>\$ (20,030)</u>	<u>\$ (23,969)</u>	<u>\$ (39,356)</u>
The Republic's covered-employee payroll**	<u>\$ 23,568,110</u>	<u>\$ 23,572,912</u>	<u>\$ 23,967,024</u>
Contribution as a percentage of covered-employee payroll	7.89%	7.57%	6.95%

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

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

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

OTHER SUPPLEMENTARY INFORMATION

YEAR ENDED SEPTEMBER 30, 2016

REPUBLIC OF PALAU

GENERAL FUND

September 30, 2016

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.

PAN Fund – This fund was established in 2016 to account for green fees that are collected for the Protected Areas Network Fund.

Financial Institutions Commission – This fund accounts for all fees paid to the Financial Institution Commission (FIC), not subject to the reprogramming authority of the President of the Republic, and shall be used exclusively for the administration of the statutory duties of the FIC.

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.

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

GENERAL FUND

Combining Schedule of Balance Sheet
September 30, 2016

	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	\$ 25,244,029	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Investments	-	-	-	-	-	3,799,502	-
Receivables, net:							
Taxes	5,271,995	-	-	-	-	-	-
General	909,164	-	-	-	-	-	-
Accrued interest	-	-	-	-	-	7,611	-
Due from component units	15,906,343	-	-	-	-	-	-
Due from other funds	84,704,133	106,067	-	-	-	-	-
Advances	414,251	-	-	-	-	-	-
Prepaid items	190,935	-	-	-	-	-	-
Other assets	1,191,965	-	-	-	-	-	-
Restricted assets:							
Cash and cash equivalents	3,229,275	-	-	-	-	-	-
Total assets	<u>\$ 137,062,090</u>	<u>\$ 106,067</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,807,113</u>	<u>\$ -</u>
LIABILITIES AND FUND BALANCES (DEFICIT)							
Liabilities:							
Note payable	\$ 198,142	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Accounts payable	5,783,977	2,747	-	-	-	-	-
Due to State governments	473,223	-	-	-	-	-	-
Due to component units	253,098	-	-	-	-	-	-
Due to other funds	93,245,661	-	-	-	-	-	-
Accrued payroll and others	2,122,208	2,527	-	-	-	-	-
Other liabilities and accruals	497,607	-	-	-	-	-	-
Unearned revenue	-	-	-	-	-	-	-
Income tax refunds	997,357	-	-	-	-	-	-
Total liabilities	<u>103,571,273</u>	<u>5,274</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances (deficit):							
Nonspendable	19,782,853	-	-	-	-	-	-
Unassigned	13,707,964	100,793	-	-	-	3,807,113	-
Total fund balances (deficit)	<u>33,490,817</u>	<u>100,793</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,807,113</u>	<u>-</u>
Total liabilities and fund balances (deficit)	<u>\$ 137,062,090</u>	<u>\$ 106,067</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,807,113</u>	<u>\$ -</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

GENERAL FUND

Combining Schedule of Balance Sheet, Continued
September 30, 2016

	410100	430100	500100	600000		
	Local CIP	DOI CIP	Compact Section 212 (b)	Debt Service	Elimination	Total
ASSETS						
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 25,244,029
Investments	-	-	-	-	-	3,799,502
Receivables, net:						
Taxes	-	-	-	-	-	5,271,995
General	-	-	-	-	-	909,164
Accrued interest	-	-	-	-	-	7,611
Due from component units	-	-	-	-	-	15,906,343
Due from other funds	8,003,607	82,636	-	2,433,935	(87,659,081)	7,671,297
Advances	4,946	503	-	-	-	419,700
Prepaid items	-	-	-	-	-	190,935
Other assets	-	-	-	-	-	1,191,965
Restricted assets:						
Cash and cash equivalents	-	-	-	-	-	3,229,275
Total assets	<u>\$ 8,008,553</u>	<u>\$ 83,139</u>	<u>\$ -</u>	<u>\$ 2,433,935</u>	<u>\$ (87,659,081)</u>	<u>\$ 63,841,816</u>
LIABILITIES AND FUND BALANCES (DEFICIT)						
Liabilities:						
Note payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 198,142
Accounts payable	24,479	-	-	79	-	5,811,282
Due to State governments	-	-	-	-	-	473,223
Due to component units	-	-	-	-	-	253,098
Due to other funds	-	-	-	-	(87,659,081)	5,586,580
Accrued payroll and others	-	-	-	235,824	-	2,360,559
Other liabilities and accruals	-	-	-	-	-	497,607
Unearned revenue	-	180,453	-	-	-	180,453
Income tax refunds	-	-	-	-	-	997,357
Total liabilities	<u>24,479</u>	<u>180,453</u>	<u>-</u>	<u>235,903</u>	<u>(87,659,081)</u>	<u>16,358,301</u>
Fund balances (deficit):						
Nonspendable	-	-	-	-	-	19,782,853
Unassigned	7,984,074	(97,314)	-	2,198,032	-	27,700,662
Total fund balances (deficit)	<u>7,984,074</u>	<u>(97,314)</u>	<u>-</u>	<u>2,198,032</u>	<u>-</u>	<u>47,483,515</u>
Total liabilities and fund balances (deficit)	<u>\$ 8,008,553</u>	<u>\$ 83,139</u>	<u>\$ -</u>	<u>\$ 2,433,935</u>	<u>\$ (87,659,081)</u>	<u>\$ 63,841,816</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

GENERAL FUND

Combining Schedule of Revenues, Expenditures By Function,
and Changes in Fund Balance (Deficit)
Year Ended September 30, 2016

	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	\$ 50,478,687	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Compact funding	11,147,000	-	-	-	-	-	2,000,000
Net change in the fair value of investments	45,790	-	-	-	1,884	456,982	-
Fees and charges	10,404,720	-	-	-	-	-	-
Licenses and permits	7,445,428	1,007,024	-	-	-	-	-
Other	339,777	54,118	-	-	-	-	-
Total revenues	79,861,402	1,061,142	-	-	1,884	456,982	2,000,000
Expenditures:							
Current:							
Judicial Branch	2,780,886	-	-	-	-	-	-
Legislative Branch	5,358,382	-	-	-	-	-	-
Office of the President	1,260,928	-	-	-	-	-	-
Office of the Vice-President	410,509	-	-	-	-	-	-
Ministry of Finance	3,438,912	-	-	-	-	-	-
Ministry of State	2,970,769	-	-	-	-	-	-
Ministry of Community and Cultural Affairs	1,316,486	-	-	-	-	-	-
Ministry of Education	7,679,493	-	-	-	-	-	-
Ministry of Public Infrastructure, Industry and Commerce	5,432,003	-	-	-	-	-	-
Ministry of Justice	5,299,392	-	-	-	-	-	-
Ministry of Health	9,781,523	-	-	-	-	-	-
Ministry of Natural Resources, Environment and Tourism	1,617,232	-	-	-	-	-	-
Boards, Commissions, and Authorities	984,401	-	-	-	-	-	-
State Block Grants	6,503,600	-	-	-	-	-	-
Independent Agencies	2,501,496	-	-	-	-	-	-
Other Agencies and Activities	7,510,636	-	-	-	8,096	22,931	-
Education assistance	3,380,515	2,635,622	-	-	-	-	-
PPUC Water & Sewer Operations	3,403,500	-	-	-	-	-	-
Severe Drought Relief	1,648,363	-	-	-	-	-	-
Health Care Fund Contributions	515,185	-	-	-	-	-	-
Government base salary increase	953,931	-	-	-	-	-	-
Belau Sumbarine Cable	305,000	-	-	-	-	-	-
Twelfth Festival of Pacific Arts	315,225	-	-	-	-	-	-
Typhoon emergency assistance	75,000	-	-	-	-	-	-
Capital projects	-	-	-	-	-	-	-
Debt service:							
Principal retirement	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-
Total expenditures	75,443,367	2,635,622	-	-	8,096	22,931	-
Excess (deficiency) of revenues over (under) expenditures	4,418,035	(1,574,480)	-	-	(6,212)	434,051	2,000,000
Other financing sources (uses):							
Loan proceeds	7,586,193	-	-	-	-	-	-
Operating transfers in	11,047,486	1,992,000	-	-	-	-	-
Operating transfers out	(8,733,945)	-	(102,889)	(48,136)	(427,253)	-	(2,000,000)
Total other financing sources (uses), net	9,899,734	1,992,000	(102,889)	(48,136)	(427,253)	-	(2,000,000)
Net change in fund balances (deficit)	14,317,769	417,520	(102,889)	(48,136)	(433,465)	434,051	-
Fund balances (deficit) at beginning of year	19,173,048	(316,727)	102,889	48,136	433,465	3,373,062	-
Fund balances (deficit) at end of year	\$ 33,490,817	\$ 100,793	\$ -	\$ -	\$ -	\$ 3,807,113	\$ -

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, 2016

	410100	430100	500100	600000		
	Local CIP	DOI CIP	Compact Section 212 (b)	Debt Service	Elimination	Total
Revenues:						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 50,478,687
Compact funding	-	-	-	-	-	13,147,000
Net change in the fair value of investments	359	-	(1,255)	-	-	503,760
Fees and charges	-	-	-	-	-	10,404,720
Licenses and permits	-	-	-	-	-	8,452,452
Other	-	-	-	-	-	393,895
Total revenues	<u>359</u>	<u>-</u>	<u>(1,255)</u>	<u>-</u>	<u>-</u>	<u>83,380,514</u>
Expenditures:						
Current:						
Judicial Branch	-	-	-	-	-	2,780,886
Legislative Branch	-	-	-	-	-	5,358,382
Office of the President	-	-	-	-	-	1,260,928
Office of the Vice-President	-	-	-	-	-	410,509
Ministry of Finance	-	-	-	-	-	3,438,912
Ministry of State	-	-	-	-	-	2,970,769
Ministry of Community and Cultural Affairs	-	-	-	-	-	1,316,486
Ministry of Education	-	-	-	-	-	7,679,493
Ministry of Public Infrastructure, Industry and Commerce	-	-	-	-	-	5,432,003
Ministry of Justice	-	-	-	-	-	5,299,392
Ministry of Health	-	-	-	-	-	9,781,523
Ministry of Natural Resources, Environment and Tourism	-	-	-	-	-	1,617,232
Boards, Commissions, and Authorities	-	-	-	-	-	984,401
State Block Grants	-	-	-	-	-	6,503,600
Independent Agencies	-	-	-	-	-	2,501,496
Other Agencies and Activities	-	-	775	-	-	7,542,438
Education assistance	-	-	-	-	-	6,016,137
PPUC Water & Sewer Operations	-	-	-	-	-	3,403,500
Severe Drought Relief	-	-	-	-	-	1,648,363
Health care fund contributions	-	-	-	-	-	515,185
Government base salary increase	-	-	-	-	-	953,931
Twelfth Festival of Pacific Arts	-	-	-	-	-	305,000
Typhoon emergency assistance	-	-	-	-	-	315,225
Capital projects	1,091,423	-	-	-	-	75,000
Debt service:						
Principal retirement	-	-	-	2,271,911	-	2,271,911
Interest	-	-	-	448,604	-	448,604
Total expenditures	<u>1,091,423</u>	<u>-</u>	<u>775</u>	<u>2,720,515</u>	<u>-</u>	<u>81,922,729</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,091,064)</u>	<u>-</u>	<u>(2,030)</u>	<u>(2,720,515)</u>	<u>-</u>	<u>1,457,785</u>
Other financing sources (uses):						
Loan proceeds	10,000,000	-	-	-	-	17,586,193
Operating transfers in	468,188	-	-	2,757,000	(10,918,582)	5,346,092
Operating transfers out	-	-	(113,183)	-	10,918,582	(506,824)
Total other financing sources (uses), net	<u>10,468,188</u>	<u>-</u>	<u>(113,183)</u>	<u>2,757,000</u>	<u>-</u>	<u>22,425,461</u>
Net change in fund balances (deficit) of year	<u>9,377,124</u> <u>(1,393,050)</u>	<u>-</u> <u>(97,314)</u>	<u>(115,213)</u> <u>115,213</u>	<u>36,485</u> <u>2,161,547</u>	<u>-</u> <u>-</u>	<u>23,883,246</u> <u>23,600,269</u>
Fund balances (deficit) at end of year	<u>\$ 7,984,074</u>	<u>\$ (97,314)</u>	<u>\$ -</u>	<u>\$ 2,198,032</u>	<u>\$ -</u>	<u>\$ 47,483,515</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

GENERAL FUND

Combining Schedule of Expenditures By Object
Year Ended September 30, 2016

	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	\$ 36,301,252	\$ 65,255	\$ -	\$ -	\$ -	\$ -	\$ -
Professional and contractual services	557,610	-	-	-	-	-	-
Repairs and maintenance	1,050,139	2,800	-	-	-	-	-
Rentals	758,010	20	-	-	-	-	-
Construction	238,125	-	-	-	-	-	-
Insurance	104,225	-	-	-	-	-	-
Advertising	65,954	2,750	-	-	-	-	-
Travel	1,206,899	32,676	-	-	-	-	-
Cleaning services	191,794	-	-	-	-	-	-
Communications and postage	1,002,327	5,934	-	-	-	-	-
Supplies and materials	1,334,041	6,288	-	-	-	-	-
Medical drugs	276,015	-	-	-	-	-	-
Medical supplies	669,937	-	-	-	-	-	-
Petroleum products	707,293	210	-	-	-	-	-
Food stuffs	1,243,677	72	-	-	-	-	-
Books and library materials	131,546	-	-	-	-	-	-
Utilities	2,677,623	-	-	-	-	-	-
Machinery	6,818	-	-	-	-	-	-
Equipment	347,870	1,763	-	-	-	-	-
Vehicles	217,417	-	-	-	-	-	-
Furnitures and fixtures	46,484	-	-	-	-	-	-
Computer software	24,501	-	-	-	-	-	-
Training	3,049	-	-	-	-	-	-
Medical referrals	148,768	-	-	-	-	-	-
Donations	621,166	-	-	-	-	-	-
Payments of allotments/benefits	24,362,602	-	-	-	-	-	-
Freight	23,377	-	-	-	-	-	-
Representation and entertainment	22,587	-	-	-	-	-	-
Dues, fees and registration	590,042	75	-	-	-	-	-
Grants	6,700	959,369	-	-	-	-	-
Student loans	-	1,269,981	-	-	-	-	-
Scholarships	-	249,914	-	-	-	-	-
Board compensation	90,724	38,500	-	-	-	-	-
Employee incentive awards	14,850	-	-	-	-	-	-
Allowances	356,038	-	-	-	-	-	-
Bank service fee	12,125	-	-	-	-	-	-
Investment management fees	-	-	-	-	8,096	22,931	-
Questioned costs	15,416	-	-	-	-	-	-
Bad debt	-	-	-	-	-	-	-
Principal retirement	-	-	-	-	-	-	-
Interest charges	-	-	-	-	-	-	-
Miscellaneous	16,366	15	-	-	-	-	-
Total expenditures	\$ 75,443,367	\$ 2,635,622	\$ -	\$ -	\$ 8,096	\$ 22,931	\$ -

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

GENERAL FUND

Combining Schedule of Expenditures By Object, Continued
Year Ended September 30, 2016

	410100	430100	500100	600000	
	Local CIP	DOI CIP	Compact Section 212 (b)	Debt Service	Total
Expenditures:					
Salaries and wages	\$ -	\$ -	\$ -	\$ -	\$ 36,366,507
Professional and contractual services	27,700	-	-	-	585,310
Repairs and maintenance	-	-	-	-	1,052,939
Rentals	-	-	-	-	758,030
Construction	1,048,436	-	-	-	1,286,561
Insurance	-	-	-	-	104,225
Advertising	-	-	-	-	68,704
Travel	-	-	-	-	1,239,575
Cleaning services	-	-	-	-	191,794
Communications and postage	-	-	-	-	1,008,261
Supplies and materials	-	-	-	-	1,340,329
Medical drugs	-	-	-	-	276,015
Medical supplies	-	-	-	-	669,937
Petroleum products	-	-	-	-	707,503
Food stuffs	-	-	-	-	1,243,749
Books and library materials	-	-	-	-	131,546
Utilities	-	-	-	-	2,677,623
Machinery	-	-	-	-	6,818
Equipment	-	-	-	-	349,633
Vehicles	-	-	-	-	217,417
Furnitures and fixtures	-	-	-	-	46,484
Computer software	-	-	-	-	24,501
Training	-	-	-	-	3,049
Medical referrals	-	-	-	-	148,768
Donations	-	-	-	-	621,166
Payments of allotments/benefits	-	-	-	-	24,362,602
Freight	-	-	-	-	23,377
Representation and entertainment	-	-	-	-	22,587
Dues, fees and registration	-	-	-	-	590,117
Grants	-	-	-	-	966,069
Student loans	-	-	-	-	1,269,981
Scholarships	-	-	-	-	249,914
Board compensation	-	-	-	-	129,224
Employee incentive awards	-	-	-	-	14,850
Allowances	-	-	-	-	356,038
Bank service fee	15,287	-	-	-	27,412
Investment management fees	-	-	775	-	31,802
Questioned costs	-	-	-	-	15,416
Bad debt	-	-	-	-	-
Principal retirement	-	-	-	2,271,911	2,271,911
Interest charges	-	-	-	448,604	448,604
Miscellaneous	-	-	-	-	16,381
Total expenditures	\$ 1,091,423	\$ -	\$ 775	\$ 2,720,515	\$ 81,922,729

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

GENERAL FUND

Schedule of Revenues
Year Ended September 30, 2016
(With comparative totals for the year ended September 30, 2015)

	<u>2016</u>	<u>2015</u>
Compact funding:		
Section 211(a)	\$ 6,000,000	\$ 6,000,000
Section 221(b)	2,000,000	2,000,000
Section 215 inflation adjustment	<u>5,147,000</u>	<u>5,147,000</u>
Total compact funding	<u>13,147,000</u>	<u>13,147,000</u>
Taxes:		
Gross receipts	14,909,895	14,524,588
Salary and wage	10,024,467	9,142,875
Alcohol and tobacco	10,345,106	9,640,098
Hotel occupancy	5,618,786	5,676,518
Travelers head	3,173,450	3,573,152
General import	3,000,134	3,268,971
Penalties, interest and delinquencies	1,002,630	764,613
Fuel excise	867,163	730,140
Beverage container tax	501,728	493,278
Fish export	448,534	293,034
Vessel cabin and foreign water vessel	152,003	206,412
Other	<u>434,791</u>	<u>407,714</u>
Total taxes	<u>50,478,687</u>	<u>48,721,393</u>
Licenses and permits:		
Fishing days fees	5,306,591	5,996,925
Foreign labor permits	1,702,392	1,387,067
Business licenses	373,300	299,961
Foreign investment permits and fees	309,656	292,700
Fishing rights fees	188,690	247,655
Court fines and fees	165,150	132,122
Corporate filing fees	39,246	41,777
Other licenses and permits	<u>367,427</u>	<u>333,909</u>
Total licenses and fees	<u>8,452,452</u>	<u>8,732,116</u>
Fees and charges:		
Green fees	4,622,600	5,212,078
Airport fees and rentals	3,381,915	3,575,460
Postal service	403,827	401,313
Ship registry	627,330	324,388
Palau passport fees	162,733	196,030
Banking fees	152,550	134,765
Seaport fees	24,821	27,763
Water utility charges	20	-
Other	<u>1,028,924</u>	<u>332,151</u>
Total fees and charges	<u>10,404,720</u>	<u>10,203,948</u>
Net change in the fair value of investments	<u>503,760</u>	<u>3,722</u>
Other:		
Indirect cost recoveries	127,425	144,278
Other	<u>266,470</u>	<u>274,238</u>
Total other	<u>393,895</u>	<u>418,516</u>
Total revenues	<u>\$ 83,380,514</u>	<u>\$ 81,226,695</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

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

Year Ended September 30, 2016

	Budgeted Amounts			
	Original	Final	Actual	Variance
Revenues:				
Local revenue	\$ 52,036,000	\$ 59,168,325	\$ 61,679,290	\$ 2,510,965
Compact funding - Section 211(a)	6,000,000	6,000,000	6,000,000	-
Compact funding - Section 215 inflation adjustment	5,147,000	5,147,000	5,147,000	-
Net change in the fair value of investments	-	-	45,790	45,790
Other	-	415,318	339,572	(75,746)
Total revenues	63,183,000	70,730,643	73,211,652	2,481,009
Expenditures - budgetary basis:				
Office of the President:				
President's Office	902,194	902,194	808,980	93,214
Official Expenses	35,947	35,947	27,143	8,804
Indirect Cost Recoveries	4,235	326,478	125,147	201,331
Administrative Overhead	667	17,996	17,996	-
Grants Coordinator Office	76,500	76,500	74,998	1,502
Council of Chiefs	150,000	150,000	135,053	14,947
Presidential Stipend	45,000	45,000	44,999	1
Pacific Islands News Association-4th Pacific Media Summit	-	50,000	48,702	1,298
Micronesians Presidents/Micronesians Chief Executives' Summit and Small Islands' Leaders Retreat	-	50,000	48,190	1,810
Total Office of the President	1,214,543	1,654,115	1,331,208	322,907
Office of the Vice-President:				
Vice-President's Office	309,314	309,314	263,597	45,717
National Emergency Management Office	175,000	175,000	147,763	27,237
Total Office of the Vice-President	484,314	484,314	411,360	72,954
Ministry of Finance:				
Office of the Minister	58,000	58,000	56,240	1,760
Administrative Overhead	3,257	53,276	49,409	3,867
Information System Support Service	242,158	242,158	235,052	7,106
Bureau of National Treasury	822,361	822,361	811,134	11,227
Bureau of Budget and Planning	575,143	575,143	573,282	1,861
Bureau of Public Service System	177,791	238,791	234,677	4,114
Workmen's Compensation	37,000	45,000	44,712	288
Bureau of Revenue, Customs and Taxation	1,555,344	1,655,344	1,443,367	211,977
Total Ministry of Finance	3,471,054	3,690,073	3,447,873	242,200
Ministry of State:				
Office of the Minister	58,000	58,000	56,130	1,870
Consulate Office in Guam	107,000	107,000	94,675	12,325
Consulate Office in Saipan	50,000	50,000	38,569	11,431
Embassy in Washington D.C.	270,763	330,763	256,974	73,789
Embassy in Japan	350,835	436,835	423,117	13,718
Embassy in Taipei, Taiwan	148,000	162,000	157,433	4,567
Embassy in Manila, Philippines	150,000	150,000	146,182	3,818
United Nations Representative Office	305,000	305,000	236,299	68,701
Office of the Public Defender	360,815	360,815	324,921	35,894
Bureau of Trade and Foreign Affairs	458,285	458,285	414,792	43,493
Bureau of Domestic Affairs	286,772	286,772	256,894	29,878
Passport Office	67,695	67,695	60,436	7,259
International Organizations Obligations	250,000	250,000	249,969	31
Southwest Islands Field Trips	96,000	136,000	136,000	-
ROP Embassy for European Union/Climate Change	262,790	262,790	170,726	92,064
Total Ministry of State	3,221,955	3,421,955	3,023,117	398,838
Ministry of Community and Cultural Affairs:				
Office of the Minister	58,000	58,000	56,131	1,869
Bureau of National Archives	136,000	136,000	86,199	49,801
Bureau of Youth, Sports and Recreation	269,323	319,323	253,651	65,672
Bureau of Aging and Gender	292,895	292,895	266,462	26,433
Sports Facilities Maintenance and Utilities	90,070	90,070	64,839	25,231
Bureau of Arts and Culture	194,501	194,501	155,797	38,704
Olchotel Belau Fair	20,000	20,000	20,000	-
Palau Severely Disabled Assistance Fund	226,520	297,145	278,187	18,958
Total Ministry of Community and Cultural Affairs	1,287,309	1,407,934	1,181,266	226,668

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, 2016

	Budgeted Amounts		Actual	Variance
	Original	Final		
Ministry of Education:				
Office of the Minister	58,000	58,000	56,130	1,870
School Books, Supplies and Instructional Equipment	306,320	475,320	382,133	93,187
Bureau of Curriculum and Instruction	513,301	513,301	419,663	93,638
Bureau of School Administration	6,916,464	6,916,464	6,317,385	599,079
Food Services Program	878,834	878,834	676,298	202,536
Total Ministry of Education	<u>8,672,919</u>	<u>8,841,919</u>	<u>7,851,609</u>	<u>990,310</u>
Ministry of Public Infrastructure, Industry and Commerce:				
Office of the Minister	58,000	58,000	56,130	1,870
FAA, UNDP, & Other Match	-	121,403	121,403	-
Bureau of Commercial Development	321,327	321,327	285,227	36,100
Palau Small Business Development Center (UOG)	45,000	45,000	45,000	-
Bureau of Aviation	1,812,099	1,812,099	1,605,092	207,007
Bureau of Lands and Survey	856,682	872,182	822,196	49,986
Bureau of Public Works	1,324,175	1,324,175	1,267,148	57,027
Landfill Operations	4,800	4,800	-	4,800
National Capitol Electricity/Maintenance	1,767,576	1,767,576	1,212,645	554,931
Capital Improvement Office	154,360	154,360	121,653	32,707
Total Ministry of Public Infrastructure, Industry and Commerce	<u>6,344,019</u>	<u>6,480,922</u>	<u>5,536,494</u>	<u>944,428</u>
Ministry of Justice:				
Office of the Attorney General	631,156	631,156	501,486	129,670
Bureau of Immigration	426,585	480,585	372,159	108,426
Bureau of Public Safety	2,888,481	3,284,481	3,068,480	216,001
Bureau of Labor & Human Resources	306,710	330,710	287,432	43,278
Bureau of Marine Law Enforcement	865,829	890,829	876,687	14,142
Total Ministry of Justice	<u>5,118,761</u>	<u>5,617,761</u>	<u>5,106,244</u>	<u>511,517</u>
Ministry of Health:				
Office of the Minister	58,000	58,000	56,130	1,870
NCCP Admin Cost	-	25,727	25,727	-
Bureau of Public Health	1,222,738	1,222,738	1,015,252	207,486
Health Administration	2,800,305	2,815,305	2,613,632	201,673
Manila Medical Referral Office	113,845	160,845	130,967	29,878
Hawaii Medical Referral Office	125,000	125,000	118,163	6,837
Taipei Medical Referral	125,000	150,000	139,795	10,205
Medical Supplies and Drugs	434,423	734,423	566,673	167,750
Division of Oral Health	-	120,000	14,481	105,519
Hemodialysis	638,988	638,988	514,904	124,084
Hyperbaric Chamber	36,000	36,000	25,202	10,798
Bureau of Clinical Service	1,977,835	1,977,835	1,866,956	110,879
Bureau of Nursing	2,350,000	2,350,000	2,149,420	200,580
Medical Referrals for Uninsured	200,000	200,000	200,000	-
Total Ministry of Health	<u>10,082,134</u>	<u>10,614,861</u>	<u>9,437,302</u>	<u>1,177,559</u>
Ministry of Natural Resources, Environment and Tourism:				
Office of the Minister	58,000	58,000	56,548	1,452
Bureau of Marine Resources	550,214	625,214	541,472	83,742
Bureau of Agriculture	582,160	612,160	594,557	17,603
Bureau of Tourism	206,325	206,325	188,359	17,966
Total Ministry of Natural Resources, Environment and Tourism	<u>1,396,699</u>	<u>1,501,699</u>	<u>1,380,936</u>	<u>120,763</u>
Total Executive Branch	<u>41,293,707</u>	<u>43,715,553</u>	<u>38,707,409</u>	<u>5,008,144</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

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

Year Ended September 30, 2016

	Budgeted Amounts		Actual	Variance
	Original	Final		
Boards, Commissions and Authorities:				
Foreign Investment Board	116,420	116,420	104,045	12,375
Palau Election Commission	353,381	353,381	275,243	78,138
COFA Board of Trustees	25,044	25,044	24,312	732
Palau National Code Commission	64,000	64,000	23,533	40,467
Palau Public Lands Authority	100,000	120,000	66,102	53,898
Parole Board	31,169	31,169	21,870	9,299
Palau Housing Authority	70,000	70,000	70,000	-
Ethics Commission	50,232	50,232	24,058	26,174
Financial Institutions Commission	35,000	51,000	50,969	31
Financial Investigations Unit	100,973	187,973	134,867	53,106
Language Commission	57,000	57,000	46,103	10,897
Ngardmau Free Trade Zone Authority	25,000	25,000	25,000	-
Mechesil Bealu	30,000	30,000	30,000	-
Total Boards, Commissions and Authorities	1,058,219	1,181,219	896,102	285,117
Judicial Branch:				
Judiciary	2,836,300	3,001,300	2,780,886	220,414
Total Judicial Branch	2,836,300	3,001,300	2,780,886	220,414
Olbiil Era Kelulau:				
Senate	1,982,595	2,282,595	2,138,886	143,709
Senate Legal Counsel Office	211,673	211,673	157,000	54,673
House of Delegates	2,529,400	2,729,400	2,698,211	31,189
Delegates Legal Counsel Office	209,950	209,950	169,752	40,198
Joint Staff	278,770	278,770	272,721	6,049
Association of Pacific Island Legislatures	15,000	15,000	14,490	510
Inter-Parliamentary Union	15,000	15,000	11,800	3,200
Palau Japan Parliamentary Friendship	35,000	35,000	-	35,000
Electricity for the Koror Olbiil Era Kelulau Building	30,000	30,000	26,747	3,253
Total Legislative Branch	5,307,388	5,807,388	5,489,607	317,781
State Block Grants	6,503,600	6,503,600	6,503,600	-
Independent Agencies:				
Office of the Public Auditor	549,393	549,393	387,019	162,374
Office of the Special Prosecutor	303,111	303,111	234,917	68,194
Palau Environmental Quality Protection Board	400,209	450,209	412,105	38,104
National Postal Service	389,000	389,000	380,598	8,402
Palau Visitors Authority	840,000	920,000	920,000	-
National Aviation Administration	160,046	185,046	170,319	14,727
Total Independent Agencies	2,641,759	2,796,759	2,504,958	291,801
Other Agencies and Activities:				
Palau National Museum	260,000	260,000	221,530	38,470
Micronesian Legal Services	125,000	125,000	125,000	-
Palau Community Action Agency	275,000	275,000	275,000	-
Head Start Program	113,000	113,000	113,000	-
Palau Red Cross	10,000	10,000	10,000	-
WIA Grant Contribution	93,000	93,000	92,548	452
Apprentice Program	15,000	15,000	15,000	-
Civic Action Team Share	250,000	250,000	250,000	-
PNOC and Sports Organizations	177,000	277,000	176,606	100,394
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	-
Peace Corps Contribution	70,025	70,025	45,052	24,973
Total Other Agencies and Activities	1,808,025	1,908,025	1,743,736	164,289

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, 2016

	Budgeted Amounts			
	Original	Final	Actual	Variance
Education Assistance:				
Palau Community College Operations	2,338,000	2,388,000	2,338,000	50,000
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	-
Work Incentive Program	87,515	87,515	87,515	-
Aid to Non-Public Schools	857,000	857,000	857,000	-
Total Education Assistance	<u>3,380,515</u>	<u>3,430,515</u>	<u>3,380,515</u>	<u>50,000</u>
Other Appropriations:				
Compact Review Office	206,482	206,482	-	206,482
Health Care Fund Contributions	515,185	515,185	515,185	-
PPUC Water and Sewer Operations	1,603,500	3,403,500	3,403,500	-
Twelfth Festival of Pacific Arts	100,000	350,000	315,610	34,390
National Government Base Salary Increase	1,441,000	1,441,000	953,931	487,069
Extreme Drought Relief	-	2,000,000	1,654,125	345,875
Belau Submarine Cable Corporation	-	305,000	305,000	-
Vice President Legal Fees	-	25,000	12,583	12,417
CNMI Typhoon Soudelor	-	75,000	75,000	-
Low-income Household Assistance	-	19,200	6,700	12,500
Total Other Appropriations	<u>3,866,167</u>	<u>8,340,367</u>	<u>7,241,634</u>	<u>1,098,733</u>
Total expenditures	<u>68,695,680</u>	<u>76,684,726</u>	<u>69,248,447</u>	<u>7,436,279</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(5,512,680)</u>	<u>(5,954,083)</u>	<u>3,963,205</u>	<u>9,917,288</u>
Other financing sources (uses):				
Loan proceeds	-	-	7,586,193	7,586,193
Operating transfers in:				
Compact Section 211(f) Trust Fund	5,000,000	5,000,000	5,000,000	-
PAN	1,603,500	1,603,500	1,603,500	-
Compact Direct Economic Assistance Fund	2,000,000	2,000,000	2,000,000	-
Compact Section 211e	-	470,000	427,253	(42,747)
Compact Section 212(b)	-	-	113,183	113,183
OTIA Direct Grants Fund	-	-	111,840	111,840
Compact Section 211(c)	-	-	102,889	102,889
Non -DOI Capital Grants	-	-	93,453	93,453
Other Non U.S. Federal Grants	-	-	77,225	77,225
Receivable	-	-	56,536	56,536
Compact Section 211(d)	-	-	48,136	48,136
Operator License	-	-	36,295	36,295
U.S. Federal Grants	-	-	27,279	27,279
Total other financing sources	<u>8,603,500</u>	<u>9,073,500</u>	<u>17,283,782</u>	<u>8,210,282</u>
Operating transfers out:				
National Scholarship Fund	(1,992,000)	(1,992,000)	(1,992,000)	-
Debt Service Fund	(1,975,000)	(1,975,000)	(1,975,000)	-
Other Country Grants Fund	(75,000)	(75,000)	(75,000)	-
Compact Section 211(f) Trust Fund	-	-	(252,285)	(252,285)
Other Non U.S. Grants Fund	-	-	(179,539)	(179,539)
Local CIP Fund	(440,000)	(468,597)	(468,188)	409
Total other financing uses	<u>(4,482,000)</u>	<u>(4,510,597)</u>	<u>(4,942,012)</u>	<u>(431,415)</u>
Total other financing sources (uses), net	<u>4,121,500</u>	<u>4,562,903</u>	<u>12,341,770</u>	<u>7,778,867</u>
	(1,391,180)	(1,391,180)	16,304,975	17,696,155
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	1,391,180	1,391,180	1,027,068	(364,112)
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 17,332,043</u>	<u>\$ 17,332,043</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

GRANTS FUND

September 30, 2016

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, 2016

	350100	350200	360100	420100	440100	
	U.S. Federal	OTIA	Other	Non-DOI	Other	
	Grants	Direct	Non U.S.	Capital	Country	
	Grants	Grants	Federal	Projects	Grants	Total
	Grants	Grants	Grants			
ASSETS						
Receivables, net:						
General	\$ 1,277	\$ -	\$ -	\$ -	\$ 5,097,323	\$ 5,098,600
Federal agencies	3,406,146	160,808	-	3,234,714	-	6,801,668
Due from other funds	-	-	912,218	-	-	912,218
Advances	171,036	10,826	62,272	-	106,390	350,524
Prepaid items	248,420	7,200	7,209	-	2,485	265,314
	<u>3,826,879</u>	<u>178,834</u>	<u>981,699</u>	<u>3,234,714</u>	<u>5,206,198</u>	<u>13,428,324</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 817,123	\$ 44,146	\$ 222,799	\$ -	\$ 1,821,088	\$ 2,905,156
Contracts payable	-	-	-	1,887,927	-	1,887,927
Unearned revenues	-	-	656,930	-	-	656,930
Other liabilities and accruals	148,545	3,668	19,529	1,700	19,912	193,354
Due to other funds	2,856,902	122,507	-	1,345,087	3,345,129	7,669,625
	<u>3,822,570</u>	<u>170,321</u>	<u>899,258</u>	<u>3,234,714</u>	<u>5,186,129</u>	<u>13,312,992</u>
Fund balances:						
Nonspendable	248,420	7,200	7,209	-	2,485	265,314
Unassigned	(244,111)	1,313	75,232	-	17,584	(149,982)
	<u>4,309</u>	<u>8,513</u>	<u>82,441</u>	<u>-</u>	<u>20,069</u>	<u>115,332</u>
Total liabilities and fund balances	<u>\$ 3,826,879</u>	<u>\$ 178,834</u>	<u>\$ 981,699</u>	<u>\$ 3,234,714</u>	<u>\$ 5,206,198</u>	<u>\$ 13,428,324</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

GRANTS FUND

Combining Statement of Revenues, Expenditures By Function, and Changes in Fund Balances Year Ended September 30, 2016

	350100	350200	360100	420100	440100	
	U.S. Federal Grants	OTIA Direct Grants	Other Non U.S. Grants	Non-DOI Capital Projects	Other Country Grants	Total
Revenues:						
Federal contributions	\$ 8,896,200	\$ 1,122,220	\$ -	\$ 7,055,260	\$ -	\$ 17,073,680
Other grants	-	-	2,175,484	-	12,107,442	14,282,926
Total revenues	8,896,200	1,122,220	2,175,484	7,055,260	12,107,442	31,356,606
Expenditures:						
Current:						
Office of the President	820,614	283,278	865,185	-	-	1,969,077
Office of the Vice President	-	-	3,567	-	-	3,567
Ministry of Finance	-	114,837	365,785	-	-	480,622
Ministry of State	-	-	470,349	-	-	470,349
Ministry of Education	3,023,733	-	-	-	-	3,023,733
Ministry of Public Infrastructure						
Industries & Commerce	-	64,616	-	-	-	64,616
Ministry of Justice	8,366	-	-	-	-	8,366
Ministry of Health	5,003,073	2,296	149,204	-	-	5,154,573
Ministry of Natural Resources, Environment and Tourism	15,166	-	35,184	-	-	50,350
Financial and Compliance Audit	-	522,210	-	-	-	522,210
Independent Agencies	-	23,143	226,132	-	-	249,275
Typhoon Assistance	-	-	79,951	-	-	79,951
Capital projects	-	-	-	6,961,807	12,162,373	19,124,180
Total expenditures	8,870,952	1,010,380	2,195,357	6,961,807	12,162,373	31,200,869
Excess (deficiency) of revenues over (under) expenditures	25,248	111,840	(19,873)	93,453	(54,931)	155,737
Other financing sources (uses):						
Operating transfers in	-	-	179,539	-	75,000	254,539
Operating transfers out	(27,279)	(111,840)	(77,225)	(93,453)	-	(309,797)
Total other financing sources (uses), net	(27,279)	(111,840)	102,314	(93,453)	75,000	(55,258)
Net change in fund balances	(2,031)	-	82,441	-	20,069	100,479
Fund balances at beginning of year	6,340	8,513	-	-	-	14,853
Fund balances at end of year	\$ 4,309	\$ 8,513	\$ 82,441	\$ -	\$ 20,069	\$ 115,332

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

GRANTS FUND

Combining Schedule of Expenditures By Object Year Ended September 30, 2016

	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	\$ 4,107,833	\$ 146,935	\$ 369,864	\$ 41,632	\$ 504,322	\$ 5,170,586
Professional and contractual services	980,186	699,259	140,786	528,158	1,467,106	3,815,495
Repairs and maintenance	91,950	46	149,718	-	930,036	1,171,750
Rentals	167,283	935	69,521	-	17,539	255,278
Building remodeling	56,000	-	-	-	534,137	590,137
Construction	-	-	80,605	6,392,017	6,055,346	12,527,968
Insurance	504	-	561	-	-	1,065
Advertising	29,571	2,957	7,127	-	1,272	40,927
Travel	937,080	36,397	327,868	-	334,789	1,636,134
Communications and postage	179,517	1,458	37,805	-	70,177	288,957
Supplies and materials	605,885	20,051	124,320	-	64,148	814,404
Medical drugs	18,570	-	-	-	-	18,570
Medical supplies	103,477	-	-	-	-	103,477
Petroleum products	84,924	4,347	45,095	-	43,945	178,311
Food stuffs	20,354	6,734	72,890	-	118,409	218,387
Books and periodicals	7,600	-	-	-	-	7,600
Utilities	75,642	400	7,506	-	5,185	88,733
Equipment	316,609	63,148	32,191	-	647,000	1,058,948
Vehicles	-	-	67,705	-	521,985	589,690
Furniture and fixture	56	-	-	-	-	56
Computer software	20,900	-	32,000	-	-	52,900
Administrative costs	46,795	20,707	-	-	-	67,502
Dues, fees and registration	19,489	1,050	3,566	-	8,039	32,144
Scholarships	313,733	-	-	-	-	313,733
Grants and contributions	-	-	119,447	-	-	119,447
Training	94,308	-	6,770	-	-	101,078
Payments of allotments/benefits	267,352	-	321,349	-	303,780	892,481
Freight	16,878	616	-	-	175,014	192,508
Board compensation	150,000	5,400	48,649	-	2,400	206,449
Employee incentive awards	13,550	-	800	-	-	14,350
Allowances	-	(60)	2,700	-	600	3,240
Indirect costs	144,906	-	-	-	-	144,906
Donations	-	-	122,920	-	352,335	475,255
Representation and entertainment	-	-	1,200	-	4,800	6,000
Cleaning services	-	-	-	-	9	9
Miscellaneous	-	-	2,394	-	-	2,394
Total expenditures	\$ 8,870,952	\$ 1,010,380	\$ 2,195,357	\$ 6,961,807	\$ 12,162,373	\$ 31,200,869

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS

September 30, 2016

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

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.

Forfeited Property - This fund account for all property seized by order of forfeiture. Fifty percent (50%) of forfeited property and the sale proceeds thereof shall be distributed to the units of the Republic or state government whose officers or employees conducted the investigation and caused the arrest of the person whose property was forfeited or seizure of the property for forfeiture; 25% shall be distributed to the Attorney General.

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.

Non-Communicable Diseases Fund - This fund accounts for 10% of annual alcoholic beverage tax revenues earmarked to support the efforts of the National Coordinating Mechanism for Non-Communicable Diseases under Executive Order 379 to prevent non-communicable diseases.

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

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

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.

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

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.

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

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

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS

Combining Balance Sheet
September 30, 2016

	100115	100118	100130	100140	100145	100147	100148	100160	100165	100170	300100	311120	
	Drug Fine Collection	Forfeited Property	Hospital Trust	Non-Communicable Diseases Fund	Publication and Law Access Unit	Sports Facilities Trust	Operator License	EQPB Mitigation Trust	Road Maintenance	Giant Clam Seed Sustainability Project	Palau Agricultural	Compact Section 211(b) Energy	Total
ASSETS													
Investments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 29	\$ 29
Receivables, net:													
General	-	-	47	-	-	-	-	-	-	-	-	7,611	7,658
Due from other funds	-	151,119	1,550,929	700,296	50,375	476	29,147	298,895	1,796,853	17,216	38,683	40,373	4,674,362
Advances	-	-	3,610	-	-	-	-	-	-	-	994	-	4,604
Restricted assets:													
Investments	-	-	-	-	-	-	-	-	-	-	-	3,414,152	3,414,152
Total assets	\$ -	\$ 151,119	\$ 1,554,586	\$ 700,296	\$ 50,375	\$ 476	\$ 29,147	\$ 298,895	\$ 1,796,853	\$ 17,216	\$ 39,677	\$ 3,462,165	\$ 8,100,805
LIABILITIES AND FUND BALANCES													
(DEFICIT)													
Liabilities:													
Accounts payable	\$ -	\$ -	\$ 1,046,434	\$ -	\$ 755	\$ -	\$ 19,147	\$ -	\$ 2,477	\$ 8,267	\$ 6,112	\$ -	\$ 1,083,192
Accrued payroll and others	-	-	-	-	-	-	-	-	3,008	-	-	-	3,008
Due to other funds	1,672	-	-	-	-	-	-	-	-	-	-	-	1,672
Total liabilities	1,672	-	1,046,434	-	755	-	19,147	-	5,485	8,267	6,112	-	1,087,872
Fund balances (deficit):													
Restricted	-	-	-	-	-	-	-	-	-	-	-	3,462,165	3,462,165
Committed	(1,672)	151,119	508,152	700,296	49,620	476	10,000	298,895	1,791,368	8,949	33,565	-	3,550,768
Total fund balances (deficit)	(1,672)	151,119	508,152	700,296	49,620	476	10,000	298,895	1,791,368	8,949	33,565	3,462,165	7,012,933
Total liabilities and fund balances	\$ -	\$ 151,119	\$ 1,554,586	\$ 700,296	\$ 50,375	\$ 476	\$ 29,147	\$ 298,895	\$ 1,796,853	\$ 17,216	\$ 39,677	\$ 3,462,165	\$ 8,100,805

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, 2016

	100115	100118	100130	100140	100145	100147	100148	100160	100165	100170	300100	311120	
	Drug Fine Collection	Forfeited Property	Hospital Trust	Non-Communicable Diseases Fund	Publication and Law Access Unit	Sports Facilities Trust	Operator License	EQPB Mitigation Trust	Road Maintenance	Giant Clam Seed Sustainability Project	Palau Agricultural	Compact Section 211(b) Energy	Total
Revenues:													
Taxes	\$ -	\$ -	\$ -	\$ 700,296	\$ -	\$ -	\$ -	\$ -	\$ 826,449	\$ -	\$ -	\$ -	\$ 1,526,745
Fees and charges	685	151,119	4,678,677	-	20,315	60	79,310	167,768	-	46,300	52,493	-	5,196,727
Licenses and permits	-	-	57,880	-	-	-	-	-	-	-	-	-	57,880
Net change in the fair value of investments	-	-	-	-	-	-	-	-	-	-	-	418,631	418,631
Total revenues	685	151,119	4,736,557	700,296	20,315	60	79,310	167,768	826,449	46,300	52,493	418,631	7,199,983
Expenditures:													
Current:													
Ministry of State	-	-	-	-	14,615	-	-	-	-	-	-	-	14,615
Ministry of Justice	-	-	-	-	-	-	43,015	-	-	-	-	-	43,015
Ministry of Health	-	-	4,896,439	-	-	-	-	-	-	-	-	-	4,896,439
Ministry of Natural Resources, Environment and Tourism	-	-	-	-	-	-	-	-	-	54,799	29,541	-	84,340
Ministry of Public Infrastructure, Industry and Commerce	-	-	-	-	-	-	-	-	102,872	-	-	-	102,872
Independent Agencies	-	-	-	-	-	-	-	9,743	-	-	-	-	9,743
Investment management fees	-	-	-	-	-	-	-	-	-	-	-	20,802	20,802
Total expenditures	-	-	4,896,439	-	14,615	-	43,015	9,743	102,872	54,799	29,541	20,802	5,171,826
Excess (deficiency) of revenues over (under) expenditures	685	151,119	(159,882)	700,296	5,700	60	36,295	158,025	723,577	(8,499)	22,952	397,829	2,028,157
Other financing uses:													
Operating transfers out	-	-	-	-	-	-	(36,295)	-	-	-	-	-	(36,295)
Net change in fund balances	685	151,119	(159,882)	700,296	5,700	60	-	158,025	723,577	(8,499)	22,952	397,829	1,991,862
Fund balances (deficit) at beginning of year	(2,357)	-	668,034	-	43,920	416	10,000	140,870	1,067,791	17,448	10,613	3,064,336	5,021,071
Fund balances (deficit) at end of year	\$ (1,672)	\$ 151,119	\$ 508,152	\$ 700,296	\$ 49,620	\$ 476	\$ 10,000	\$ 298,895	\$ 1,791,368	\$ 8,949	\$ 33,565	\$ 3,462,165	\$ 7,012,933

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS

Combining Schedule of Expenditures by Object
Year Ended September 30, 2016

	100115	100118	100130	100140	100145	100147	100148	100160	100165	100170	300100	311120	
				Non						Giant Clam		Compact	
	Drug Fine	Forfeited	Hospital	Communicable	Publication	Sports		EQPB	Road	Seed	Palau	Section 211(b)	Total
	Collection	Property	Trust	Diseases	and Law	Facilities	Operator	Mitigation	Maintenance	Sustainability	Agricultural	Energy	
				Fund	Access Unit	Trust	License	Trust		Project			
Expenditures:													
Salaries and wages	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,501	\$ 80,799	\$ -	\$ -	\$ -	\$ 83,300
Professional	-	-	78,750	-	-	-	-	-	-	-	-	-	78,750
Repairs and maintenance	-	-	28,700	-	723	-	11,531	-	-	5,695	1,000	-	47,649
Rental	-	-	8,837	-	-	-	-	-	6,000	-	50	-	14,887
Freight	-	-	28,594	-	-	-	-	-	-	-	-	-	28,594
Construction	-	-	-	-	-	-	-	-	2,000	-	-	-	2,000
Travel	-	-	135,859	-	-	-	-	-	-	-	4,924	-	140,783
Communications and postage	-	-	-	-	3,127	-	-	110	-	-	-	-	3,237
Supplies and materials	-	-	40,894	-	10,514	-	27,291	6,585	13,323	39,569	11,974	-	150,150
Medical drugs	-	-	1,038,111	-	-	-	-	-	-	-	-	-	1,038,111
Medical supplies	-	-	923,556	-	-	-	-	-	-	-	-	-	923,556
Medical referrals	-	-	2,530,272	-	-	-	-	-	-	-	-	-	2,530,272
Petroleum products	-	-	-	-	251	-	-	364	-	9,280	1,403	-	11,298
Food stuffs	-	-	20,157	-	-	-	-	183	-	-	701	-	21,041
Equipment	-	-	48,961	-	-	-	4,193	-	-	-	-	-	53,154
Vehicles	-	-	8,795	-	-	-	-	-	-	-	-	-	8,795
Dues, fees and registration	-	-	240	-	-	-	-	-	-	75	9,489	-	9,804
Investment management fees	-	-	-	-	-	-	-	-	-	-	-	20,802	20,802
Employee incentive award	-	-	700	-	-	-	-	-	-	-	-	-	700
Donations	-	-	1,513	-	-	-	-	-	-	-	-	-	1,513
Miscellaneous	-	-	2,500	-	-	-	-	-	750	180	-	-	3,430
Total expenditures	\$ -	\$ -	\$ 4,896,439	\$ -	\$ 14,615	\$ -	\$ 43,015	\$ 9,743	\$ 102,872	\$ 54,799	\$ 29,541	\$ 20,802	\$ 5,171,826

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

OTHER INFORMATION

September 30, 2016

A brief discussion of other information presented for additional analysis as of September 30, 2016, 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, 2016

	General	Special	Permanent	Other	Total
		Revenue		Governmental	
		Grants	Compact	Funds	
			Section 211(f)		
Expenditures:					
Salaries and wages	\$ 36,366,507	\$ 5,170,586	\$ -	\$ 83,300	\$ 41,620,393
Professional and contractual services	585,310	3,815,495	-	78,750	4,479,555
Repairs and maintenance	1,052,939	1,171,750	-	47,649	2,272,338
Rentals	758,030	255,278	-	14,887	1,028,195
Construction	1,286,561	13,118,105	-	2,000	14,406,666
Insurance	104,225	1,065	-	-	105,290
Advertising	68,704	40,927	-	-	109,631
Travel	1,239,575	1,636,134	-	140,783	3,016,492
Cleaning services	191,794	9	-	-	191,803
Communications and postage	1,008,261	288,957	-	3,237	1,300,455
Supplies and materials	1,340,329	814,404	-	150,150	2,304,883
Medical drugs	276,015	18,570	-	1,038,111	1,332,696
Medical supplies	669,937	103,477	-	923,556	1,696,970
Medical referrals	148,768	-	-	2,530,272	2,679,040
Petroleum products	707,503	178,311	-	11,298	897,112
Food stuffs	1,243,749	218,387	-	21,041	1,483,177
Books and periodicals	131,546	7,600	-	-	139,146
Utilities	2,677,623	88,733	-	-	2,766,356
Machinery	6,818	-	-	-	6,818
Equipment	349,633	1,058,948	-	53,154	1,461,735
Vehicles	217,417	589,690	-	8,795	815,902
Furniture and fixture	46,484	56	-	-	46,540
Computer software	24,501	52,900	-	-	77,401
Training	3,049	101,078	-	-	104,127
Administrative costs	-	67,502	-	-	67,502
Dues, fees and registration	590,117	32,144	-	9,804	632,065
Investment management fees	31,802	-	1,146,927	20,802	1,199,531
Grants and contributions	966,069	119,447	-	-	1,085,516
Payments of allotments/benefits	24,362,602	892,481	-	-	25,255,083
Freight	23,377	192,508	-	28,594	244,479
Student loans	1,269,981	-	-	-	1,269,981
Scholarships	249,914	313,733	-	-	563,647
Board compensation	129,224	206,449	-	-	335,673
Employee incentive awards	14,850	14,350	-	700	29,900
Allowances	356,038	3,240	-	-	359,278
Indirect costs	-	144,906	-	-	144,906
Donations	621,166	475,255	-	1,513	1,097,934
Representation and entertainment	22,587	6,000	-	-	28,587
Bank service fee	27,412	-	-	-	27,412
Questioned costs	15,416	-	-	-	15,416
Bad debt	-	-	-	-	-
Principal retirement	2,271,911	-	-	-	2,271,911
Interest charges	448,604	-	-	-	448,604
Miscellaneous	16,381	2,394	-	3,430	22,205
	<u>\$ 81,922,729</u>	<u>\$ 31,200,869</u>	<u>\$ 1,146,927</u>	<u>\$ 5,171,826</u>	<u>\$ 119,442,351</u>

See Accompanying Independent Auditors' Report.

OTHER COUNTRY GRANTS FUND

Schedule of Expenditures of Other Country Grants
Year Ended September 30, 2016

Fund 440100 Grantor Account Title	Budget Authorizations	Receivable from Grantor (Deferred Revenue) at 9/30/15	Cash Receipts FY2016	Expenditures FY2016	Receivable from Grantor (Deferred Revenue) at 9/30/16
STATE ECONOMIC STIMULUS PACKAGE 2013					
A34816 POSTAL SERVICE POS & IT S	\$ 140,000	\$ 45,598	\$ -	\$ 3,898	\$ 49,496
A34820 PVA OMR SCANNER & SOFTWARE	60,000	52,880	-	-	52,880
B30101 AIMELIHK HEAVY EQUIPMENT	300,000	(44,652)	-	-	(44,652)
B30102 NGCHEMIANGEL RUMP PROJ.	20,000	-	-	-	-
B30301 ANGAUR STATE BOAT	150,000	(7,700)	-	-	(7,700)
B30501 KAYANGEL STATE BOAT	150,000	104,400	-	-	104,400
B30601 KB BRIDGE KOROR-SIDE	200,000	82,304	27,000	-	55,304
B30602 MEYUNS OLD AIRPORT	200,000	(15,000)	-	-	(15,000)
B30801 NGARAARD RD IMPROVE PROJ	300,000	(114,713)	-	-	(114,713)
B30802 NGERCHOKL SITE DEVEL PROJ	-	(19,735)	-	-	(19,735)
B31001 NGARDMAU ROAD IMPROVE PRO	300,000	37,192	-	-	37,192
B31201 NGATPANG ROAD IMPROVE PRO	500,000	(8,674)	-	-	(8,674)
B31203 NGATPANG MILKFISH FARM PR	50,000	-	-	-	-
B31301 NGCHESAR ROAD IMPROVE PRO	325,000	(5,506)	-	-	(5,506)
B31401 NGIWAL ROAD IMPROVE PROJ	300,000	(21)	-	-	(21)
B31501 PELELIU HEAVY EQUIP REPAI	14,000	(1,760)	-	-	(1,760)
C34943 BELAU GAMES	16,000	200	-	-	200
F34808 CUSTOMS KENNEL FACILITY IMPROVEMENTS	-	-	61,675	56,800	(4,875)
F34815 BUD SUPPORT TYPHOON BOPHA	4,000,000	1,223	-	-	1,223
F34817 CUSTOMS INFO SYS IMPROVE	1,200,000	(251,347)	-	-	(251,347)
F34818 INFO & TELECOM SYS & TECH U	400,000	140,768	-	-	140,768
F34847 BBP INSTITUTIONAL STRENGTH	100,000	1,094	-	-	1,094
F3DDDU DRUG DETECTOR DOG UNIT	-	88,382	-	-	88,382
G3PRO1 PROPERTY REPAIRS & MAINT	75,000	28,159	-	-	28,159
H34855 MOH UPS PURCHASE	150,000	(278,600)	-	-	(278,600)
J34921 PSS REMELIHK HALFLIFE REF	64,000	-	-	-	-
M34834 INVASIVE SPECIES COMMITTEE	25,000	-	-	-	-
P34944 INDEPENDENCE DAY CELEB	100,000	5,134	-	-	5,134
P3PRS1 PRES IT IMPROVEMENTS	-	161,987	-	-	161,987
P3PRS2 PRESIDENT'S SUMMIT	25,000	(2,058)	-	-	(2,058)
R34804 MOE/MOH PV SYSTEM REPAIRS	-	-	100,000	100,000	-
R34809 SOLAR POWER GEN SYST 2013	300,000	(250,000)	-	-	(250,000)
R34813 MOF PARKING LOT CONCRETIN	65,000	45,787	-	-	45,787
R34816 POSTAL SERV PARKING CONCR	60,000	58,906	-	-	58,906
R34819 A/C CHILLERS & PREVENT	630,000	(76,263)	-	47,068	(29,195)
R34822 MOLD ERADICATION PKG D	50,000	(50,004)	-	-	(50,004)
R34827 STRUCTURAL REPAIR PKG E-I	840,000	299,376	-	-	299,376
R34828 ACCESS ROADS & PARKING RE	-	(93,750)	-	-	(93,750)
R34829 ELECMECH & CIV WKS PKGC	55,000	34,967	-	-	34,967
R34830 ANIMAL HUSBNDRY PROJ 2013	300,000	240,000	-	-	240,000
R34837 GROUPE RESTOCKING 2013	500,000	-	-	-	-
R34966 MELEKEOK SEWER SYSTEM IMP	600,000	(19,720)	-	-	(19,720)
13 STIMULUS GRANTS	12,564,000	188,854	188,675	207,766	207,945
STIMULUS PACKAGE 2014					
B40101 NGERKEAI BAI IMPROVEMENTS	50,000	-	-	-	-
B40602 KB BRIDGE KOROR-SIDE PARK	300,000	98,583	131,228	25,974	(6,671)
B40603 NGERBECHED ROAD IMP	300,000	209,145	219,000	(12,302)	(22,157)
B40701 MELEKEOK WATERLINE-DISPEN	250,000	63,151	166,877	110,412	6,686
B40801 ULIMANG-NGESANG ROAD CONS	300,000	39,597	35,400	(13,333)	(9,136)
B40802 NGERCHOKL SITE DEVELOPMENT	100,000	-	100,000	11,436	(88,564)
B40901 OKETOL DOCK ROAD IMPROVEM	300,000	52,178	35,400	(16,699)	79
B41001 NGARDMAU STATE ROAD REHAB	375,000	(89,600)	241,000	321,896	(8,704)
B41101 NGAREMLENGUI RD REHAB PH3	500,000	98,742	180,500	75,700	(6,058)
B41201 KOKSAI-NEKKEN-TTM RD IMPR	500,000	104,435	72,500	(30,961)	974
B41202 AGUACULTURE FISH PRODUCT.	-	200,000	-	-	200,000
B41301 NGCHESAR ROAD IMPROVEMENT	425,000	141,473	245,000	96,749	(6,778)
B41302 TABERNGESANG PARK IMPROVEMENT	50,000	-	50,000	45,000	(5,000)
B41401 NGIWAL STATE RD REHAB PII	300,000	13,323	30,000	-	(16,677)
B41403 BACKHOE/LOADER	100,000	-	20,000	-	(20,000)
B41501 STATE CAPITOL BUILDING	300,000	-	165,000	300,000	135,000
C44945 SOLAR LIGHTING-SWMNG POOL	200,000	21,843	23,578	(17,890)	(19,625)
E44870 SCH. RENOV/FIXTURES EQUI	1,200,000	(5,839)	74,115	14,075	(65,879)
F4TAX1 TAX INFO SYS UPGRADE PROJ	500,000	-	-	-	-
G44805 EXECUTIVE LUNCHEON FY14	18,000	(7,310)	18,000	-	(25,310)
G4PICR PICRC RES FACILITIES EXPA	400,000	(75,590)	180,000	382,103	126,513
G4SGS0 OERC MATCHING	50,000	56,768	25,000	7,000	38,768
G4SGS1 PVA-OTP HOLIDAY PROJECT	10,000	6,969	10,000	-	(3,031)
G4SGS2 BBP INSTITUTIONAL STRENGTH	100,000	45,504	50,000	1,724	(2,772)
G4SGS4 PNYC PROGRAM SUPPORT	15,000	15,000	-	(15,000)	-
G4SGS5 NGESECHAL A ERECHAR	25,000	-	25,000	-	(25,000)
G4SGS7 KRAMER WORKS TRANSLATION	25,000	35,000	-	-	35,000
G4SGS8 PCOG NGARABLOD	25,000	25,000	25,000	-	-
G4SGS9 NGARAARD COMMUNITY PRJCT	25,000	-	-	(25,000)	(25,000)
G4SG10 MARINE DOMAIN AWARE WRKSH	-	-	-	-	-
G4SG11 NGARCHELONG TARO FESTIVAL	15,000	15,000	15,000	-	-
G4SG12 10TH BELAU NATIONAL GAMES	32,000	32,000	32,000	-	-
G4SG13 NGARCHELONG COMM ACTIVITY	5,000	5,000	-	(5,000)	-
G4SG14 NGARARRD COMM ACTIVITIES	15,000	15,000	15,000	-	-

See Accompanying Independent Auditors' Report.

OTHER COUNTRY GRANTS FUND

Schedule of Expenditures of Other Country Grants
Year Ended September 30, 2016

Fund 440100 Grantor Account Title	Budget Authorizations	Receivable from Grantor (Deferred Revenue) at 9/30/15	Cash Receipts FY2016	Expenditures FY2016	Receivable from Grantor (Deferred Revenue) at 9/30/16
G4SG15 BMS COMMUNITY ACTIVITIES	3,000	3,000	3,000	-	-
H44856 BNH RO SYSTEM & PACS UPRG	500,000	-	115,200	-	(115,200)
J44926 AG OFFICE RENOVATION PRJ	30,000	30,191	47,190	16,999	-
P4MCSF MICRO CNTR 4 SUST FUTURE	200,000	4,128	200,000	39,349	(156,523)
P4NMS1 PNMS PIF OUTREACH '14	87,000	49,670	87,000	123,450	86,120
P4PNMS PAL NAT'L MARINE SANCTRY	300,000	183,243	225,000	45,216	3,459
P4PRS1 INDEPENDENCE DAY CELEBRAT	100,000	55,054	100,000	47,815	2,869
P4PRS2 PAC ISLS FORUM MEDIA	-	-	-	-	-
Q44807 PABLO RINGANG BLDG PROJ	432,000	14,889	40,000	(4,140)	(29,251)
R44830 ANIMAL HUSBANDRY	387,800	-	-	114,000	114,000
R44837 GROUPER RESTOCKING	362,200	-	-	-	-
S4HAYN ST HAIYAN HOUSING CONSTR.	1,500,000	147,910	99,639	31,500	79,771
TOTAL FY2014 STIMULUS GRANTS	10,712,000	1,603,457	3,101,627	1,670,073	171,903
STIMULUS PACKAGE 2015					
B50104 AIMELIHK HEAVY EQUIP F15	160,000	-	200,000	145,252	(54,748)
B50105 COFA MELTELATL RD IMP F15	150,000	-	-	142,746	142,746
B50106 MONGAMI ROAD IMP F15	150,000	-	-	80,153	80,153
B50107 NGERKEAI MUSEUM F15	100,000	-	100,000	88,825	(11,175)
B50203 AIRAI REC PARK PROJ F15	300,000	-	-	265,584	265,584
B50601 KB KOROR SIDE PARK F15	250,000	-	-	50,910	50,910
B50602 MEYUNS PARK DEV PROJ F15	300,000	-	-	-	-
B50702 MELEKEOK ROAD IMP F15	300,000	-	-	240,664	240,664
B50801 NGESANG-ELAB ROAD F15	300,000	-	300,000	267,541	(32,459)
B50802 ULIMANG-NGKEKLAU ROAD F15	200,000	-	-	181,093	181,093
B50803 KUABS REC PARK F15	200,000	-	-	3,972	3,972
B50901 NGERBAU REC PARK F15	300,000	-	-	65,161	65,161
B50902 OKETOL DOCK ROAD F15	250,000	-	-	237,058	237,058
B51001 NGARDMAU WATERLINE F15	300,000	-	-	241,221	241,221
B51101 COMPACT-IMEONG ROAD F15	200,000	-	-	174,436	174,436
B51102 IMEONG-NGERMETENGL RD 15	300,000	-	-	282,177	282,177
B51201 NGATPANG ROAD IMP F15	300,000	-	-	271,366	271,366
B51301 NGCHESAR ROAD IMP F15	300,000	-	-	92,800	92,800
B51302 TABERNGESANG IMPROV F15	50,000	-	50,000	45,000	(5,000)
B51303 NGCHESAR BAI IMP F15	100,000	-	-	-	-
B51401 NGIWAL ST RD IMPROV F15	300,000	-	-	288,013	288,013
B51402 2ND RD PAVING PEC F15	100,000	-	100,000	81,000	(19,000)
B51501 STATE CAPITOL BLDG F15	300,000	-	-	240,000	240,000
B51502 WTR DIST PIPES C.BECK F15	150,000	-	150,000	86,651	(63,349)
C54946 MCCA CIVIC CTR RESTOR F15	400,000	-	-	322,640	322,640
C54947 TRACK & FIELD RESURFAC 15	435,000	-	-	423,029	423,029
C54948 ECHANG BASKETBALL ROOF 15	460,000	-	400,000	361,127	(38,873)
C54957 CAPITAL ARCHIVES BLDG F15	300,000	-	-	279,125	279,125
F54808 TAX INFO SYS UPGRADE F15	380,000	-	400,000	300,000	(100,000)
G5SGS1 NGCHESAR STATE LAW ENFORCEMENT	45,000	-	45,000	47,740	2,740
G5SGS2 BBP INSTITUTIONAL STRENGTH	100,000	84,558	50,000	26,548	61,106
G5SGS3 PVA-OTP HOLIDAY PROJECT	5,000	-	5,000	4,900	(100)
G5SGS4 FRUIT FLY ERADICATION PRJ	25,000	-	25,000	19,703	(5,297)
G5SGS5 BELAU MODEKNGEI SCHOOL	15,000	-	15,000	15,000	-
G5SGS7 UPR REVIEW	25,000	-	25,000	8,537	(16,463)
G5SGS8 PICRC 15TH ANNIVERSARY	15,000	-	15,000	13,000	(2,000)
G5SGS9 NGIWAL ST COMM PROJ FY15	50,000	-	50,000	50,000	-
G5SG10 MEDORM WATERLINE PRJ '15	15,000	-	15,000	15,000	-
G5SG11 BPS POLICE UNIFORMS FY15	10,000	-	10,000	7,680	(2,320)
G5SG12 13TH ICRS/IUCN	35,000	-	35,000	13,177	(21,823)
G5SG13 NGARCHELONG COMM ACTIVITY	5,000	-	5,000	5,000	-
G5SG14 PNYC PROGRAM SUPPORT	15,000	-	15,000	15,000	-
G5SG15 NGARAARD COMMUNITY PROJ	25,000	-	25,000	25,000	-
G5SG16 BMR BASELINE DATA	25,000	-	25,000	21,592	(3,408)
G54805 ROPNG ANNUAL EMP RECOG 15	15,000	-	15,000	15,000	-
H54857 BNH MED EQUIP UPGRADE F15	500,000	-	500,000	460,752	(39,248)
M54830 AGRICULTURE PROJECT / ANIMAL HUSBANDRY	1,100,000	577,500	770,000	391,641	199,141
R54810 BABELDAOB LANDFIL DEV F15	200,000	-	-	122,243	122,243
R54812 CAPITOL GENERATOR F15	515,000	-	300,000	466,366	166,366
TOTAL FY2015 STIMULUS GRANTS	10,075,000	662,058	3,645,000	7,001,423	4,018,481
STIMULUS PACKAGE 2016					
B60101 COFA MELTELATL RD IMP F16	150,000	-	-	-	-
B60102 MONGAMI ROAD IMP F16	150,000	-	-	11,013	11,013
B60201 AIRAI REC PARK PROJ F16	300,000	-	-	20,690	20,690
B60202 PIA ROAD REPAIRS F16	200,000	-	-	6,325	6,325
B60701 NGERUBESANG-DISP ROAD F16	300,000	-	-	-	-
B60801 NGESANG-ELAB RD IMP F16	400,000	-	-	87,753	87,753
B60802 ULIMANG-NGKEKLAU RD F16	200,000	-	-	3,864	3,864
B60804 NGERCHOKL SITE PROJ F16	100,000	-	-	-	-
B60901 MENGELLANG-OLLEI WATR F16	250,000	-	-	-	-
B61001 NGARDMAU STATE OFFICE F16	300,000	-	-	-	-
B61101 COFA-IMEONG ROAD F16	200,000	-	-	-	-
B61102 IMEONG-NGERMETENGL RD F16	300,000	-	-	-	-
B61201 NGATPANG ROAD IMP F16	300,000	-	-	-	-

See Accompanying Independent Auditors' Report.

OTHER COUNTRY GRANTS FUND

Schedule of Expenditures of Other Country Grants
Year Ended September 30, 2016

Fund 440100		Budget	Receivable from Grantor (Deferred Revenue) at 9/30/15	Cash Receipts FY2016	Expenditures FY2016	Receivable from Grantor (Deferred Revenue) at 9/30/16
Grantor Account Title	Authorizations					
B61301	NGCHESAR RD IMP PROJ F16	300,000	-	-	-	-
B61302	TABERNGESANG IMP PROJ F16	100,000	-	-	4,448	4,448
B61303	NGCHESAR BAI IMPROVE F16	100,000	-	-	-	-
B61401	NGIWAL ST RD IMPROV F16	300,000	-	-	30,931	30,931
B61501	PELELIU CAPITAL BLDG F16	300,000	-	-	129,998	129,998
B61502	CAMPBECK-NGEREKLAI WTR 16	250,000	-	-	-	-
C64946	MCCA CIVIC CTR RESTOR F16	300,000	-	-	85,117	85,117
G6PPUC	PPUC POWER RATE SUBSIDY	250,000	-	250,000	250,000	-
G6SGS1	2016 YOUTH PROGRAMS	200,000	-	200,000	217,406	17,406
G6SGS2	BBP INSTIT STRENGTH FY16	100,000	-	100,000	80,923	(19,077)
G6SGS3	NATIONAL OUTREACH ACTVTS	50,000	-	50,000	37,817	(12,183)
H64857	BNH MED EQUIP UPGRADE F16	425,000	-	500,000	390,152	(109,848)
J64924	LAW ENF VEHICLES & EQUIP	600,000	-	500,000	500,000	-
M64830	AGRI PRJ/ANI HUSB PRO F16	1,000,000	-	700,000	801,790	101,790
M64835	BOA NGCHESAR STATN REPAIR	200,000	-	-	103,321	103,321
P6PNMS	PAL NAT'L MARINE SANCTRY	200,000	-	200,000	133,835	(66,165)
P6PRS1	INDEPENDENCE DAY CELEB 16	100,000	-	100,000	83,440	(16,560)
Q64803	JUDICIARY INFO SYS UPGRAD	200,000	-	200,000	73,600	(126,400)
R64825	CAPITL CONF CTR A/V EQUIP	-	-	200,000	-	(200,000)
		<u>8,125,000</u>	<u>-</u>	<u>3,000,000</u>	<u>3,052,423</u>	<u>52,423</u>
ROC TAIWAN PROJECT CENTRAL ADMINISTRATIVE COST						
F44999	GEN. MANAGEMENT SUPPORT14	245,450	245,450	-	75,536	320,986
F54999	GEN. MANAGEMENT SUPPORT15	104,391	104,391	-	42,895	147,286
F64999	GEN. MANAGEMENT SUPPORT	-	-	-	159,325	159,325
P24999	ROC ADMIN COST	119,042	119,042	-	-	119,042
R04999	ROC TWN ADMIN COST	948,975	(68)	-	-	(68)
	SUB TOTAL	<u>1,417,858</u>	<u>468,815</u>	<u>-</u>	<u>277,756</u>	<u>746,571</u>
	GRAND TOTAL	<u>\$ 42,893,858</u>	<u>2,923,184</u>	<u>9,935,302</u>	<u>12,209,441</u>	<u>5,197,323</u>
Projects with ROP matching share:						
G4SGS0	OERC MATCHING FUND	50,000	(50,000)	-	-	(50,000)
G4SGS1	PVA HOLIDAY PROJECT	10,000	(50,000)	-	-	(50,000)
		<u>60,000</u>	<u>(100,000)</u>	<u>-</u>	<u>-</u>	<u>(100,000)</u>
			<u>\$ 2,823,184</u>	<u>\$ 9,935,302</u>	<u>\$ 12,209,441</u>	<u>\$ 5,097,323</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

OTHER NON-U.S. FEDERAL GRANTS FUND

**Schedule of Expenditures of Other Non-U.S. Federal Grants
Year Ended September 30, 2016**

Fund 360100 Grantor Account Title	Cost Center	Authorization	Receivable from Grantor (Deferred Revenue) at 9/30/15	Cash Receipts FY 2016	Expenditures FY 2016	Receivable from Grantor (Deferred Revenue) at 9/30/16
UNFPA Grant						
MCCA-GENDER POLICY 2013	C33920	\$ 10,000	\$ (358)	\$ -	\$ 358	\$ -
GENDER FHSS FY'12 MOF	F2FHSS	53,159	30,809	30,809	-	-
GENDER FHSS 2013	F3FHSS	195,525	(74,737)	1,703	74,737	(1,703)
GENDER FHSS 2014	F4FHSS	46,000	1,703	-	-	1,703
GENDER FHSS FY'12	H2FHSS	48,665	51,802	51,802	-	-
RHCS FY'12	H2RHCS	15,000	3,895	3,895	-	-
Total UNFPA Grants		<u>368,349</u>	<u>13,114</u>	<u>88,209</u>	<u>75,095</u>	<u>-</u>
UNCCD Grant Committee						
UNCCD NAP FY15	R53923	50,000	5,556	-	6,900	12,456
Total UNCCD		<u>50,000</u>	<u>5,556</u>	<u>-</u>	<u>6,900</u>	<u>12,456</u>
WHO APW HEALTH CAREER TRNG						
WHO APW HLTH CAREER TRNG	H43927	-	(958)	-	958	-
WHO APW HLTH CAREER TRNG	H43927	-	(830)	-	830	-
PHARMACY TECH ONLINE TRNG	H0WHO3	14,929	3,179	3,179	-	-
TOBACCO	H9WHO5	3,000	5,000	5,000	-	-
WHO HEALTHY WORK PLACE	H9WHO6	27,000	1	1	-	-
MOH LIBRARY UPGRD POLN	H1WHO6	39,700	700	700	-	-
NATIONAL STAKEHOLDER MTNG	H4WHO1	5,000	(380)	-	-	(380)
EBOLA WORKSHOP	H4WHO2	3,500	(159)	-	103	(56)
IMPLEM MOH STRATEGIC PLAN	H5WHO1	7,200	1,736	-	-	1,736
PH DRUGS & THERAPUTICS CO	H5WHO2	12,000	(6,535)	-	213	(6,322)
MHGAP TRAINING FY2015	H5WHO3	5,500	(170)	-	99	(71)
POST NEEDS ASSESSMENT	H5WHO4	10,575	4,081	10,575	6,475	(19)
WORLD NO TOBACCO DAY 2015	H5WHO5	9,715	(15,665)	(10,575)	5,010	(80)
ICD-10 WORKSHOP 2015	H5WHO6	3,200	35	-	3	38
ICD-10 PHASE II WRKSH	H5WHO7	5,400	(815)	-	478	(337)
FIRST EMBRACE WRKSH	H5WHO8	-	(1,150)	-	1,250	100
INJURY PREVENTION MTG	H6WHO1	3,200	-	3,200	2,655	(545)
GRANTS MGT OFFICE MOH	H6WHO2	5,775	-	5,775	5,625	(150)
WORKLOAD INDICATORS WRKSH	H6WHO3	6,000	-	6,000	8,306	2,306
PEN PROTOCOL TRAINING	H6WHO4	2,400	-	2,400	2,150	(250)
WHD DIABETES CAMPAIGN	H6WHO5	3,000	-	3,000	2,763	(237)
HYBRID TEP SURVEY	H6WHO6	21,000	-	21,000	20,936	(64)
MHGAP WORKSHOP 2016	H6WHO7	9,550	-	9,550	5,709	(3,841)
Total WHO APW health Career Trng		<u>197,644</u>	<u>(11,930)</u>	<u>59,805</u>	<u>63,563</u>	<u>(8,172)</u>
SPREP						
Ozone Depleting Substance	A33936	50,000	1,397	-	-	1,397
Ozone Depleting Substance	A73936	-	9,037	-	-	9,037
Ozone Depleting Substance	A13936	38,688	(13,249)	-	-	(13,249)
Ozone Depleting Substance	A23936	75,000	(2,318)	68,000	30,938	(39,380)
Total SPREP		<u>163,688</u>	<u>(5,133)</u>	<u>68,000</u>	<u>30,938</u>	<u>(42,195)</u>
UN Pops Grants						
Implement GMP for POPS	A63938	36,167	-	36,167	-	(36,167)
EQPB- UNEP POP/NIP 2013	R33938	99,475	(33,304)	42,475	20,622	(55,157)
Total UN Pops Grants		<u>135,642</u>	<u>(33,304)</u>	<u>78,642</u>	<u>20,622</u>	<u>(91,324)</u>
UNICEF						
UNICEF - PCPBR	H33940	22,450	(6,060)	(6,060)	-	-
Total UNICEF Grants		<u>22,450</u>	<u>(6,060)</u>	<u>(6,060)</u>	<u>-</u>	<u>-</u>
8th OEK Orientation & WRKS						
8th OEK Oreintation & WRKS	K93948	22,000	(281)	-	-	(281)
Support to ROP Congress Projects	K13948	200,000	(823)	-	-	(823)
Total Other Grants to OEK		<u>222,000</u>	<u>(1,104)</u>	<u>-</u>	<u>-</u>	<u>(1,104)</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

OTHER NON-U.S. FEDERAL GRANTS FUND

**Schedule of Expenditures of Other Non-U.S. Federal Grants
Year Ended September 30, 2016**

Fund 360100 Grantor Account Title	Cost Center	Authorization	Receivable from Grantor (Deferred Revenue) at 9/30/15	Cash Receipts FY 2016	Expenditures FY 2016	Receivable from Grantor (Deferred Revenue) at 9/30/16
<u>TNC GRANTS</u>						
PAN LEGAL FRAMEWORK FY13	M3TNC1	10,000	(10,573)	-	-	(10,573)
FISHERY DATA COLLECTION	M3TNC2	25,000	(7,611)	-	7,596	(15)
TUNA FISHERIES PROJECT	M53952	75,000	(74,995)	45,000	96,036	(23,959)
Cooperative Grant Agreement with Pres	P63952	50,000	-	50,000	41,935	(8,065)
Total TNC Grants		<u>160,000</u>	<u>(93,179)</u>	<u>95,000</u>	<u>145,567</u>	<u>(42,612)</u>
<u>MARINE SANCTUARY CONTRIBUTIONS</u>						
Marine Sactuary	M6MC01	50,000	-	50,000	22,904	(27,096)
MS Italy - PICRC	M6MC02	39,200	-	39,200	23,047	(16,153)
PNMS Ocean Conservation	P63955	110,652	-	110,652	30,045	(80,607)
Total Marine Sanctuary		<u>199,852</u>	<u>-</u>	<u>199,852</u>	<u>75,996</u>	<u>(123,856)</u>
<u>SPREP Grants (Fruit Fly)</u>						
National Invasive Species	R33957	50,860	(20)	4,904	3,522	(1,402)
Total SPREP Grants		<u>50,860</u>	<u>(20)</u>	<u>4,904</u>	<u>3,522</u>	<u>(1,402)</u>
<u>Secretariat Pacific Comm</u>						
GCCA/PSIS OERC 2013	A33961	125,227	11,181	19,890	7,548	(1,161)
SPC-DRM-CC-BSRP	A43961	10,760	4,206	-	-	4,206
PLANTS BRFEEDING PROJ FY2015	A53961	11,264	(4,039)	-	2,400	(1,639)
SPC-CLIMATE CHANGE - PPUC - WWO	G53961	-	-	126,349	126,349	-
MAP Water and Sewer Lines FY14	R43961	6,875	38	-	-	38
ENERGY PLANNER PEO	R53961	14,700	(2,709)	-	2,648	(61)
Total SPC Grants		<u>168,826</u>	<u>8,677</u>	<u>146,239</u>	<u>138,945</u>	<u>1,383</u>
<u>European Union Grants</u>						
ASCE-CCCP-IR-ICC 2016	A6GIZ1	70,000	-	-	9,104	9,104
ASCE-CCCP-IR-FPS 2016	G6GIZ2	526,961	-	-	37,413	37,413
Total European Union Grants		<u>596,961</u>	<u>-</u>	<u>-</u>	<u>46,517</u>	<u>46,517</u>
<u>Pacific Island Forum</u>						
PAC ISLAND FORUM FY14	P43963	750,000	(179,144)	-	2,388	(176,756)
Total Pacific Island Forum Grants		<u>750,000</u>	<u>(179,144)</u>	<u>-</u>	<u>2,388</u>	<u>(176,756)</u>
<u>Republic of China Grants</u>						
HAIYAN- Health Donation	H43966	89,400	(79,985)	-	79,951	(34)
Ebassy of ROC Donation	N33966	100,000	(1,201)	-	-	(1,201)
Typhoon Haiyan Releif	N43966	848,333	(66,974)	(44)	-	(66,930)
PRES UN/PIF MEETING	P33966	50,000	(4,363)	-	-	(4,363)
KOREA DONATION TO KEC	S43966	10,000	-	-	-	-
Total Republic of China Grants		<u>1,097,733</u>	<u>(152,523)</u>	<u>(44)</u>	<u>79,951</u>	<u>(72,528)</u>
<u>Forum Secretariat Grants</u>						
Water Sector Climate Change	Q33967	195,000	-	195,000	195,000	-
PIFS PELELIU DS& PGS 2013	R33967	2,236,500	(75,299)	-	-	(75,299)
Total Forum Secretariat Grants		<u>2,431,500</u>	<u>(75,299)</u>	<u>195,000</u>	<u>195,000</u>	<u>(75,299)</u>
<u>Fisheries Forum Agency</u>						
Vessel Monitoring System	J13971	71,545	(37,930)	19,993	23,828	(34,095)
FFA PROJECTS	M4FFA0	175,040	(28,456)	120,082	97,544	(50,994)
Palau PDF 15%	R03971	74,774	994	-	-	994
FFA 2013	R33971	25,000	(4,626)	-	-	(4,626)
Total Fisheries Forum Agency		<u>346,359</u>	<u>(70,018)</u>	<u>140,075</u>	<u>121,372</u>	<u>(88,721)</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

OTHER NON-U.S. FEDERAL GRANTS FUND

**Schedule of Expenditures of Other Non-U.S. Federal Grants
Year Ended September 30, 2016**

Fund 360100 Grantor Account Title	Cost Center	Authorization	Receivable from Grantor (Deferred Revenue) at 9/30/15	Cash Receipts FY 2016	Expenditures FY 2016	Receivable from Grantor (Deferred Revenue) at 9/30/16
<u>Australian Grants</u>						
MCCA-BPNA Palauan Language & CASP	C1ARC1	10,725	(12,248)	-	-	(12,248)
MCCA-BPNA Survey Analysis	C1ARC2	12,558	6,909	-	5,119	12,028
DYNA DATABASE	C5DAP1	17,000	(10,225)	-	1,204	(9,021)
TESOL TRAINING 2013	E33975	34,800	(18,960)	-	-	(18,960)
ANGAUR MACAQUE REMOVAL	M53975	100,000	(100,000)	-	-	(100,000)
CAP BLDG HUMAN RIGHTS FY'12	P23975	-	20,064	-	-	20,064
Total Australian Grants		<u>175,083</u>	<u>(114,460)</u>	<u>-</u>	<u>6,323</u>	<u>(108,137)</u>
<u>Japan Grants</u>						
DR. OGATA DONATION	E63976	2,000	-	2,000	-	(2,000)
JCM CRT 2015	M53976	5,581	(4,681)	2,573	6,322	(932)
Total Japan Grants		<u>7,581</u>	<u>(4,681)</u>	<u>4,573</u>	<u>6,322</u>	<u>(2,932)</u>
<u>PACIFIC COMMUNITY GRANTS</u>						
RIDGE TO REEF PROJ 2016	M63978	44,754	-	44,754	-	(44,754)
Total Pacific Community Grants		<u>44,754</u>	<u>-</u>	<u>44,754</u>	<u>-</u>	<u>(44,754)</u>
<u>SPREP Grants</u>						
E-WASTE PROJECT - EQPB	A63979	12,000	-	12,000	-	(12,000)
Total SPREP Grants		<u>12,000</u>	<u>-</u>	<u>12,000</u>	<u>-</u>	<u>(12,000)</u>
<u>WildAid-Packard Foundation</u>						
EQPB EBM Project Cycle II	A03980	85,012	1,697	-	725	2,422
Total WildAid-Packard Foundation		<u>85,012</u>	<u>1,697</u>	<u>-</u>	<u>725</u>	<u>2,422</u>
<u>DYNA - COMPUTER SYSTEMS</u>						
PW MOH MILLION FY15	H53988	40,000	12,654	40,000	23,427	(3,919)
HYBRID SURVEY ASTHO	H63698	80,000	-	-	61,187	61,187
Total DYNA Grants		<u>120,000</u>	<u>12,654</u>	<u>40,000</u>	<u>84,614</u>	<u>57,268</u>
<u>MOH SMALL GRANTS - OTHERS</u>						
MOH SEOW FY2011	H13991	100,000	(4,881)	-	2,224	(2,657)
MOH SEOW FY2012	H23991	75,000	(2,508)	-	-	(2,508)
MOH SEOW 2013	H33991	95,000	(4,791)	-	220	(4,571)
BUILD EVAL CAPACITY 2014	H4EDC1	30,000	(1,943)	-	370	(1,573)
Total MOH Small Grants		<u>300,000</u>	<u>(14,123)</u>	<u>-</u>	<u>2,814</u>	<u>(11,309)</u>
<u>LSTA State Grants</u>						
IMLS LSTA 2015	E53992	36,000	-	-	36,000	36,000
IMLS LSTA 2016	E63992	36,000	-	-	-	-
Total LSTA State Grants		<u>72,000</u>	<u>-</u>	<u>-</u>	<u>36,000</u>	<u>36,000</u>
<u>UNDP/UNCCD/GEF</u>						
UNDP-OERC ENVIRONMENT PROJ	F68923	39,555	-	39,555	45,013	5,458
Total UNDP		<u>39,555</u>	<u>-</u>	<u>39,555</u>	<u>45,013</u>	<u>5,458</u>
<u>UNEP GRANTS</u>						
UNEP-GEF-SSFA-SRM	A58926	110,000	430	13,500	7,884	(5,186)
UNEP-SSFA-ODS SURVEY	A68926	30,000	-	30,000	-	(30,000)
2ND NAT'L COMM 2013	M38926	50,400	(9,005)	-	1,782	(7,223)
NBSAP/ 5TH CBD RPT	R28926	220,000	(18,833)	38,295	15,981	(41,147)
NBSAP/ 5TH RPT CBD	R38926	-	503	-	-	503
Total UNEP Grants		<u>410,400</u>	<u>(26,905)</u>	<u>81,795</u>	<u>25,647</u>	<u>(83,053)</u>
<u>GENEVA GRANTS AND ASSISTANCE</u>						
GENEVA- GICHD 2012	S38951	34,300	(33)	-	33	-
REGIONAL UXO WORKSHOP	S48951	13,943	(309)	-	309	-
Total Geneva Grants and Assistance		<u>48,243</u>	<u>(342)</u>	<u>-</u>	<u>342</u>	<u>-</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

OTHER NON-U.S. FEDERAL GRANTS FUND

Schedule of Expenditures of Other Non-U.S. Federal Grants
Year Ended September 30, 2016

Fund 360100 Grantor Account Title	Cost Center	Authorization	Receivable from Grantor (Deferred Revenue) at 9/30/15	Cash Receipts FY 2016	Expenditures FY 2016	Receivable from Grantor (Deferred Revenue) at 9/30/16
<u>Other Foreign Grants</u>						
PIF Expenses	S48952	1,650,000	771,432	773,296	144,285	142,421
Total Other Foreign Grants		1,650,000	771,432	773,296	144,285	142,421
<u>ISRAEL GRANTS-DONATIONS</u>						
GRANT FOR STATE TRAVEL	S68953	16,500	-	16,500	16,500	-
Total Israel Grant-Donations		16,500	-	16,500	16,500	-
<u>DROUGHT RELIEF FUND</u>						
DROUGHT RELIEF DONATIONS	R68954	30,000	-	30,000	-	(30,000)
Total Drought Relief		30,000	-	30,000	-	(30,000)
<u>UNIVERSITY OF SOUTH PACIFIC</u>						
PIPCA-BPSS	F68955	13,853	-	13,853	13,845	(8)
Total Drought Relief		13,853	-	13,853	13,845	(8)
<u>HOSPITAL EQUIP - IINDIA GRT</u>						
T8AA RADIO STATION	P68968	70,000	-	70,000	147,221	77,221
YOUTH PROJECTS	P6YS01	-	-	-	194,939	194,939
Ministry of State Equipments	S08968	100,000	(3,570)	-	-	(3,570)
Submarine Cable Feasability	S18968	100,000	(947)	-	-	(947)
45TH PIF COMMITTEE	S48968	99,000	-	-	-	-
2ND FORUM FOR IPIC	S58968	55,274	(30,274)	-	-	(30,274)
Total India Grants		424,274	(34,791)	70,000	342,160	237,369
<u>IWRM Project (SOPAC)</u>						
IWRM Project (SOPAC)	A78975	31,300	11,612	-	-	11,612
SOPAC-Ngerikiil Watershed	A98975	478,066	(34,576)	-	4,569	(30,007)
IWRM BOA	M98975	48,000	(2,748)	-	-	(2,748)
Water Policy Activities	P18975	42,900	6,803	-	-	6,803
IWRM EQPB LAB	R28975	23,500	(62)	-	-	(62)
IWRM Palaris	R98975	30,000	(5,343)	-	-	(5,343)
Total IWRM		653,766	(24,314)	-	4,569	(19,745)
<u>ENERGY SECT IN 5 ACP ISLS</u>						
Energy Sect in 5 ACP Isls	F88979	287,650	17,063	17,063	-	-
PAL renewable energy NPE2	F8PE02	430,170	65,387	65,387	-	-
Total Energy Grants		717,820	82,450	82,450	-	-
<u>NEMO PEACESAT ASSISTANCE</u>						
ISC MEETING	V68980	4,253	-	4,263	3,567	(696)
Total PeaceSat Assistance		4,253	-	4,263	3,567	(696)
<u>Taiwan (ROC) Grants</u>						
UNFCC COP 20 Travel Support	A58984	21,107	(527)	-	-	(527)
DRUG TASK FORCE	J68984	150,000	-	150,000	113,853	(36,147)
SIS LEADERS SPECIAL MTG	S68984	200,000	-	200,000	164,143	(35,857)
Total ROC Grants		371,107	(527)	350,000	277,996	(72,531)
<u>RESEARCH CORP UH-RCUH</u>						
PALAU CANCER REGISTRY	H38985	46,437	(6,995)	15,206	27,742	5,541
Total RCUH Grants		46,437	(6,995)	15,206	27,742	5,541
<u>Continental Shelf 09-00180</u>						
Contintal Shelf	R98988	154,765	(32,357)	-	32,000	(357)
Total Continental Shelf		154,765	(32,357)	-	32,000	(357)

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, 2016**

Fund 360100 Grantor Account Title	Cost Center	Authorization	Receivable from Grantor (Deferred Revenue) at 9/30/15	Cash Receipts FY 2016	Expenditures FY 2016	Receivable from Grantor (Deferred Revenue) at 9/30/16
<u>Universities Grants</u>						
Reach Chip Project FY2015-Uiniversity of Hawaii	H58990	11,500	(2,480)	5,500	14,299	6,319
Total Universities		<u>11,500</u>	<u>(2,480)</u>	<u>5,500</u>	<u>14,299</u>	<u>6,319</u>
<u>SAMHSA</u>						
BHSIS 2014	H48993	42,033	(1,071)	-	-	(1,071)
BHSIS 2015	H58993	61,813	(696)	-	908	212
BHSIS 2016	H68993	61,813	-	46,360	62,314	15,954
BHSIS 2017	H78993	61,813	-	15,453	10,404	(5,049)
Total SAMHSA		<u>227,472</u>	<u>(1,767)</u>	<u>61,813</u>	<u>73,626</u>	<u>10,046</u>
<u>Kuwait Human Rights</u>						
Human Rights Project	S48994	50,000	(50,000)	-	48,632	(1,368)
Total Kuwait Human Rights		<u>50,000</u>	<u>(50,000)</u>	<u>-</u>	<u>48,632</u>	<u>(1,368)</u>
<u>ADB - HIES</u>						
Palau HIES TA8581-REG	F58995	180,000	(115,321)	-	11,007	(104,314)
Total ADB - HIES		<u>180,000</u>	<u>(115,321)</u>	<u>-</u>	<u>11,007</u>	<u>(104,314)</u>
<u>PARTIES TO THE NAURU FUND</u>						
PAN - MPA	R58996	80,000	(27,714)	15,715	38,479	(4,950)
Total Parties to Nauru Fund		<u>80,000</u>	<u>(27,714)</u>	<u>15,715</u>	<u>38,479</u>	<u>(4,950)</u>
<u>PFTAC GRANTS</u>						
FIC AFSPM WORKSHOP	A6FIC1	5,079	-	9,698	9,691	(7)
Total PFTAC Grants		<u>5,079</u>	<u>-</u>	<u>9,698</u>	<u>9,691</u>	<u>(7)</u>
Total Other Grants		<u>\$ 12,913,318</u>	<u>\$ (188,911)</u>	<u>\$2,740,593</u>	<u>\$ 2,272,574</u>	<u>\$ (656,930)</u>

See Accompanying Independent Auditors' Report.