

Republic of Palau
National Government
Audited Financial Statements
for the year ended September 30, 2011



Fortenberry and Ballard, PC
Certified Public Accountants

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Republic of Palau
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FORTENBERRY & BALLARD, PC
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

His Excellency Tommy Remengesau
President
Republic of Palau

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, 2011, which collectively comprise the Republic's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Republic's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component units, which represents 22%, 12% and 38%, respectively, of the assets, net assets and operating revenues of the Republic's Statement of Net Assets and Statement of Activities. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the aforementioned component unit, is based 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 of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our 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, 2011, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As per note 10 (I), the Republic's ability to fund certain liabilities may be dependent upon the result of ongoing negotiations and future budget reductions.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 27, 2013, on our consideration of the Republic of Palau's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations,

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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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and budgetary comparison information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and the 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Republic of Palau's financial statements as a whole. The other supplementary information listed in section V of the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. The other supplementary information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Fortenberry & Ballard, PC

Fortenberry and Ballard, PC
February 27, 2013

Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

Republic of Palau
Management's Discussion and Analysis
For the Year Ended September 30, 2011

INTRODUCTION

The following discussion and analysis of Republic of Palau's (the Republic) financial performance provides an overview of the Republic's financial activities for the year ended September 30, 2011. The intent of this discussion and analysis is to look at the Republic's performance as a whole. Readers are encourage to review the financial statements and the notes to the financial statements to enhance their understanding of the Republic's financial performance.

FINANCIAL HIGHLIGHTS

- Total net assets for 2011 decreased \$15,172,039, which represents a 4% decrease from 2010. Total net assets decreased \$12,922,340, which represents a 3% decrease from the 2009.
- The Republic had \$85,805,681 in total revenues for 2011. Program revenues in the amount of \$38,808,081 represent a 45% of total revenues. The Republic had \$95,245,149 in total revenues for 2010. Program revenues in the amount of \$55,874,013 represent 59% of total revenues.
- For 2011, the Republic had \$99,813,257 in total expenses. Expenses in the amount of \$38,808,081 were offset by charges for services, grants, or outside contributions. General revenues of \$46,997,600 were not adequate to provide for the remainder of the expenses. In the year 2010, the Republic had \$108,167,489 in total expenses. Expenses in the amount of \$55,874,013 were offset by charges for services, grants, or outside contributions. General revenues of \$39,371,136 were not adequate to provide for the remainder of the expenses.
- Among major funds, the General Fund had \$51,595,151 in revenues and \$54,575,334 in expenditures. The General Fund's fund balance increased \$1,527,342, including a prior period adjustment of (\$1,349,897) over the prior year. Last year's revenues in the General Fund were \$45,905,814 and \$53,863,388 in expenditures. The General Fund's fund balance decreased \$2,024,336 over the prior year.
- Among major funds, the Grants Fund had \$27,546,215 in revenues and \$27,969,699 in expenditures. This Fund's fund balance decreased \$238,050, including a prior period adjustment of \$185,434, over the prior year. In 2010, it had \$31,484,072 in revenues and \$32,220,365 in expenditures. The Fund's fund balance did not increase or decrease from 2009.
- Capital assets, net of accumulated depreciation, decreased by \$11,630,049 in 2011 primarily due to the recording of depreciation expense and increased \$9,036,499 in 2010.

Republic of Palau
Management's Discussion and Analysis
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- Long-term debt decreased by \$1,383,839 in the governmental activities mainly due to principal payments made during the year on outstanding long-term debt and decreased \$1,514,288 in the 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. The Republic's basic financial statements comprise three components: 1) Government-wide financial statements, 2) Fund financial statements and 3) Notes to the basic financial statements. Required Supplementary Information is included in addition to the basic financial statements.

Figure 1 – Required Components of the Republic's Annual Report

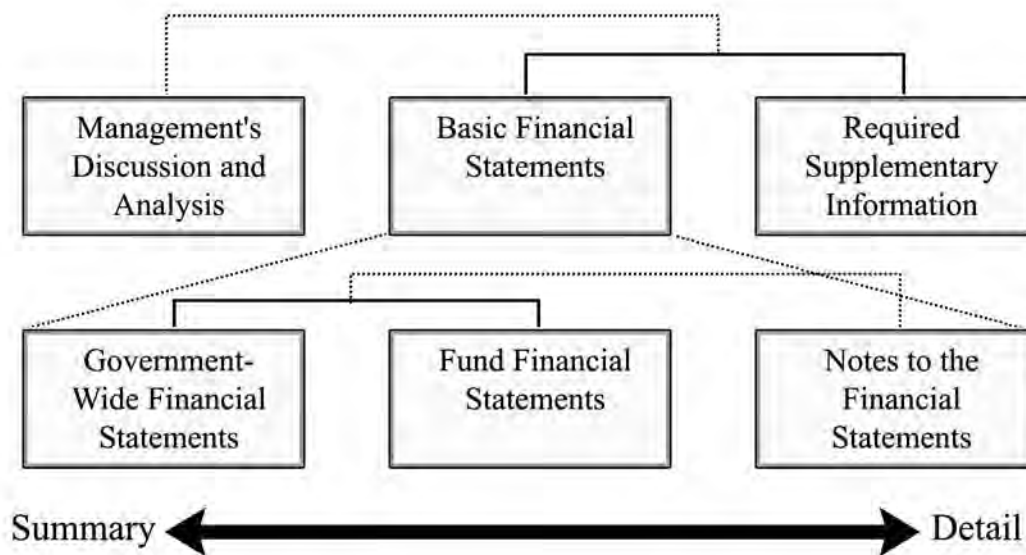


Figure 1 shows how required parts of this annual report are arranged and relate to one another.

Republic of Palau
Management's Discussion and Analysis
For the Year Ended September 30, 2011

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Republic's finances. These statements consist of the Statement of Net Assets and the Statement of Activities, which are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. The current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Net Assets presents information on all the Republic's nonfiduciary assets and liabilities, with the difference between the two reported as "net assets." Over time, increases or decreases in the Republic's net assets may serve as a useful indicator of whether the financial position is improving or deteriorating.

The Statement of Activities presents information showing how the Republic's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods.

The government-wide financial statements outline functions of the Republic that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the Republic reflect the different ministries within the Republic. These services are financed primarily with taxes and grants. The component units reflect private sector type operations including depreciation.

The Republic has several discretely presented component units that are reported in the Republic's report:

National Development Bank of Palau
Palau Community College
Palau District Housing Authority
Palau National Communications Corporation
Palau International Coral Reef Center
Palau Visitors Authority
Public Utilities Corporation
Palau Water and Sewer Corporation *

* This component unit is not visible as part of the Republic's discretely presented component units financial statements in 2011.

The Republic also has one component unit that has been omitted in the report:

Belau National Museum

Republic of Palau
Management's Discussion and Analysis
For the Year Ended September 30, 2011

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 uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Republic can be divided into two categories: governmental funds and fiduciary funds.

Governmental funds - Most of the Republic's general activities are reported in its governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, governmental funds are accounted for using the modified accrual basis of accounting and the flow of current financial resources measurement focus. The approach focuses on near-term inflows and outflows of spendable resources, as well as balances of spendable resources available at year end. The governmental fund statements provide a detailed view of the Republic's near term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may gain a better understanding of the long-term impact of the Republic's near-term financing decisions. The governmental funds Balance Sheet is reconciled to the Statement of Net Assets, and the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances is reconciled to the Statement of Activities to facilitate this comparison between governmental funds and governmental activities.

Information is presented separately in the governmental funds Balance Sheet and in the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances for all major funds. All non-major funds are combined and presented in these reports as other governmental funds.

Fiduciary funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the Republic. 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. These funds are reported using the accrual basis of accounting. The Republic is responsible for ensuring that the assets reported in these funds are used for their intended purpose.

Republic of Palau
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Reconciliation of Government-wide and Fund Financial Statements

The financial statements include two schedules that reconcile the amounts reported on the governmental funds financial statements (modified accrual basis of accounting) with government-wide financial statements (accrual basis of accounting). The following summarizes the major differences between the two statements:

Capital assets used in governmental activities are not reported on governmental funds financial statements.

Bond and notes proceeds result in liabilities on government-wide financial statements, but are recorded as other financing sources on the governmental funds financial statements.

Certain other outflows represent either increases or decreases in liabilities on the government-wide financial statements, but are reported as expenditures on the governmental funds financial statements.

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. The notes to the financial statements can be found immediately following the basic financial statements.

Required Supplemental Information

In addition to the basic financial statements and accompanying notes, this report also presents budgetary comparison schedules as other supplemental information.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets

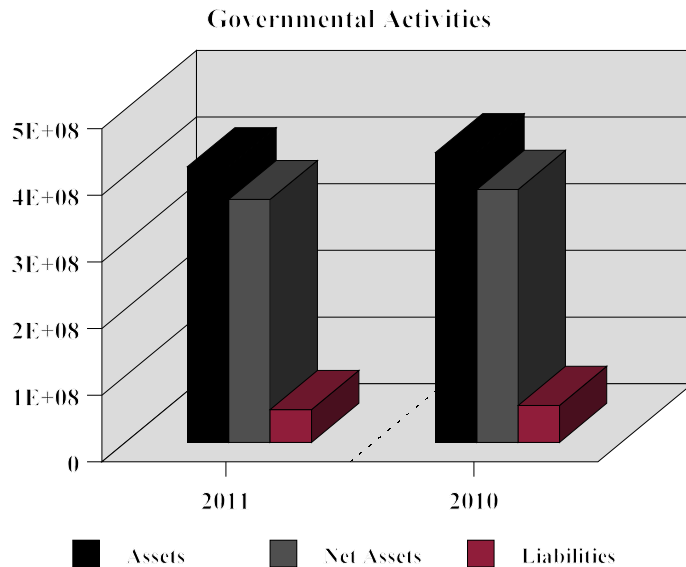
Net assets may serve over time as a useful indicator of government's financial position. In the case of the Republic, assets exceeded liabilities by \$364,366,490 as of September 30, 2011.

Republic of Palau
Management's Discussion and Analysis
For the Year Ended September 30, 2011

The Republic's financial position is a product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets and the depreciation of capital assets.

The following table presents a summary of the Republic's net assets for the governmental activities at September 30, 2011 and September 30, 2010.

	09/30/11	09/30/10
Assets:		
Current assets	\$ 18,935,453	20,880,382
Capital assets, net	394,622,032	413,919,340
Total Assets	413,557,485	434,799,722
Liabilities:		
Current liabilities	29,910,060	34,462,865
Long-term liabilities	19,280,935	20,798,328
Total Liabilities	49,190,995	55,261,193
Net Assets:		
Invested in capital assets, net of related debt	228,326,824	241,677,822
Restricted assets	152,561,506	155,045,420
Unrestricted	(16,521,840)	(17,184,713)
Total Net Assets	\$ 364,366,490	379,538,529

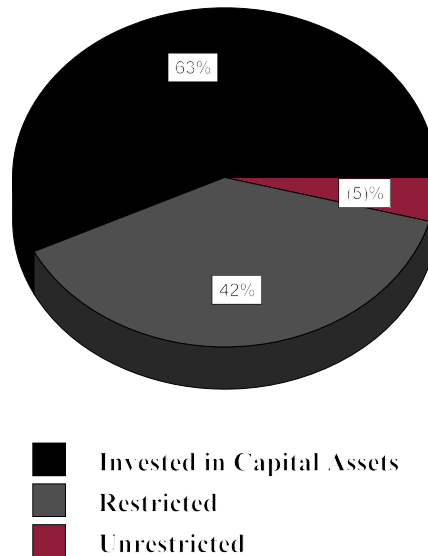


Republic of Palau
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For the Year Ended September 30, 2011

The following are significant current year transactions that have had an impact on the Statement of Net Assets.

- \$1,599,998 of long-term debt was retired during the year in the governmental activities.
- Capital assets, net of accumulated depreciation, decreased by \$11,630,049 primarily due to the recording of depreciation expense.

The following chart depicts the different categories of net assets in the Statement of Net Assets as of September 30, 2011.



Changes in Net Assets

The Republic's total revenues for the fiscal year ended September 30, 2011 were \$85,805,681 and \$95,245,149 for 2010. The total cost of all services provided was \$99,813,257 for 2011 and \$108,167,489 for 2010 and the decrease in net assets was \$15,172,039, including a prior period adjustment of (\$1,164,463) for 2011 and \$12,922,340, for 2010.

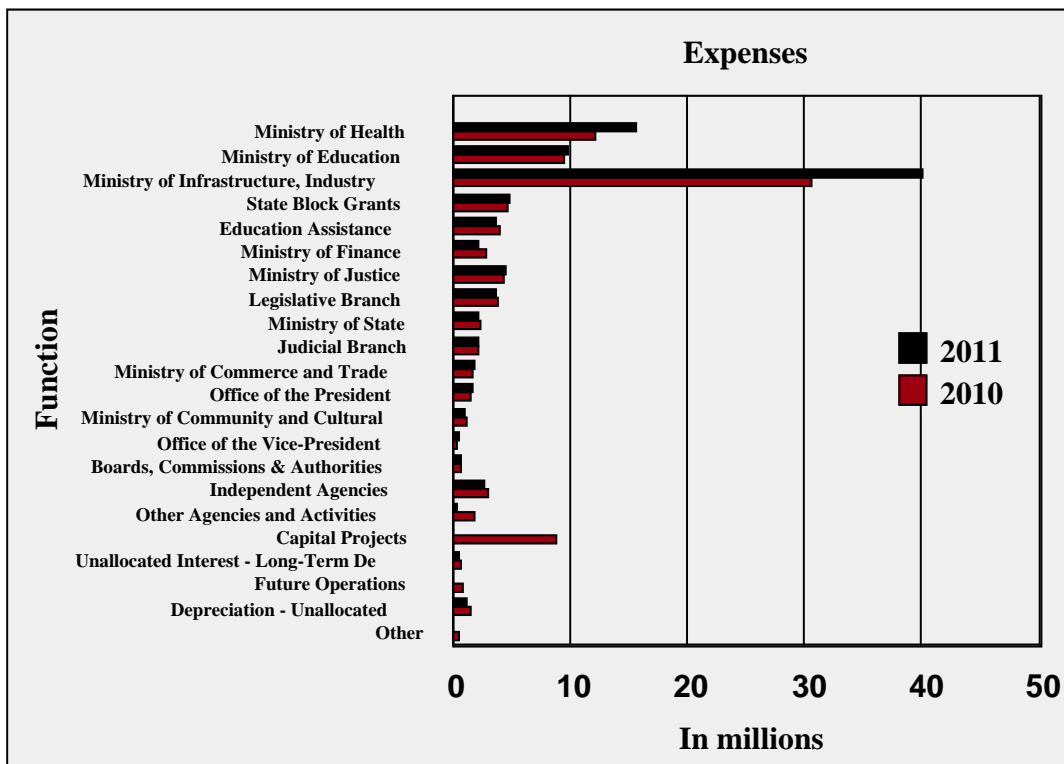
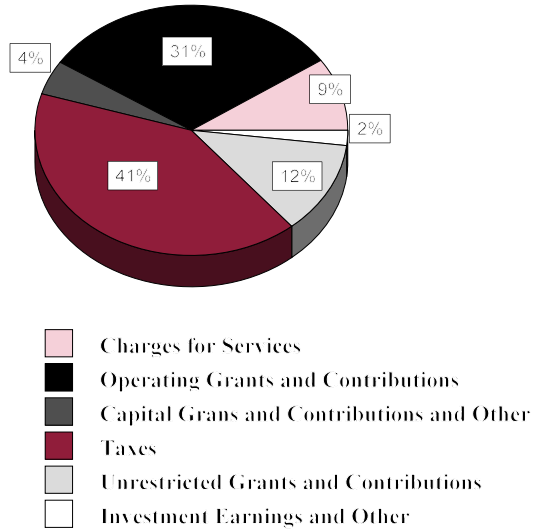
The following table presents a summary of the changes in net assets for the governmental activities for the fiscal year ended September 30, 2011 and September 30, 2010.

Republic of Palau
Management's Discussion and Analysis
For the Year Ended September 30, 2011

	Fiscal Year Ended 09/30/11	Fiscal Year Ended 09/30/10
Revenues:		
Program revenues:		
Charges for Services	\$ 8,123,651	8,332,080
Operating Grants & Contributions	26,966,785	27,429,084
Capital Grants & Contributions	3,717,645	20,112,849
Total Program Revenues	<u>38,808,081</u>	<u>55,874,013</u>
General revenues:		
Taxes	34,931,972	28,793,562
Unrestricted Grants and Contributions	10,260,000	10,260,000
Unrestricted Investment Earnings	1,505,763	15,420
Other	299,865	302,154
Total General Revenues	<u>46,997,600</u>	<u>39,371,136</u>
 Total Revenues	 <u>85,805,681</u>	 <u>95,245,149</u>
 Expenses:		
Ministry of Health	15,725,014	16,392,508
Ministry of Education	9,801,424	9,046,298
Ministry of Resources and Development	40,039,410	34,021,851
State Block Grants	4,875,162	4,811,052
Education Assistance	3,762,046	4,588,610
Ministry of Finance	2,202,714	2,529,773
Ministry of Justice	4,549,187	4,249,741
Legislative Branch	3,680,535	3,938,883
Ministry of State	2,163,191	2,285,358
Judicial Branch	2,202,388	2,093,370
Ministry of Natural Resources, Environment, etc.	1,854,525	1,126,489
Office of the President	1,712,601	1,646,767
Ministry of Community and Cultural Affairs	1,155,447	1,197,952
Office of the Vice-President	508,076	338,077
Board, Commissions & Authorities	668,411	673,646
Independent Agencies	2,675,053	2,968,466
Other Agencies and Activities		2,658,528
Capital Projects		2,144,937
Unallocated Interest - Long-Term Debt	616,288	667,123
Future Operations		931,066
Depreciation - Unallocated	1,272,206	1,531,990
Impairment loss due to defects on Compact Road		7,207,200
Other	349,579	1,117,804
Total Expenses	<u>99,813,257</u>	<u>108,167,489</u>
 Change in Net Assets	 <u>\$ (14,007,576)</u>	 <u>(12,922,340)</u>

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Management's Discussion and Analysis
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Revenues - Governmental Activities



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Management's Discussion and Analysis
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Governmental Activities – The following table presents the cost of major functional activities of the Republic:

	2011 Total Cost	2011 Net Cost	2010 Total Cost	2010 Net Cost
<u>Governmental Activities:</u>				
Ministry of Health	\$ 15,725,014	(9,448,773)	16,392,508	(8,752,733)
Ministry of Education	9,801,424	(6,159,913)	9,046,298	(6,053,015)
Ministry of Intrastructure, Industry and Co.	40,039,410	(40,039,410)	34,021,851	(31,698,790)
State Block Grants	4,875,162	(4,875,162)	4,811,052	(4,811,052)
Education Assistance	3,762,046	(3,712,716)	4,588,610	(2,588,610)
Ministry of Finance	2,202,714	(1,266,605)	2,529,773	(1,573,030)
Ministry of Justice	4,549,187	(3,957,845)	4,249,741	(3,404,496)
Legislative Branch	3,680,535	(3,671,988)	3,938,883	(3,938,883)
Ministry of State	2,163,191	(2,163,191)	2,285,358	(1,885,454)
Judicial Branch	2,202,388	(2,202,388)	2,093,370	(1,876,453)
Ministry of Natural Resources, etc.	1,854,535	(1,804,900)	1,126,489	289,636
Office of the President	1,712,601	(1,712,601)	1,646,767	(999,276)
Ministry of Community and Cultural Affairs	1,155,447	(174,397)	1,197,952	(1,195,491)
Office of the Vice-President	508,076	(508,076)	338,077	(338,077)
Boards, Commissions & Authorities	668,411	390,793	673,646	878,697
Independent Agencies	2,675,053	2,037,390	2,968,466	(2,183,273)
Other Agencies and Activities			2,658,528	(2,258,244)
Capital Projects			2,144,937	17,967,912
Interest on long-term debt	616,288	(616,288)	667,123	(667,123)
Future operations			931,066	12,096,559
Depreciation - unallocated	1,272,206	(1,272,206)	1,531,990	(1,531,990)
Impairment loss on defects on Compact			7,207,200	(7,207,200)
Investment loss on cost basis stock			553,925	(553,925)
Other	349,579	20,153,100	563,879	(9,165)
Total Expenses	\$ 99,813,267	(61,005,176)	108,167,489	(52,293,476)

FINANCIAL ANALYSIS OF THE REPUBLIC'S FUNDS

Governmental funds – At the close of the fiscal year, Republic's governmental funds reported a combined fund balance of \$143,060,942, an increase of \$4,946,962 from the prior year. The General Fund is the principal operating fund of the Republic. The increase in the fund balance of the General Fund for the fiscal year was \$1,527,342.

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BUDGETARY HIGHLIGHTS OF MAJOR FUNDS

During the course of the fiscal year, management and elected officials of the ROP revised the General Fund budget to increase appropriations by \$4.6 million. The primary reason for the upward revision was due to additional funding of \$3 million to cover overall operation costs of the Republic of Palau and \$1.6 million to be disbursed from the PAN Fund account to meet the ROP's MCT funding obligation and fund the already approved State PAN sites.

A schedule showing the original and final budget amounts compared to the Republic's actual financial activity for the General Fund is provided in this report as required supplementary information.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Governmental Activities:

Capital Assets - As of September 30, 2011, the Republic's total capital assets were \$431,736,460. This includes land, construction in progress, buildings and improvements, infrastructure, vehicles and machinery and equipment. This amount represents an increase from the previous year of \$22,774,360. The majority of this increase is attributable to the additions to infrastructure. Total accumulated depreciation as of September 30, 2011 was \$186,952,491, including \$34,404,409 of depreciation expense for the year. The balance in total net capital assets was \$244,783,969 at year-end.

Capital Assets
(Net of accumulated depreciation, where applicable)

	<u>September 30, 2011</u>	<u>September 30 2010</u>	<u>Change</u>
<i>Land</i>	\$ 3,691,850	3,691,850	0%
Construction in progress	11,375,598	10,296,442	10%
Buildings and improvements, net	90,993,695	95,904,793	(5)%
Infrastructure, net	130,547,236	137,474,281	(5)%
Machinery and equipment, net	6,276,041	8,047,040	(22)%
Vehicles, net	1,899,549	999,612	90%
Total Capital Assets, net	<u>\$ 244,783,969</u>	<u>256,414,018</u>	(5)%

Refer to Note 5 of the accompanying financial statements for additional information regarding capital assets.

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Governmental Activities:

Debt Administration – At September 30, 2011, The Republic had \$23,305,221 in long-term debt outstanding. Of this debt, \$4,024,286 is due within one year.

	<u>September 30, 2011</u>	<u>September 30, 2010</u>	<u>Change</u>
Loans payable	\$ 16,457,145	18,057,143	(9)%
Due to US Government	3,000,000	3,000,000	0%
Compensated absences	3,848,076	3,631,917	6%
Total Long-Term Debt	<u>\$ 23,305,221</u>	<u>24,689,060</u>	(6)%

The Republic has not established a trust fund as part of the terms and conditions under the Compact Agreement as of September 30, 2011, and therefore, has restricted assets of \$3,000,000 in the Compact Section 211(b) to fund this repayment.

Refer to Note 7 of the accompanying financial statements for additional information regarding long-term obligations.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

In Fiscal Year 2011, actual local revenue collected was \$38.5 million, an increase of 8.5% from the \$35.5 million collected in Fiscal Year 2010. The increase in collection was \$3.8 million or 11.1% higher than the projected \$34.7 million for the year.

This increase was well in line with the estimated GDP growth of 6.9% that was mostly driven by the increase in visitor arrivals. Visitor arrivals increased by 24.3% over the previous fiscal year, partly due to the economic recoveries in the neighboring Asian countries, including the top two tourist markets of Palau, such as Japan and Republic of China (Taiwan).

Another factor that may have contributed to this increase is the *Tourism Action Plan (TAP2008)*. The plan calls for “upgrading of the image of Palau as a tourist destination and positioning of Palau as the island choice for environmentally conscious visitors, with quality visitor experiences and high financial and other benefits to Palau on a sustainable basis.” The government continues to work with the private sector to implement this plan in order to achieve its goal to increase both the number of visitor arrivals and the number of “quality and high-end” visitors.

Major revenue categories saw increases from previous year with the largest increase coming from services. In Fiscal 2011 collection from services was \$2.7 million, a 65% increase from the \$1.6 million projected for that year. Licenses and permits collections saw an increase from \$2 million to \$2.4 million or 20% increase. Taxes, which is the largest of revenue categories, had a total collection of \$38.5 million in Fiscal Year 2011 compared to \$29.3 million in Fiscal Year 2010. Compact Revenues has remained fairly constant while indirect cost recoveries fluctuate relative to

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For the Year Ended September 30, 2011

program size. Investment earnings continue to show volatility as a result of global financial and economic crisis. As a result of the Compact's economic provision agreement which ended in 2009, the government continues to tap into the remaining balances of its investment principal value for budgetary support pending the outcome of the new Compact Agreement with the United States.

Although revenue collection saw an increase in collections in Fiscal 2011 from previous year, the government continues to face constraints in its budget mainly due to increasing energy costs which is affecting prices and cost across all sectors. Additionally the government in the last couple of years has completed some major infrastructure projects that we now have to maintain. The government continues to seek other revenue sources to meet these anticipated costs. Again in 2011, some new measures were introduced to try and raise additional revenue, i.e. tax reforms, new water and sewer rates; however the proposals have yet to be enacted.

In Fiscal year 2011, government tried to be more conservative in its revenue projection approach. However, the current size of the government, in addition to rising costs, has made it more difficult to balance the Budget at years end. The government realizes that the only long term solution to the current imbalance in its revenue collection and expenditure is either enactment of new revenue collection measures or reduction in government "fixed costs", i.e. salary and wages and utilities or combination of both.

After Fiscal Year 2011 it appears that revenue collections may be gradually improving going forward. This is can be attributed to the improving global economies and the recovery of tourist arrivals. A positive outlook for the U.S. and the Asian economies remains despite the significant rise in energy prices, which is anticipated to result in continued growth for our tourism industry in 2012. The high price of oil continues to be a major concern that could lead to slower economic growth although industry experts are still fairly optimistic of overall growth prospects.

The fiscal year 2012 budget will continue to prioritize available resources toward key areas where the Republic will realize the greatest long-term rewards – Health, Education and Public Safety. Available resources would further be aimed at eliminating the general fund unreserved fund balance deficit and reducing long-term costs of the governmental services as well as facilitating expanded opportunities for sustainable revenue growth.

CONTACTING THE REPUBLIC'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the Republic's finances and to demonstrate the Republic's accountability for the funds it receives. If you have questions about this report or need additional financial information, please contact the Vice President/Minister of Finance, P. O. Box 6011, Koror, Republic of Palau, 96940.

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FINANCIAL STATEMENTS

REPUBLIC OF PALAU
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2011

	Primary Government <u>Governmental Activities</u>	<u>Component Units</u>
Assets:		
Current Assets:		
Cash and cash equivalents	\$ 6,087,510	5,396,642
Time certificates of deposit	--	628,899
Investments	3,609,764	--
Receivables, net of allowance	7,943,737	18,557,323
Inventories	46,467	10,663,086
Prepaid items	429,482	648,166
Deposits	--	28,283
Other current assets	8,771	--
Due from grantor	--	45,584
Advances	334,324	--
Restricted Assets:		
Cash and cash equivalents	475,398	--
Time certificates of deposit	--	451,300
Total current assets	<u>18,935,453</u>	<u>36,419,283</u>
Non-current assets:		
Restricted Assets:		
Investments	--	1,911,000
Cash and cash equivalents and times certificate of deposit	--	4,914,466
Investments	149,838,063	--
Receivables, net of allowance	--	20,078,620
Contracts receivable	--	169,732
Land and construction in progress	15,067,448	431,241
Capital assets, net of accumulated depreciation	229,716,521	50,436,537
Foreclosed real estate	--	1,942,891
Other noncurrent assets	--	84,547
Total non-current assets	<u>394,622,032</u>	<u>79,969,034</u>
Total Assets	<u>413,557,485</u>	<u>116,388,317</u>
Liabilities:		
Current Liabilities:		
Loans payable	--	300,000
Notes payable	198,142	--
Accounts payable	12,119,531	10,934,970
Due to grantor	--	218,869
Due to state governments	2,194,760	24,410
Due to component units	5,120,909	--
Accrued payroll related liabilities	1,579,078	--
Accrued interest payable	173,200	118,192
Long-term obligations	1,599,998	2,825,951
Compensated absences payable	2,424,288	106,644
Other liabilities	1,008,454	1,076,209
Income tax refunds	809,110	--
Deferred revenue	2,682,590	1,182,348
Total current liabilities	<u>29,910,060</u>	<u>16,787,593</u>
Non-current liabilities:		
Long-term obligations	14,857,147	49,314,060
Compensated absences payable	1,423,788	47,912
Due to U.S. Government	3,000,000	--
Total non-current liabilities	<u>19,280,935</u>	<u>49,361,972</u>
Total Liabilities	<u>49,190,995</u>	<u>66,149,565</u>
Net Assets:		
Invested in Capital Assets, Net of Related Debt	228,326,824	12,435,633
Restricted For:		
Expendable:		
Compact	5,560,176	--
Capital projects	515,879	--
Other Purposes	--	15,212,939
Non-expendable:		
Future Operations	146,485,451	--
Other purposes	--	5,891,351
Unrestricted	(16,521,840)	16,698,829
Total Net Assets	<u>\$ 364,366,490</u>	<u>50,238,752</u>

The accompanying notes are an integral part of this statement.

REPUBLIC OF PALAU

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2011

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Component Units
Primary Government:						
Governmental Activities:						
Ministry of Health	15,725,014	1,854,815	4,421,426	--	(9,448,773)	
Ministry of Education	9,801,424	125	3,641,386	--	(6,159,913)	
Ministry of Infrastructure, Industry and Commerce	40,039,410	--	--	--	(40,039,410)	
State Block Grants	4,875,162	--	--	--	(4,875,162)	
Education Assistance	3,762,046	--	49,330	--	(3,712,716)	
Ministry of Finance	2,202,714	936,109	--	--	(1,266,605)	
Ministry of Justice	4,549,187	591,342	--	--	(3,957,845)	
Legislative Branch	3,680,535	8,547	--	--	(3,671,988)	
Ministry of State	2,163,191	--	--	--	(2,163,191)	
Judicial Branch	2,202,388	--	--	--	(2,202,388)	
Ministry of Natural Resources, Environment and Tourism	1,854,525	49,625	--	--	(1,804,900)	
Office of the President	1,712,601	--	--	--	(1,712,601)	
Ministry of Community and Cultural Affairs	1,155,447	981,050	--	--	(174,397)	
Office of the Vice-President	508,076	--	--	--	(508,076)	
Boards, Commissions & Authorities	668,411	1,059,204	--	--	390,793	
Independent Agencies	2,675,053	1,832,443	2,880,000	--	2,037,390	
Other	349,579	810,391	15,974,643	3,717,645	20,153,100	
Interest and other on long-term debt	616,288	--	--	--	(616,288)	
Unallocated	1,272,206	--	--	--	(1,272,206)	
Total Primary Government	\$ 99,813,257	\$ 8,123,651	\$ 26,966,785	\$ 3,717,645	(61,005,176)	
COMPONENT UNITS:						
National Development Bank of Palau	\$ 1,568,620	\$ 1,366,685	\$ --	\$ --		\$ (201,935)
Palau Community College	10,654,482	4,215,962	4,553,082	--		(1,885,438)
Palau National Communications Corporation	10,602,797	9,816,815	--	--		(785,982)
Palau International Coral Reef Center	1,093,561	141,075	453,251	--		(499,235)
Palau Visitors Authority	639,446	31,942	--	--		(607,504)
Public Utilities Corporation	27,505,708	27,384,096	--	--		(121,612)
Palau District Housing Authority	165,204	149,955	10,549	--		(4,700)
Total Component Units	\$ 52,229,818	\$ 43,106,530	\$ 5,016,882	\$ --		(4,106,406)
General Revenues:						
Taxes:						
Business gross receipts					10,731,062	--
Salaries and wages					8,250,954	--
Alcohol and tobacco					4,814,375	--
General import					1,738,322	--
Travelers head					2,225,097	--
Hotel occupancy					2,890,976	--
Other					4,281,186	--
Grants and contributions not restricted for specific programs					10,260,000	942,008
Unrestricted investment earnings					1,505,763	9,836
Contributions from primary government					--	2,734,401
Other					299,865	75,953
Total General Revenues					46,997,600	3,762,198
Change in Net Assets					(14,007,576)	(344,208)
Net Assets - Beginning, as originally reported					379,538,529	50,518,320
Prior period adjustment					(1,164,463)	64,640
Net Assets - Beginning, as restated					378,374,066	50,582,960
Net Assets - Ending					\$ 364,366,490	\$ 50,238,752

The accompanying notes are an integral part of this statement.

REPUBLIC OF PALAU

BALANCE SHEET - GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2011

	General Fund	Grants Fund
Assets:		
Cash and cash equivalents	\$ 6,087,510	\$ --
Investments	1,193,147	--
Receivables, net:		
Taxes	3,882,913	--
General	897,357	1,276
Federal agencies	--	2,634,956
Accrued interest	--	--
Due from other funds	1,713,521	3,211,550
Advances	186,683	147,193
Inventory	46,467	--
Prepaid items	11,411	397,658
Restricted assets:		
Cash and cash equivalents	475,398	--
Investments	--	--
Total Assets	\$ 14,494,407	\$ 6,392,633
Liabilities and Fund Balances:		
Liabilities:		
Notes payable	\$ 198,142	\$ --
Accounts payable	8,649,188	3,019,789
Due to state governments	2,194,760	--
Due to component units	5,120,909	--
Due to other funds	4,877,298	1,009,631
Accrued payroll related	1,498,333	79,702
Other liabilities	127,212	--
Deferred revenues	--	2,502,136
Income tax refunds	809,110	--
Total Liabilities	23,474,952	6,611,258
Fund Balances (Deficit):		
Nonspendable:		
Advances	186,683	147,193
Prepaid items	11,411	397,658
Permanent fund	--	--
Restricted:		
Capital projects	--	--
Compact	--	--
Other purposes	--	--
Committed:		
Continuing Appropriations	1,546,382	--
Assigned:		
Other	--	32,194
Unassigned	(10,725,021)	(795,670)
Total Fund Balances (Deficit)	(8,980,545)	(218,625)
Total Liabilities and Fund Balances	\$ 14,494,407	\$ 6,392,633

The accompanying notes are an integral part of this statement.

EXHIBIT 3

Compact Section 211 (f) Fund	Other Governmental Funds	Total Governmental Funds
\$ --	\$ --	\$ 6,087,510
--	2,416,617	3,609,764
--	--	3,882,913
--	2,036	900,669
--	--	2,634,956
528,630	5,340	533,970
--	1,665,749	6,590,820
--	448	334,324
--	--	46,467
--	20,413	429,482
--	--	475,398
146,838,063	3,000,000	149,838,063
<u>\$ 147,366,693</u>	<u>\$ 7,110,603</u>	<u>\$ 175,364,336</u>
\$ --	\$ --	\$ 198,142
--	450,554	12,119,531
--	--	2,194,760
--	--	5,120,909
--	703,891	6,590,820
--	1,043	1,579,078
881,242	--	1,008,454
--	180,454	2,682,590
--	--	809,110
<u>881,242</u>	<u>1,335,942</u>	<u>32,303,394</u>
--	448	334,324
--	20,413	429,482
146,485,451	--	146,485,451
--	502,179	502,179
--	5,560,176	5,560,176
--	401,484	401,484
--	--	1,546,382
--	147,387	179,581
--	(857,426)	(12,378,117)
<u>146,485,451</u>	<u>5,774,661</u>	<u>143,060,942</u>
<u>\$ 147,366,693</u>	<u>\$ 7,110,603</u>	<u>\$ 175,364,336</u>

REPUBLIC OF PALAU

*RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2011*

Total fund balances - governmental funds balance sheet	\$ 143,060,942
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not reported in the funds.	244,783,969
Liabilities due in one year are not reported in the funds.	(4,024,286)
Payables for bond interest which are not due in the current period are not reported in the funds.	(173,200)
Payables for loans which are not due in the current period are not reported in the funds.	(14,857,147)
Payables for compensated absences not due in the current period are not reported in the funds.	(1,423,788)
Other long-term liabilities not due and payable in the current period are not reported in the funds.	<u>(3,000,000)</u>
Net assets of governmental activities - Statement of Net Assets	<u>\$ 364,366,490</u>

The accompanying notes are an integral part of this statement.

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REPUBLIC OF PALAU

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS FOR THE YEAR ENDED SEPTEMBER 30, 2011

	General Fund	Grants Fund
Revenues:		
Taxes	\$ 32,369,158	\$ --
Federal and other grants	--	27,545,346
Compact funding	10,267,000	--
Net change in the fair value of investments	(8,644)	--
Fees and charges	5,819,316	--
Licenses and permits	2,916,944	--
Other	231,377	869
Total Revenues	51,595,151	27,546,215
Expenditures:		
Ministry of Health	7,661,446	4,749,399
Ministry of Education	6,773,482	3,678,745
Ministry of Infrastructure, Industry and Commerce	9,359,448	311,248
State Block Grants	4,875,162	--
Education Assistance	2,744,000	--
Ministry of Finance/Administration	1,947,903	--
Ministry of Justice	4,207,300	--
Legislative Branch	3,663,503	--
Investment Management Fees	--	--
Ministry of State	2,150,387	--
Judicial Branch	2,172,361	--
Ministry of Natural Resources, Environment and Tourism	1,186,058	318,411
Office of the President	1,563,650	146,571
Ministry of Community and Cultural Affairs	919,352	1,035
Office of the Vice-President	352,334	155,742
Boards, Commissions and Authorities	668,411	--
Office of the Public Auditor	348,947	493,255
Office of the Special Prosecutor	88,617	--
Environmental Quality Protection Board	308,312	243,400
National Postal Service	317,643	--
Palau Visitors Authority	605,000	--
Compact Review Fund	144,066	--
National Aviation Administration	125,813	--
Other	2,392,139	1,797,177
Capital Outlay		
Capital projects	--	16,074,716
Debt service:		
Principal retirement	--	--
Interest	--	--
Total Expenditures	54,575,334	27,969,699
Excess of Revenues Over (Under) Expenditures	(2,980,183)	(423,484)
Other financing sources (uses):		
Operating transfers in	8,094,841	--
Operating transfers out	(2,237,419)	--
Total Other Financing Sources (Uses)	5,857,422	--
Net Changes in Fund Balances	2,877,239	(423,484)
Fund balances		
Beginning of year	(10,507,887)	19,425
Prior period adjustment	(1,349,897)	185,434
End of year	\$ (8,980,545)	\$ (218,625)

The accompanying notes are an integral part of this statement.

EXHIBIT 4

Compact Section 211 (f) Fund	Other Governmental Funds	Total Governmental Funds
\$ --	\$ --	\$ 32,369,158
--	258,215	27,803,561
--	2,880,000	13,147,000
1,416,964	82,050	1,490,370
--	1,889,217	7,708,533
--	60,988	2,977,932
21,789	55,092	309,127
<u>1,438,753</u>	<u>5,225,562</u>	<u>85,805,681</u>
--	1,797,050	14,207,895
--	--	10,452,227
--	--	9,670,696
--	--	4,875,162
--	1,018,046	3,762,046
--	--	1,947,903
--	--	4,207,300
--	--	3,663,503
1,016,419	13,299	1,029,718
--	--	2,150,387
--	--	2,172,361
--	1,786	1,506,255
--	--	1,710,221
--	--	920,387
--	--	508,076
--	--	668,411
--	--	842,202
--	--	88,617
--	--	551,712
--	--	317,643
--	--	605,000
--	--	144,066
--	--	125,813
21,191	937,937	5,148,444
--	--	16,074,716
--	1,599,998	1,599,998
--	637,421	637,421
<u>1,037,610</u>	<u>6,005,537</u>	<u>89,588,180</u>
401,143	(779,975)	(3,782,499)
--	2,237,419	10,332,260
(5,000,000)	(3,094,841)	(10,332,260)
<u>(5,000,000)</u>	<u>(857,422)</u>	<u>--</u>
(4,598,857)	(1,637,397)	(3,782,499)
151,084,308	7,412,058	148,007,904
--	--	(1,164,463)
<u>\$ 146,485,451</u>	<u>\$ 5,774,661</u>	<u>\$ 143,060,942</u>

REPUBLIC OF PALAU

*RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2011*

Net change in fund balances - total governmental funds	\$ (3,782,499)
Amounts reported for governmental activities in the Statement of Activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	22,774,360
The depreciation of capital assets used in governmental activities is not reported in the funds.	(34,404,409)
Repayment of loan principal is an expenditure in the funds but is not an expense in the SOA.	1,599,998
(Increase) decrease in accrued interest from beginning of period to end of period.	21,133
Compensated absences are reported as amount earned in SOA but as amount paid in the funds.	<u>(216,159)</u>
Change in net assets of governmental activities - Statement of Activities	<u>\$ (14,007,576)</u>

The accompanying notes are an integral part of this statement.

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REPUBLIC OF PALAU

STATEMENT OF FIDUCIARY NET ASSETS

FIDUCIARY FUNDS

SEPTEMBER 30, 2011

	Private- Purpose Trust	Pension Trust Fund
	<u> </u>	<u> </u>
Assets:		
Cash and cash equivalents	\$ 2,218,593	\$ 276,299
Investments:		
Corporate stock	33,304,548	18,928,728
U.S. Government obligations	15,297,578	5,097,978
Corporate bonds	14,806,075	6,413,594
Money market funds	2,731,302	1,248,060
Receivables, net:		
Contributions	6,390,578	2,684,514
Loan	5,856,694	--
Accrued interest and dividends	384,547	--
Other	33,582	10,000
Time certificate of deposit with an uninsured bank	--	1,452,609
Prepaid expense	8,986	--
Capital assets, net	373,469	57,886
Total Assets	<u>81,405,952</u>	<u>36,169,668</u>
Liabilities:		
Benefits payable	286,435	--
Other liabilities and accruals	147,550	41,002
Total Liabilities	<u>433,985</u>	<u>41,002</u>
Net Assets:		
Held in trust for:		
Social security benefits	80,971,967	--
Pension benefits	--	36,128,666
Total Net Assets	<u>\$ 80,971,967</u>	<u>\$ 36,128,666</u>

The accompanying notes are an integral part of this statement.

REPUBLIC OF PALAU*STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**FIDUCIARY FUNDS**FOR THE YEAR ENDED SEPTEMBER 30, 2011*

	Private- Purpose Trust	Pension Trust Fund
	<u> </u>	<u> </u>
Additions:		
Employer's contributions	\$ --	\$ 2,591,388
Member's contributions	14,935,019	2,564,672
Penalties and interest	748,808	--
Net (Decrease) in Fair Value of Investments	(2,231,343)	(3,996,150)
Interest	1,610,721	2,213,727
Dividends	635,282	453,392
Investment expenses	--	(235,199)
Other	294,208	23,865
Less: Bad debts	(110,109)	--
Total Additions	<u>15,882,586</u>	<u>3,615,695</u>
Deductions:		
Retirement	6,757,232	5,690,288
Survivors	2,125,799	1,655,827
Refunds of Contributions	--	341,698
National health insurance	465,577	--
Medical savings account	243,424	--
Lump sum	56,691	128,383
Disability	350,558	60,570
Administrative Expenses	1,104,151	339,144
Investment management & fund custodian fee	391,035	--
Depreciation	60,158	--
Total Deductions	<u>11,554,625</u>	<u>8,215,910</u>
Change in Net Assets	4,327,961	(4,600,215)
Net Assets-Beginning of the Year	<u>76,644,006</u>	<u>40,728,881</u>
Net Assets-End of the Year	<u>\$ 80,971,967</u>	<u>\$ 36,128,666</u>

The accompanying notes are an integral part of this statement.

REPUBLIC OF PALAU
COMBINING STATEMENT OF NET ASSETS - COMPONENT UNITS
SEPTEMBER 30, 2011

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	National Development Bank of Palau	Palau Community College	Palau National Communication Corporation	Palau International Coral Reef Center	Palau Visitors Authority	Public Utilities Corporation	Palau District Housing Authority	Total Component Units
Assets:								
Current:								
Cash and cash equivalents	\$ 954,015	\$ 678,914	\$ 441,384	\$ 272,300	\$ 126,740	\$ 1,909,076	\$ 1,014,213	\$ 5,396,642
Restricted time certificates of deposits	451,300	--	--	--	--	--	--	451,300
Time certificates of deposit	--	--	628,899	--	--	--	--	628,899
Receivables, net:								
Accounts receivable	--	2,081,261	1,349,313	--	--	7,995,549	13,115	11,439,238
Current portion of loans/notes, net	5,511,547	--	--	--	--	--	208,831	5,720,378
Accrued interest	305,128	--	--	--	--	--	9,590	314,718
Republic of Palau	--	394,737	--	--	109,782	--	--	504,519
Other	398,300	--	95,637	40,666	1,385	42,482	--	578,470
Due from grantor	--	--	--	4,709	30,375	10,500	--	45,584
Inventories	365,865	218,816	202,083	84,248	--	9,792,074	--	10,663,086
Prepaid items	37,312	--	79,139	3,699	6,945	521,071	--	648,166
Deposits	--	28,283	--	--	--	--	--	28,283
Total current assets	8,023,467	3,402,011	2,796,455	405,622	244,852	20,270,752	1,276,124	36,419,253
Non-current assets:								
Restricted assets:								
Cash	573,431	74,535	3,853,481	--	--	207,907	--	4,709,354
Investments	--	1,911,000	--	--	--	--	--	1,911,000
Time certificates of deposit	205,112	--	--	--	--	--	--	205,112
Loans/notes receivable, net	18,544,071	--	--	--	--	--	1,534,549	20,078,620
Contracts receivable	--	--	--	--	--	169,732	--	169,732
Capital assets, net of depreciation	738,082	1,498,640	20,101,930	2,178,043	74,813	26,262,821	13,449	50,867,778
Foreclosed real estate	1,942,891	--	--	--	--	--	--	1,942,891
Other	--	--	51,550	--	--	32,997	--	84,547
Total non-current assets	22,003,587	3,484,175	24,006,961	2,178,043	74,813	26,673,457	1,547,998	79,969,034
Total Assets	30,027,054	6,886,186	26,803,416	2,583,665	319,665	46,944,209	2,824,122	116,388,317
Liabilities and Net Assets:								
Liabilities:								
Current liabilities:								
Short term loans payable	\$ 300,000	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ 300,000
Due to grantor	218,869	--	--	--	--	--	--	218,869
Republic of Palau	--	--	--	--	24,410	--	--	24,410
Accounts payable and accrued expenses	91,156	940,939	732,325	107,210	49,837	9,070,789	20,105	11,012,361
Interest payable	118,192	--	--	--	--	--	--	118,192
Deferred revenue	--	1,021,012	40,966	120,370	--	--	--	1,182,348
Other payables	--	--	569,193	--	--	429,625	--	998,818
Current portion of long-term debt	894,760	--	1,389,381	24,067	--	517,743	--	2,825,951
Compensated absences	--	106,644	--	--	--	--	--	106,644
Total current liabilities	1,622,977	2,068,595	2,731,865	251,647	74,247	10,018,157	20,105	16,787,593
Non-current liabilities:								
Long-term debt, net of current portion	12,490,880	--	28,125,621	90,251	--	8,607,308	--	49,314,060
Compensated absences	12,490,880	47,912	28,125,621	90,251	--	8,607,308	--	49,361,972
Total non-current liabilities	24,981,760	47,912	28,125,621	90,251	--	8,607,308	--	49,361,972
Total Liabilities	14,113,857	2,116,507	30,857,486	341,898	74,247	18,625,465	20,105	66,149,565
Net Assets (Deficiency):								
Invested in capital assets, net of related debt	738,082	1,498,640	(9,413,072)	2,178,043	74,813	17,345,678	13,449	12,435,633
Restricted:								
Expendable:	15,175,115	37,824	--	--	--	--	--	15,212,939
Other purposes	--	2,037,870	3,853,481	--	--	--	--	5,891,351
Non-expendable:	--	--	--	63,724	170,605	10,973,066	2,790,568	16,698,829
Other purposes	--	1,195,345	1,505,521	2,241,767	245,418	28,318,744	2,804,017	50,238,752
Unrestricted	15,175,115	3,233,189	5,358,981	2,241,767	245,418	28,318,744	2,804,017	50,238,752
Total Net Assets (Deficiency)	\$ 15,913,197	\$ 4,769,679	\$ (4,054,070)	\$ 2,241,767	\$ 245,418	\$ 28,318,744	\$ 2,804,017	\$ 50,238,752

The accompanying notes are an integral part of this statement.

REPUBLIC OF PALAU
 COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES
 IN NET ASSETS - COMPONENT UNITS
 FOR THE YEAR ENDED SEPTEMBER 30, 2011

	National Development Bank of Palau	Palau Community College	Palau National Communication Corporation	Palau International Coral Reef Center	Palau Visitors Authority	Public Utilities Corporation	Palau District Housing Authority	Total Component Units
Operating Revenues:								
Charges for services	\$ 2,342,965	\$ 4,086,346	\$ 9,420,324	\$ 141,075	\$ --	\$ 25,172,146	\$ 149,955	\$ 41,312,811
Grants and contributions	--	4,553,082	--	453,251	--	--	6,000	5,012,333
Other	(976,280)	129,616	396,491	75,953	31,942	2,211,950	4,549	1,874,221
Total Operating Revenues	1,366,685	8,769,044	9,816,815	670,279	31,942	27,384,096	160,504	48,199,365
Operating Expenses:								
Cost of services	663,094	8,636,016	4,887,103	703,171	561,588	24,143,031	93,675	39,687,678
Depreciation	52,530	304,101	2,733,481	157,263	14,575	1,833,162	10,103	5,105,215
Administration	168,278	1,675,030	1,611,024	230,762	63,283	1,140,118	61,426	4,949,921
Total Operating Expenses	883,902	10,615,147	9,231,608	1,091,196	639,446	27,116,311	165,204	49,742,814
Operating Income (Loss)	482,783	(1,846,103)	585,207	(420,917)	(607,504)	267,785	(4,700)	(1,543,449)
Non-Operating Revenues (Expenses)								
Contributions from primary government	--	2,129,401	--	--	605,000	--	--	2,734,401
Net change in the fair value of investments	--	(39,335)	--	--	--	--	--	(39,335)
Interest income	3,680	--	3,975	105	--	1,238	838	9,836
Grant revenues	503,219	--	--	--	--	51,789	--	555,008
Interest expense	(579,496)	--	(1,387,088)	(2,365)	--	(205,234)	--	(2,174,183)
Other	(105,222)	--	15,899	387,000	--	(184,163)	--	113,514
Total Non-Operating Income (Expenses)	(177,819)	2,090,066	(1,367,214)	384,740	605,000	(336,370)	838	1,199,241
Changes in Net Assets	304,964	243,963	(782,007)	(36,177)	(2,504)	(68,585)	(3,862)	(344,208)
Net Assets:								
Beginning of year	15,608,233	4,525,716	(3,272,063)	2,213,304	247,922	28,387,329	2,807,879	50,518,320
Prior period adjustment	--	--	--	64,640	--	--	--	64,640
Beginning of year, as restated	15,608,233	4,525,716	(3,272,063)	2,277,944	247,922	28,387,329	2,807,879	50,582,960
End of year	\$ 15,913,197	\$ 4,769,679	\$ (4,054,070)	\$ 2,241,767	\$ 245,418	\$ 28,318,744	\$ 2,804,017	\$ 50,238,752

The accompanying notes are an integral part of this statement.

Republic of Palau

Notes to the Financial Statements
for the year ended September 30, 2011

Republic of Palau

Notes to the Financial Statements
For the year ended September 30, 2011

(1) Summary of Significant Accounting Policies

The accompanying basic financial statements of the Republic of Palau (the Republic) have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standard 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. Financial Reporting Entity

The Government of the Republic of Palau 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 9 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 and if a potential component unit is material to the Republic's basic financial statements. 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 blended and discretely presented 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.

Once financial accountability has been determined for a potential component unit, that component unit is either blended into the primary government or discretely presented from the primary government. The nature and relationship of the

Republic of Palau

Notes to the Financial Statements
For the year ended September 30, 2011

Republic's component units and related organizations are disclosed in the following section.

1. Blended Component Units

Blended component units are entities that are legally separate from the Republic, but are so related to the Republic that they are, in substance, a component of the Republic. The net assets and results of operations of the following legally separate entities are presented as part of the Republic's operations:

a. Republic of Palau Social Security Retirement Fund

The Republic of Palau Social Security Retirement Fund (the Fund), a Fiduciary Fund type - Private Purpose Trust Fund, was created under the 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 30, 1991, and began operation in a transition phase on October 1, 1987. The Fund is administered under the authority of five trustees appointed by the President with the advice and consent of the Senate of the Republic. The Fund provides retirement, disability, and death benefits to qualified individuals and their survivors. Additionally, the Fund was appointed responsibility under 41 PNC, Section 723, for the administration and operation of the Palau Healthcare Fund Program.

b. Republic of Palau Civil Service Pension Trust Fund

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 passed into law April 3, 1987, and began operations October 1, 1987. RPPL No. 2-26 was revised by RPPL No. 3-21 and RPPL No. 4-40, RPPL No. 4-49, RPPL No. 5-30, RPPL 6-37 and RPPL No. 7-56. The Pension Fund is administered under the authority of a seven member Board of Trustees appointed by the President with the advice and consent of the Senate of the Republic.

2. Discretely Presented Component Units

Discretely presented component units are entities which are legally separate from the Republic, but are financially accountable to the Republic, or whose relationships with the Republic are such that exclusion

Republic of Palau

Notes to the Financial Statements

For the year ended September 30, 2011

would cause the Republic's basic financial statements to be misleading or incomplete. The component units' column of the basic financial statements includes the financial data of the following component units:

a. National Development Bank of Palau

The National Development Bank of Palau (the Bank) 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 the Bank is to be the central financial institution responsible for initiating and promoting economic development within the Republic.

b. Palau Community College

The Palau Community College (PCC) is a nonprofit 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 member 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 Republic of Marshall Islands, one member from the FSM as designated by those governments. The Board shall grant voting membership to a student representative. The purpose of the PCC, as defined by RPPL No. 4-2, is to be the institution of higher education for the Republic of Palau and to provide post secondary 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.

c. Palau District Housing Authority

The Palau District Housing Authority (the Authority) was created by an act of the Congress of Micronesia in 1973, the "Territory Community Housing Act". The Authority 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

Republic of Palau

Notes to the Financial Statements
For the year ended September 30, 2011

advice and consent of the Senate of the OEK. The Authority is authorized to finance and construct homes as needed.

d. Palau National Communications Corporation

The Palau National Communications Corporation (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 the PNCC is to establish and operate communication services as a communication common carrier within the Republic.

e. Palau International Coral Reef Center

The Palau International Coral Reef Center (PICRC) was created on November 20, 1998 by the 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.

f. Palau Visitors Authority

The Palau Visitors Authority (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.

g. Public Utilities Corporation

The Public Utilities Corporation (PUC) was created by RPPL No. 4-13 on July 6, 1994. The law created a wholly-owned government corporation managed by a Board of Directors appointed by the President with the advice and consent of the Senate of the OEK. The purpose of the PUC is to establish and operate electrical utility services within the Republic.

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Notes to the Financial Statements
For the year ended September 30, 2011

h. Palau Water and Sewer Corporation

RPPL No. 8-31 was passed on September 29, 2011 which authorized a wholly-owned government public corporation managed by a Board of Directors appointed by the President. The purpose of the Palau Water and Sewer Corporation (PWSC) is to manage, operate and provide water and sewer services. While the law appropriated one million four hundred thousand dollars this appropriation had not been transferred as of September 30, 2011 and therefore the component unit is not visible as part of the Republic's discretely presented component units financial statements in 2011.

Complete financial statements for each of the individual component units, except for the Palau Water and Sewer Corporation may be obtained at the units' administrative offices.

3. Omitted Component Units

The following entity derives funding from its activities and Republic assistance. The entity does not receive or administer U.S. federal awards.

a. Belau National Museum

The Belau National Museum was incorporated in September 26, 1973. Financial statements for this omitted component unit are not considered material to the basic financial statements.

B. Government-Wide Financial Statements

The Statement of Net Assets and Statement of Activities report financial information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed 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.

Primary government activities are defined as either governmental or business-type activities. Governmental activities are generally financed through taxes, intergovernmental revenues and other nonexchange revenues and are reported separately from business-type activities. Business-type activities rely mainly on fees and charges for support. Business-type activities account for operations similarly to a for-profit business. The primary government is reported separately

Republic of Palau

Notes to the Financial Statements
For the year ended September 30, 2011

from certain legally separate component units for which the primary government is financially accountable. Discretely presented component units are presented with their business-type focus. The primary government had no business-type activities in the year ended September 30, 2011.

The Statement of Net Assets presents the financial condition of non-fiduciary assets and liabilities of the governmental activities of the Republic at year-end. The Government-wide Statement of Activities presents a comparison between direct expenses and program revenues for each function or program of the Republic's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore, are clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other revenues not classified as program revenues, are presented as general revenues of the Republic, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the Republic.

C. Fund Financial Statements

Fund financial statements of the Republic are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures/expenses. Funds are organized into governmental and fiduciary. Major individual Governmental Funds are reported as separate columns in the funds financial statements. Nonmajor funds are aggregated and presented in a single column.

D. Measurement Focus and Basis of Accounting

Government-Wide Financial Statements

The Government-wide and Fiduciary Funds (excluding agency funds) financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when the liability is incurred or economic assets used, regardless of when the related cash flows take place. Grants are recognized as revenues as soon as all eligibility requirements have been satisfied.

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

Republic of Palau

Notes to the Financial Statements For the year ended September 30, 2011

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 Funds Financial Statements

Governmental financial statements are presented using a current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized in the accounting period when they are both measurable and available to finance operations during the year or to liquidate liabilities existing at the end of the year. Available means collected in the current period or within 60 days after year end to liquidate liabilities existing at the end of the year. Measurable means knowing or being able to reasonably estimate the amount. Expenditures are recognized in the accounting period when the related fund liabilities are incurred. However, debt service expenditures as well as compensated absences and all claims and judgments are recorded when payment is due.

Significant revenues susceptible to accrual include income and gross revenue taxes, federal grants, federal reimbursements and other reimbursements for use of materials and services. Miscellaneous revenues from other financing sources are recognized when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Investments and related investment earnings are recorded at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than a forced or liquidation sale.

Component Units Financial Statements

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 proprietary fund's principal ongoing operations. All other revenues are reported as nonoperating. Operating expenses include 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.

The Republic's component units proprietary funds apply all applicable Governmental Accounting Standard Board (GASB) pronouncements and only the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting

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Notes to the Financial Statements
For the year ended September 30, 2011

Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

The Republic reports the following major Governmental Funds:

General Fund- This fund is used to account for all financial resources which are not legally required to be accounted for and reported in another fund.

Grants Fund - This special revenue fund is used to account for grants received from the United States government and other countries.

Compact Section 211(f) Fund - This is a permanent fund utilized to account 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 Republic reports the following fund types:

GOVERNMENTAL FUND TYPES

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

Special Revenue Funds - These funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

Capital Projects Funds - These funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditures of capital outlays, including the acquisition or construction of capital facilities and other capital assets.

Debt Service Funds - These funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditures of principal and interest.

Permanent Fund - This fund accounts for resources that are legally restricted to the extent that only earnings, and not the principal, may be used for purposes that support the Republic's programs.

Republic of Palau

Notes to the Financial Statements
For the Year Ended September 30, 2011

FIDUCIARY FUND TYPE

Private Purpose Trust Funds - These funds account 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.

E. Estimates

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

F. Cash and Cash Equivalents, Time Certificates of Deposit and Investments

The Republic pools cash resources of its various funds in order to facilitate the management of cash. Interest income received is also allocated to the investing funds. Cash and cash equivalents applicable to a particular fund are readily identifiable. Cash and cash equivalents included cash on hand, cash held in demand accounts as well as time certificates 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 on the statement of net assets/balance sheet.

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

The following investment policy governs the investment of assets of the Republic:

- a. Portfolio allocation targets are intended to be long term and strategic in nature. The Compact Trust Fund Board of Trustees (BOT) may make strategic or tactical adjustments to the existing overall fund allocation whenever deemed appropriate and recognizes that the actual allocation of the overall fund may vary considerably in the short term depending on current conditions. The targets are comprised of both historic and projected return and variability calculations for each asset class, subclass

Republic of Palau

Notes to the Financial Statements
For the Year Ended September 30, 2011

and investment style. The asset allocation reflects securities while balancing overall fund volatility and providing for the BOT's spending requirements by appropriate allocation to cash and fixed income securities:

Asset Class	Lower Limit	Strategic Allocation	Upper Limit
Equities			
U.S. Core	40	50	60
Small Cap	5	15	25
Fixed Income			
U.S. Core	25	<u>35</u>	45
		<u><u>100%</u></u>	

- b. Individual investment managers are given tactical asset allocation flexibility within the constraints of their customized guidelines as set forth in their individual manager guidelines. Asset allocation targets in individual manager guidelines represent the BOT's desired long term, strategic allocation; the ranges represent the tactical asset allocation flexibility given to each manager to time short term market movements. In addition, while the foregoing directs minimum positions for different assets classes as a general policy, nothing herein shall preclude an investment manager from establishing lower invested levels while raising cash during adverse market conditions, if in his/her professional judgment such action is prudent to protect the principal of the fund.
- c. The target allocations will be evaluated on the basis of investment manager assets designated to each asset class rather than on an investment manager's current invested position. The BOT shall review the asset allocation and transfer funds among the various investment managers, no less frequently than annually to maintain the Fund's asset allocation within the respective ranges set forth above. A formal asset allocation study should be conducted at least every three years or as dictated by the capital markets to verify or amend the targets.

G. Receivables

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

Republic of Palau

Notes to the Financial Statements For the Year Ended September 30, 2011

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 materials and supplies are determined by physical count and are valued at the lower-of-cost or market.

I. Prepaid Items

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

J. Interfund Receivables and Payables

During the course of its operations, the Republic records transactions between individual funds for goods provided or services rendered. Receivables and payables resulting from transactions between funds are classified as “due to/from other funds” on the governmental fund balance sheet.

These balances result from the time lag between 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.

K. Restricted Assets

Certain assets of the primary government are classified as restricted assets because their use is completely restricted through trust arrangements or enabling legislation. Specifically, the Republic has recorded cash and cash equivalents of \$475,398, which is maintained by the primary government and administered on behalf of designated beneficiaries. Furthermore, investments of \$146,838,063, recorded in the Compact Section 211(f) Trust Fund is restricted in that it is not available to be used in current operations; and investments of \$3,000,000 recorded in Compact Section 211(b) Energy Fund is restricted to fund a liability to the United States government pursuant to the Compact of Free Association subsidiary agreement (Refer to Note 8).

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.

Republic of Palau

Notes to the Financial Statements
For the year ended September 30, 2011

L. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure (e.g. roads, bridges, ramps and other similar items), are reported in the governmental activities column of the government-wide financial statements.

Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the time of donation.

All 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. The costs of normal maintenance and repairs that do not add to the value of assets or materially extend asset lives are not capitalized.

All 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 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, 2008.

Applicable capital assets 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>
Infrastructure	10-20 years
Buildings and other improvements	15-50 years
Vehicles	5 years
Machinery and equipment	4-20 years

M. Deferred Revenue

In the government-wide financial statements, deferred revenue is recognized when cash, receivables or other assets are recorded prior to being earned. In the governmental fund financial statements deferred revenue represents monies received or revenues accrued which have not been earned or do not meet the "available" criterion for revenue recognition under the modified accrual basis of

Republic of Palau

Notes to the Financial Statements
For the year ended September 30, 2011

accounting. The deferred revenue in the governmental fund types has primarily resulted as federal funds are received in advance of eligible expenditures.

N. Interfund/Intrafund Transactions

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

O. 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. Sick leave accumulates at the rate of 4 hours biweekly, or 13 days per year.

P. Fund Balances

Fund balance for governmental funds is reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

Governmental fund balance is classified as nonspendable, restricted, committed, assigned or unassigned. Following are the descriptions of fund classifications used by the Republic:

Nonspendable fund balance includes items that cannot be spent. This includes amounts that are either not in a spendable form (inventories, prepaid amounts, long-term portion of loans/notes receivable, or property held for resale unless the proceeds from the collection of those receivables or from the sale of those properties are restricted, committed, or assigned) or amounts that are legally or contractually required to be maintained intact, such as a principal balance of a

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permanent fund.

Restricted fund balance includes amounts that have constraints placed upon the use of the resources either by an external party or imposed by law through a constitutional provision or enabling legislation.

Committed fund balance 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 fund balance includes amounts that are constrained by the Republic's intent to be used for a specific purpose, but are neither restricted nor committed. For governmental funds, other than the general fund, this is the residual amount within the fund that is not classified as nonspendable and is neither restricted nor committed. Assignments of fund balance are created by the Republic Administrator pursuant to authorization established by the policy adopted by the Republic.

Unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The general fund should be the only fund that reports a positive unassigned fund balance amount. In other governmental funds if expenditures incurred for specific purposes exceeded the amounts restricted, committed or assigned to those purposes, it may be necessary to report a negative unassigned fund balance.

When an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) resources are available, it is the Republic's general policy to use restricted resources first. When expenditures are incurred for purposes for which unrestricted (committed, assigned and unassigned) resources are available, and amounts in any of these unrestricted classifications could be used, it is the Republic's general policy to spend committed resources first, followed by assigned amounts, and then unassigned amounts. A formal fund balance policy has not been adopted.

Q. 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, the management of the Republic believes it is more economical to manage its risks

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internally. In the event of claim settlements and judgements, 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. However, no material losses have been incurred as a result of this policy in the last three years.

R. Net Assets

Government-wide Financial Statements:

Equity is classified as net assets and displayed in three components:

Invested in capital assets, net of related debt - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings attributable to the acquisition, constructions or improvements of those assets.

Restricted net assets - Consists of net assets with constraints placed on the use either by external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or law through constitutional provisions or enabling legislation.

Unrestricted net assets - All other net assets not meeting the definition of “restricted” or “invested in capital assets, net of related debt.”

S. New Accounting Standards

In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. GASB Statement No. 51 addresses whether and when intangible assets should be considered capital assets for financial reporting purposes. The provisions of this statement are effective for periods beginning after June 15, 2010. The implementation of this statement did not have a material effect on the financial statements of the Republic.

In November 2007, GASB issued Statement No. 52, *Land and other Real Estate Held as Investments by Endowments*. GASB Statement No. 52 improves the quality of financial reporting by requiring endowments to report their land and other real estate investments at fair value, creating consistency in reporting among similar entities that exist to invest resources for the purpose of generating income. The provisions of this statement are effective for periods beginning after June 15, 2009. The implementation of this statement did not have a material effect on the financial statements of the Republic.

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In June 2009, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. GASB Statement No. 53 is intended to improve how state and local governments report information about derivative instruments – financial arrangements used by governments to manage specific risks or make investments - in their financial statements. The provisions of this statement are effective for periods beginning after June 15, 2010. The implementation of this statement did not have a material effect on the financial statements of the Republic.

In February 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement establishes new categories for reporting fund balance and revises the definitions for governmental fund types. As a result, amounts previously reported as reserved and unreserved are now reported as nonspendable, restricted, committed, assigned or unassigned. The requirements of this Statement are effective for periods beginning after June 15, 2010. The implementation of this statement on the financial statements can be seen at note 1 (P) of the financial statements.

In December 2009, GASB issued Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*. This statement establishes accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. The requirements of this Statement are effective for periods beginning after June 15, 2009. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the State.

In June 2012, the GASB issued Statement No. 67, *Financial Reporting for Pension Plans* and Statement No. 68, *Accounting and Financial Reporting for Pensions*. Statement No. 67 addresses financial reporting for state and local government pension plans and Statement No. 68 establishes new accounting and financial reporting requirements for governments that provide their employees with pensions. These related Statements reflect substantial improvements to the accounting and financial reporting of pensions plans. Statement No. 67 will take effect for pension plans in the fiscal year ending September 30, 2014 and Statement No. 68 will take effect for employers and governmental non-employer contributing entities in the fiscal year ending September 30, 2015.

The guidance contained in these Statements will change how governments calculate and report the costs and obligations associated with pensions in important ways. It is designed to improve the decision-usefulness of reported pension information and to increase the transparency, consistency, and comparability of pension information across governments.

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Notes to the Financial Statements
For the year ended September 30, 2011

The new standards will better align the recognition of pension expense with the period in which the related benefits are earned. Considered in total, the changes set forth by the GASB will have the overall effect of expense recognition being accelerated. The implementation of these Statements is expected to have a significant impact upon the financial statements of the Republic.

(2) Cash and Cash Equivalents

The carrying amount of the Republic's primary government total cash and cash equivalents at September 30, 2011, was \$6,562,908, and the bank balance was \$7,750,630. Of the bank balance amounts, \$7,419,185 is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2011, bank deposits in the amount of \$500,000 were FDIC insured.

The carrying amount of the Republic's fiduciary funds total cash and cash equivalents and time certificates of deposit at September 30, 2011, was \$3,947,501, and the bank balance was \$4,060,159. Of the bank balance amounts, \$1,882,419 is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance and \$1,452,609 were held with an uninsured bank. As of September 30, 2011, bank deposits in the amount of \$1,882,419 were FDIC insured.

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of the failure of a financial institution, the Republic will not be able to recover deposits or collateral securities that are in the possession of an outside party. 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.

Financial instruments which potentially subject the Republic to concentrations of credit risk consist principally of cash demand deposits and investments.

At September 30, 2011 the Republic has cash deposits and investments in bank accounts that exceed federal depository insurance limits.

Discretely Presented Component Units

The carrying amount of the Republic's discretely presented component units total cash and cash equivalents and time certificates of deposit at September 30, 2011, was \$11,391,307, and the bank balance was \$6,230,999. Of the bank balance amounts, \$5,591,401 is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2011, bank deposits in the amount of \$5,591,401 were FDIC insured.

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Notes to the Financial Statements
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(3) Investments

As of September 30, 2011, investments at fair value for the primary government were: \$153,447,827. The investment amount for fiduciary funds was: \$97,827,863.

Credit risk for investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. With the exception of investments in U.S. government securities, which are explicitly or implicitly guaranteed by the United States government, all other investments must be rated in accordance with the Republic's investment policy.

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. 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, 2011.

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. GASB Statement No. 40 requires disclosure by issuer and amount of investments in any one issuer that represents 5% or more of total investments for the Republic. As of September 30, 2011, the Republic did not hold an investments in any one issue that represented more than 5% of the Republic's total investments.

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.

Primary Government:

Investments of the primary government - governmental activities recorded at fair value are as follows:

General Fund:

Money market funds	\$	<u>7,572</u>
		<u>7,572</u>

Compact Section 211(f) Trust Fund:

Fixed income securities	57,156,505
Equities	85,713,170
Money market funds	<u>3,968,388</u>
	<u>146,838,063</u>

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Nonmajor Governmental Funds:

Common stock		1,881,456
Money market funds		<u>3,535,161</u>
		<u>5,416,617</u>
Total	\$	<u><u>152,262,252</u></u>

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

Interest rate risk is the risk that change in interest rates will adversely affect the fair value of debt instruments.

As of September 30, 2011, the Compact Section 211 (f) Trust Fund investments in debt securities were as follows:

Investment Type	Fair Value	Investment Maturities				Ratings
		Less than 1 year	1 - 5 years	6 - 10 years	More than 10 years	
US Treasury Obligations	\$ 4,591,982	450,828	1,224,737	1,245,493	1,670,924	Aaa
US Government Agencies	2,897,638		1,361,406	1,101,368	434,864	Aaa
Mortgage Pass Throughs	13,263,237		41,881	432,955	12,788,401	Aaa
Mortgage Obligations	5,171,911		279,051	333,514	4,559,346	Aaa
Mortgage Obligations	840,699			289,031	551,668	Aa
Mortgage Obligations	173,755			80,538	93,217	A
Mortgage Obligations	199,935			73,750	126,185	Baa
Mortgage Obligations	237,652				237,652	B
Mortgage Obligations	938,390				938,390	Ccc
Mortgage Obligations	161,536				161,536	CC
Mortgage Obligations	46,717				46,717	D
Mortgage Obligations	1,616,510				1,616,510	Not rated
State and Local Government	314,937				314,937	Aaa
State and Local Government	2,050,876			659,501	1,391,375	Aa
State and Local Government	504,018		85,978	133,501	284,539	A
Asset-Backed Securities	620,647		279,388	312,914	28,345	Aaa
Asset-Backed Securities	86,432		86,432			Aa
Asset-Backed Securities	684,615		137,275	357,647	189,693	A

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Notes to the Financial Statements For the year ended September 30, 2011

Corporate Bonds	1,619,894	350,329	234,229		1,035,336	Aaa
Corporate Bonds	3,865,747		1,753,040	1,714,877	397,830	Aa
Corporate Bonds	9,056,078	202,540	3,866,042	2,543,495	2,444,001	A
Corporate Bonds	7,477,734	431,972	2,456,668	3,255,116	1,333,978	Baa
Corporate Bonds	585,349		135,000	386,080	64,269	Ba
Corporate Bonds	150,216	150,216				W
	<u>\$ 57,156,505</u>	<u>1,585,885</u>	<u>11,941,127</u>	<u>12,919,780</u>	<u>30,709,713</u>	

Fiduciary Funds:

Investments of the fiduciary funds are as follows:

Republic of Palau Civil Pension Trust Fund:

Fixed income securities	\$ 11,511,572
Equities	18,928,728
Money market funds	<u>1,248,060</u>
	<u>31,688,360</u>

Republic of Palau Social Security Retirement Fund:

Fixed income securities	30,103,653
Equities	33,304,548
Money market funds	<u>2,731,302</u>
	<u>66,139,503</u>
Total	<u>\$ 97,827,863</u>

The following represents the Civil Service Pension Trust Fund's securities at September 30, 2011:

Investment Type	Fair Value	Investment Maturities				Ratings
		Less than 1 year	1 - 5 years	6 - 10 years	More than 10 years	
Mortgage and asset backed obligations	\$ 4,332,273			30,472	4,301,801	AAA
Government Bonds	765,705				765,705	AAA
Corporate Bonds	669,076			585,333	83,743	AA+
Corporate Bonds	1,135,051			1,135,051		A+
Corporate Bonds	1,126,886			1,126,886		A

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Notes to the Financial Statements For the year ended September 30, 2011

Corporate Bonds	3,091,327		3,091,327	A-	
Corporate Bonds	391,254		391,254	BBB	
	<u>\$ 11,511,572</u>	<u>0</u>	<u>0</u>	<u>6,360,323</u>	<u>5,151,249</u>

The following represents the Social Security Retirement Fund's securities at September 30, 2011:

Investment Type	Fair Value	Investment Maturities				Ratings
		Less than 1 year	1 - 5 years	6 - 10 years	More than 10 years	
US Treasury Notes	\$ 2,533,166		1,665,913	435,313	431,940	AAA
Other US government obligations	2,160,637	190,352	971,933	853,817	144,535	AAA
Mortgage and pass throughs	8,740,714		24,458	129,746	8,586,510	AAA
State and local government	288,692				288,692	AAA
State and local government	1,574,367	150,000		672,580	751,787	AA
Corporate Bonds	1,924,133	89,102	443,250	347,631	1,044,150	AAA
Corporate Bonds	4,031,698		1,751,971	1,948,202	331,525	AA
Corporate Bonds	5,319,225	34,942	2,475,011	1,035,978	1,773,294	A
Corporate Bonds	3,380,805	858,134	1,773,435	624,401	124,835	BBB
Corporate Bonds	150,216	150,216				Unrated
	<u>\$ 30,103,653</u>	<u>1,472,746</u>	<u>9,105,971</u>	<u>6,047,668</u>	<u>13,477,268</u>	

Discretely Presented Component Units:

The following represents the discretely presented component units' investments at September 30, 2011:

Palau Community College (PCC):

Fixed income	\$	684,228
Domestic equities		790,188
International equities		<u>436,584</u>
	\$	<u><u>1,911,000</u></u>

As of September 30, 2011, the maturities of PCC's fixed income (money market funds) investments by percentage of its portfolio, are presented in the following table:

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For the year ended September 30, 2011

<u>Investments Maturities</u>	<u>Percentage of Portfolio</u>
Less than 1 year	24.00%
1 - 3 years	7.00%
4 - 5 years	18.00%
5 - 7 years	3.00%
7 - 9 years	18.00%
9 or more years	30.00%
	<u>100.00%</u>

PCC's fixed income investments at September 30, 2011, were rated as follows: investments by percentage of its portfolio, are presented in the following table:

<u>Rating</u>	<u>Percentage of Portfolio</u>
Government Agency	60.50%
AA	7.40%
A+	2.20%
A	13.30%
A-	4.40%
BBB+	5.60%
BBB	3.00%
BBB-	3.60%
	<u>100.00%</u>

(4) Receivables

The following are receivables for the governmental activities of the Republic of Palau:

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Notes to the Financial Statements For the year ended September 30, 2011

	General Fund	Grants Fund	Compact Section 211 (f) Fund	Other Governmental Funds	Total
Receivables:					
Taxes	\$ 3,882,913				3,882,913
General	1,764,357	1,276		13,734,546	15,500,179
Federal Agencies		2,634,956			2,634,956
Accrued Interest			528,630	5,340	533,970
	5,647,270	2,636,232	528,630	13,739,886	22,552,018
Less: Allowance	(867,000)			(13,732,510)	(14,599,510)
Net Receivables	\$ <u>4,780,270</u>	<u>2,636,232</u>	<u>528,630</u>	<u>7,376</u>	<u>7,952,508</u>

The following are receivables for the fiduciary funds of the Republic of Palau:

	Pension Trust Fund	Private Purpose Trust Fund	Total
Receivables:			
Contributions	\$ 2,684,514	7,803,519	10,488,033
Loan		5,856,694	5,856,694
Accrued Interest		384,547	384,547
Other		33,582	33,582
	2,684,514	14,078,342	16,762,856
Less: Allowance		(1,412,941)	(1,412,941)
Net Receivables	\$ <u>2,684,514</u>	<u>12,665,401</u>	<u>15,349,915</u>

Loan receivable of the Fiduciary Funds represents a loan of the Republic of Palau Social Security Retirement Fund (the Fund) due from National Development Bank of Palau. The loan bears interest based on the Fund's Fixed Income Fund Return Rate as reported monthly by the Fund's investment consultant, plus 0.5%, provided it is not less than 4.5% per annum nor more than 7.5% per annum. Outstanding principal and all unpaid interest are due semi-annually, on or before June 30 and December 31 of each year, effective June 2011 up to December 31, 2025. The loan is collateralized by the full faith and credit of the Republic.

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Notes to the Financial Statements For the year ended September 30, 2011

	National Dev. Bank of Palau	Palau Community College	Palau National Comm. Corp.	Palau Intl. Coral Reef Center	Palau Visitors Authority	Public Utilities Corp.	District Housing Authority	Total
Receivables:								
General	\$ 398,300	1,459,757	4,615,840	97,615	2,867	3,746,458	13,115	10,333,952
Primary Government		394,737	332,751		109,782	5,659,741	1,831,374	8,328,385
Loan	27,719,515							27,719,515
Grantor Agency		1,344,258		4,709		10,500	30,375	1,389,842
Accrued Interest	305,128						9,590	314,718
	28,422,943	3,198,752	4,948,591	102,324	112,649	9,416,699	1,884,454	48,086,412
Less: Allowance	(3,663,897)	(722,754)	(3,503,641)	(56,949)	(1,482)	(1,368,168)	(87,994)	(9,404,885)
Net Receivables	\$ 24,759,046	2,475,998	1,444,950	45,375	111,167	8,048,531	1,796,460	38,681,527

Net Receivables for the discretely presented Component Units as shown above include the current portion total of \$18,602,907, including the amount due from grantor, on the Combining Statement of Net Assets - Component Units plus the non-current portion of \$20,078,620.

Differences in component unit receivables from the primary government of \$8,328,835 and the primary government's liability due to component units of \$5,120,909 results primarily from timing differences and the difference in year-end for the Palau National Communications Corporation.

(5) Capital Assets

The following is a summary of capital assets activity for the year ended September 30, 2011:

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Notes to the Financial Statements For the year ended September 30, 2011

Governmental activities:

	Balance October 1, 2010	Additions	Balance September 30,
<u>Non-depreciable capital assets:</u>			
Land	\$ 3,691,850		3,691,850
Construction in progress	<u>10,296,442</u>	<u>1,079,156</u>	<u>11,375,598</u>
Total Non-depreciable assets	<u>13,988,292</u>	<u>1,079,156</u>	<u>15,067,448</u>
<u>Depreciable capital assets:</u>			
Buildings and other improvements	137,257,221	1,934,237	139,191,458
Machinery and equipment	21,600,313	850,439	22,450,752
Vehicles	5,375,674	1,132,791	6,508,465
Infrastructure	<u>230,740,600</u>	<u>17,777,737</u>	<u>248,518,337</u>
Total depreciable capital assets	<u>394,973,808</u>	<u>21,695,204</u>	<u>416,669,012</u>
<u>Less accumulated depreciation:</u>			
Buildings and other improvements	41,352,428	6,845,335	48,197,763
Machinery and equipment	13,553,273	2,621,438	16,174,711
Vehicles	4,376,062	232,854	4,608,916
Infrastructure	<u>93,266,319</u>	<u>24,704,782</u>	<u>117,971,101</u>
Total accumulated depreciation	<u>152,548,082</u>	<u>34,404,409</u>	<u>186,952,491</u>
Total depreciable assets, net	<u>242,425,726</u>	<u>(12,709,205)</u>	<u>229,716,521</u>
Total capital assets, net	\$ <u>256,414,018</u>	<u>(11,630,049)</u>	<u>244,783,969</u>

Depreciation expense was charged to the following governmental functions as follows:

	<u>Amount</u>
Ministry of Health	\$ 1,517,119
Ministry of Education	210,240
Ministry of Infrastructure, Industry and Commerce	30,368,714
Ministry of Finance	38,652
Ministry of Justice	341,887
Legislative Branch	17,032
Ministry of State	12,804

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Judicial Branch	30,027
Ministry of Natural Resources, Environment and Tourism	348,270
Office of the President	2,380
Ministry of Community and Cultural Affairs	235,060
Independent Agencies	10,018
Unallocated	1,272,206
Total depreciation expense	\$ <u>34,404,409</u>

Fiduciary Funds:

The following is a summary of changes in capital assets for fiduciary funds:

	Balance October 1, 2010	Additions	Retirements	Balance September 30, 2011
<u>Non-depreciable capital assets:</u>				
Land	\$ 207,018			207,018
Total non-depreciable capital assets	207,018	0	0	207,018
<u>Depreciable capital assets:</u>				
Office equipment and furniture	394,159	110,776	36,969	467,966
Buildings and improvements	132,315			132,315
Vehicles	110,344			110,344
Total depreciable capital assets	636,818	110,776	36,969	710,625
<u>Less accumulated depreciation:</u>				
Accumulated depreciation	445,010	72,703	31,425	486,288
Total depreciable capital assets, net	191,808	38,073	5,544	224,337
Governmental activities capital assets, net	\$ <u>398,826</u>	<u>38,073</u>	<u>5,544</u>	<u>431,355</u>

(6) Notes Payable

Governmental Activities:

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, 2011. This loan is in noncompliance with local requirements since only the President of the Republic is authorized to enter into debt agreements.

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Notes to the Financial Statements
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Discretely Presented Component Units:

National Development Bank of Palau (NDBP):

The Bank entered into a \$300,000 revolving credit line on October 27, 2007 for the purpose of supplementing disbursements of approved loans and temporary cash requirements for operations. On October 21, 2008, the bank renewed the credit line under essentially the same terms and conditions. The loan is payable one year from initial drawdown with interest at the time certificate of deposit (TCD) rate plus 1.50%. The loan is collateralized by assignment of \$451,300 in TCDs.

Changes in short-term loans payable of the Bank for the year ended September 30, 2011, are as follows:

	Balance 09-30-10	Additions	Retirements	Balance 09-30-11
Short-term loans payable	\$ 300,000	300,000	300,000	300,000

(7) Long-Term Obligations

Governmental Activities:

As of September 30, 2011, the primary government's governmental activities had the following long-term debt outstanding:

Description	Original Amount	Amount Outstanding	Interest Rate	Maturity Date
<u>Loans Payable</u>				
A Mega International Commercial Bank (MICB)	\$ 20,000,000	10,285,707	3.5%	06-21-20
B Mega International Commercial Bank (MICB)	8,000,000	6,171,438	3.5%	10-28-24
		\$ <u>16,457,145</u>		

A. Mega International Commercial Bank - \$20,000,000 Issue

This loans' principal is payable in semi-annual installments of \$571,429 plus interest. This loan was issued March 14, 2000 and used for construction of a new national capital in Melekeok State and is uncollateralized.

B. Mega International Commercial Bank - \$8,000,000 Issue

This loan's principal is payable in semi-annual installments of \$228,570 plus

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interest. This loan was issued September 4, 2006 and used to fund the Palau International Airport Repaving Project and is uncollateralized.

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

Year Ending September 30,	Principal	Interest	Total
2012	\$ 1,599,998	562,000	2,161,998
2013	1,599,998	506,000	2,105,998
2014	1,599,998	450,000	2,049,998
2015	1,599,998	394,000	1,993,998
2016	1,599,998	338,000	1,937,998
2017 - 2021	6,857,117	860,003	7,717,120
2022 - 2025	1,600,038	112,006	1,712,044
	<u>\$ 16,457,145</u>	<u>3,222,009</u>	<u>19,679,154</u>

As provided for in the Compact of Free Association, the Republic was awarded \$3,000,000 which it had agreed to repay in financial year 2005. On May 9, 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, 2011 and therefore has restricted assets of \$3,000,000 in the Compact Section 211(b) Energy special reserve fund to fund this repayment in the event the terms and conditions of the forgiveness are not met.

Changes in long-term debt of the primary government's governmental activities for the year ended September 30, 2011 are as follows:

Description	Balance 10-01-10	Additions	Retirements	Balance 09-30-11	Due in one year
A Mega International Commercial Bank	\$ 18,057,143		1,599,998	16,457,145	1,599,998
B Due to U.S. Government	3,000,000			3,000,000	
C Compensated Absences	3,631,917	2,506,023	2,289,864	3,848,076	2,424,288
	<u>\$ 24,689,060</u>	<u>2,506,023</u>	<u>3,889,862</u>	<u>23,305,221</u>	<u>4,024,286</u>

Republic of Palau

Notes to the Financial Statements
For the year ended September 30, 2011

Discretely Presented Component Units:

National Development Bank of Palau (NDBP)

Description	Original Amount	Amount Outstanding	Interest Rate	Maturity Date
<u>Loans Payable</u>				
Mega International Commercial Bank (MICB)	\$ 5,000,000	3,713,837	3.5%	07-01-24
European Investment Bank (EIB)		3,815,109	4.5-7.5%	10-09-21
Republic of Palau Social Security Retirement Fund	6,000,000	5,856,694	3.68-5.18%	12-31-25
		\$ <u>13,385,640</u>		

Loan Payable to Mega International Commercial Bank (MICB)

This loans' principal is payable in semi-annual installments of \$142,858 plus interest. This loan was used to fund various loan programs of the Bank and is collateralized by a guarantee of the Republic.

Loan Payable to the Republic of Palau Social Security Retirement Fund

This bears a variable interest rate equal to the Funds' Fixed Income Fund Return Rate as reported monthly by the Fund's investment consultant, plus 0.5%, provided it is not less than 4.5% or more than 7.5%. Interest is payable semi-annually, with the principal balance due on or before December 31, 2025. The loan is collateralized by the full faith and credit of the Republic.

Loan Payable to the European Investment Bank (EIB)

This loan was to borrow 5,000,000 euros, which will be converted to U.S. dollars at the effective exchange rate upon disbursement. The available credit shall be drawn in tranches. Loan proceeds may be used for purposes of financing 50% of the total cost of projects and portfolio projects of the Bank. The agreement is backed by the full faith and credit of the government of ROP. The bank has drawn two tranches of \$3,016,465 and \$1,391,285 with interest rates of 3.679% and 5.175%, respectively. Interest and principal are payable semi-annually until September 10, 2012. On December 12, 2011 the EIB cancelled the remaining balance of 1,739,427 euros.

Republic of Palau

Notes to the Financial Statements
For the year ended September 30, 2011

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>
2012	\$ 894,760	537,118	1,431,878
2013	921,245	499,909	1,421,154
2014	948,953	462,010	1,410,963
2015	977,887	422,876	1,400,763
2016	1,007,557	383,003	1,390,560
2017 - 2021	5,542,280	1,257,017	6,799,297
2022 - 2025	<u>3,092,958</u>	<u>274,451</u>	<u>3,367,409</u>
	<u>\$ 13,385,640</u>	<u>3,836,384</u>	<u>17,222,024</u>

Palau National Communications Corporation (PNCC)

<u>Description</u>	<u>Original Amount</u>	<u>Amount Outstanding</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
<u>Loans Payable</u>				
Rural Utilities Services (RUS)	\$ 39,143,000	27,622,579	4.59%	11-30-29
Chunghwa Telecom Company	3,067,830	<u>1,892,423</u>	4.9%	07-01-17
		<u>\$ 29,515,002</u>		

Loan Payable to Rural Utilities Services

This loans' principal is payable in monthly installments of \$192,181 plus interest. This loan is collateralized by substantially all PNCC assets and a pledge of its revenues.

Chunghwa Telecom Company

This note is payable in monthly installments of \$34,087, non-interest bearing (discounted at imputed interest rate of 4.9%).

Annual debt service requirements to maturity for principal, present value of the note and interest are as follows:

Republic of Palau

Notes to the Financial Statements
For the year ended September 30, 2011

Year Ending December 31,	Principal	Interest	Total
2012	\$ 1,389,381	1,325,835	2,715,216
2013	1,455,548	1,259,668	2,715,216
2014	1,524,868	1,190,348	2,715,216
2015	1,597,493	1,117,723	2,715,216
2016	1,673,578	1,041,638	2,715,216
2017 - 2021	7,511,454	4,147,769	11,659,223
2022 - 2026	9,287,284	2,243,576	11,530,860
2027 - 2029	5,075,396	263,190	5,338,586
	<u>\$ 29,515,002</u>	<u>12,589,747</u>	<u>42,104,749</u>

Palau International Coral Reef Center (PICRC)

Description	Original Amount	Amount Outstanding	Interest Rate	Maturity Date
<u>Loans Payable</u>				
Palau Public Utilities Corporation	\$ 114,318	\$ <u>114,318</u>	0%	06-30-16

Loan Payable to Palau Public Utilities Corporation

This loans' principal is payable in fixed monthly installments of \$2,006 and will mature in sixty-three months beginning April 2011.

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

Year Ending September 30,	Principal
2012	\$ 24,067
2013	24,067
2014	24,067
2015	24,067
2016	18,050
	<u>\$ 114,318</u>

Republic of Palau

Notes to the Financial Statements
For the year ended September 30, 2011

Public Utilities Corporation (PUC)

Description	Original Amount	Amount Outstanding	Interest Rate	Maturity Date
Loans payable to banks	\$ 10,000,000	9,125,051	3.5 & 7.5%	2027

Loan Payable to a Foreign Bank

This loan bears a 3.5T per annum to finance the purchase of portable generators, a crankshaft assembly and other necessary equipment to facilitate the overhaul of aging generators. The loan is to guaranteed by the Republic of Palau and it is to be repaid in thirty-five consecutive semi-annual principal installments of \$200,000 plus interest.

Loan Payable to the National Development Bank of Palau

This loan was for \$3,000,000 to finance the purchase of two generator sets and bears interest of 7.5% per annum and is to be repaid monthly in principal payments of \$27,810 plus accrued interest. The loan is collateralized by the generator sets inclusive of auxiliary equipment.

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

Year Ending September 30,	Principal	Interest	Total
2012	\$ 517,743	514,520	1,032,263
2013	527,504	404,185	931,689
2014	537,401	380,092	917,493
2015	548,068	355,231	903,299
2016	559,060	330,473	889,533
2017 - 2021	3,003,413	1,229,468	4,232,881
2022 - 2026	3,231,862	424,305	3,656,167
2027	200,000	1,400	201,400
	<u>\$ 9,125,051</u>	<u>3,639,674</u>	<u>12,764,725</u>

Changes in long-term debt of the component units for the year ended September 30, 2011 are as follows:

Republic of Palau

Notes to the Financial Statements
For the year ended September 30, 2011

Description	Balance 10-01-10	Additions	Retirements	Balance 09-30-11	Due in one year
Loans payable:					
NDBP	\$ 14,117,030	0	731,390	13,385,640	894,760
PNCC	30,723,886	0	1,208,884	29,515,002	1,389,381
PICRC	0	120,336	6,018	114,318	24,067
PUC	9,600,000	0	474,949	9,125,051	517,743
	<u>\$ 54,440,916</u>	<u>120,336</u>	<u>2,421,241</u>	<u>52,140,011</u>	<u>2,825,951</u>

(8) 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, 2011, the Republic made no payments under this agreement. Please refer to note 9 for matters involving potential release of this liability.

(9) Interfund Receivables and Payables

The following is a summary of interfund balances at September 30, 2011:

A. Due From/To Other Funds:

Receivable Fund	Payable Fund	Amount
Major Funds:		
General Fund	Grants Fund	\$ 1,009,631
	Other Governmental Funds	703,891
Grant Fund	General Fund	3,211,550
Other Governmental Funds	General Fund	1,665,748
Total		<u>\$ 6,590,820</u>

These interfund loans were used to account for temporary timing differences of the routine transfers of cash between funds.

Republic of Palau

Notes to the Financial Statements
For the year ended September 30, 2011

B. Transfers In/Out:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
Major Funds:		
General Fund	Compact Trust Fund 211 F	\$ 5,000,000
	Other Governmental Funds	3,094,841
Other Governmental Fund	General Fund	<u>2,237,419</u>
Total		<u>\$ 10,332,260</u>

The transfers were made to provide operational funding under Compact provision and to move revenues from the collecting fund (as required by statute) to the General Operating Fund.

(10) 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 leave at September 30, 2011, amounted to \$7,322,916.

B. Promissory Notes

During 1998, the Republic executed four non-interest 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, 2011, demand had not occurred. The notes are in custody of a bank. The Republic has not recorded these notes as it believes the debt is essentially defeased by cash and deposits in the same amount with the organizations.

C. Federal Grants

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

D. Questioned Costs Under Federally Funded Programs

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.

Republic of Palau

Notes to the Financial Statements
For the year ended September 30, 2011

Cumulative questioned costs of \$2,992,419 have been set forth in the Republic's Single Audit Report for the year ended September 30, 2011. 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.

E. Insurance Coverage

The Republic does not maintain insurance coverage for a significant amount of fixed assets or inventory. In the event of a loss, the Republic may be self-insured to a material extent. However, the Republic has not experienced material losses in the last three years.

F. 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 \$63,311,000 as of October 1, 2008. This actuarial valuation does not include the effects of changes in contribution and benefit calculations of RPPL no. 7-32. 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, 2011 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.

G. 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.

H. 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, 2011, will not have a material impact on the accompanying financial statements.

I. Contingency

The Republic's general fund has sustained operating deficits and has an

Republic of Palau

Notes to the Financial Statements
For the year ended September 30, 2011

unassigned fund balance of (\$9,178,639). Due to this condition, management of the Republic reduced the budget in fiscal years 2010 and 2011 to gradually control expenditures and better manage the deficit. The Republic is currently negotiating a loan with the Asian Development Bank for a low interest concession loan to ease the burden of debt service payments. Management of the Republic believes that actions presently being taken and being considered provide an opportunity to continue the process of reducing the abovementioned General Fund deficit position.

(11) Republic of Palau Civil Service Pension Trust Fund

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

The Pension Fund provides retirement, security and other benefits to employees, and their spouses and dependents, of the Republic, Republic State Governments and Republic agencies, funds and public corporations, which are paid monthly and are two percent of each member's average monthly salary for each year of credited service. Normal benefits include credited total service up to a maximum of thirty years total service. Generally, benefits vest after three years of credited service. Members who retire at or after age 60, or with 25 years of vesting service, are entitled to retirement benefits. RPPL No. 2-26 is the authority under which benefit provisions are established. Member contributions rates are established by RPPL No. 2-26 at six percent (6%) of total payroll and matched dollar for dollar by the employer. The Republic contributed \$2,591,388, \$2,464,953 and \$2,510,211 to the Pension Fund during fiscal years 2011, 2010 and 2009, respectively. Per the provisions of RPPL No. 2.26 and RPPL No. 3-21, the Republic shall from time to time contribute additional sums to the Pension Fund in order to keep the Pension Fund on a sound actuarial basis. The Pension Fund issues a stand-alone financial report, which is available at its office site.

Under the provisions of the RPPL No. 2-26, the Pension Fund's Board of Trustees adopted a Trust Fund Operation Plan which has the force and effect of law and which sets forth the procedures for the administration and coverage of the Plan. Amendments to the Plan are subject to the requirements of Title 6 of the Palau National Code.

The Pension Fund utilizes the actuarial cost method termed "aggregate cost method" with actuarial assumptions used to compute the pension benefit obligation as follows: (a) a rate of return of 8.5% per year on the investment of present and future assets, (b) a 3% increase in employee salaries until retirement, and (c) members are assumed to retire at their normal retirement date.

The pension benefit obligation, which is the actuarial present value of credited projected benefits, is a standardized disclosure measure of the present value of pension benefits,

Republic of Palau

Notes to the Financial Statements For the year ended September 30, 2011

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

RPPL No. 5-45 earmarked \$1,000,000 to the Fund, to be derived from revenues generated from a Virtual Pachinko Business. Of this \$1,000,000, RPPL No. 6-12, passed into law on September 30, 2002, allocated \$500,000 to the Pension Fund for the employer contribution of the Palau Community College (PCC) for employees of PCC electing to participate. PCC employees opting to retroactively participate shall be enrolled in the Pension Fund effective as of their start date with PCC or October 1, 1987, whichever is later. These employees are required to pay into the Pension Fund their proportionate contribution for each year of retroactive participation.

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

As a result of the provisions of RPPL No. 6-12, PCC employees who opted to claim prior year's service executed payment agreements with the Pension Fund totaling \$978, 907 for prior year's service claimed. As these employees are not mandated to continue payment agreements and can elect to have contributions refunded upon termination of payment agreements, and due to the uncertainty of collection of the employees's share through RPPL No. 6-12, the Pension Fund has elected not to record PCC employee receivables for prior year service. The Pension Fund received \$16,084 from PCC employees during the year ended September 30, 2011.

The funded status as of October 1, 2009, the most recent actuarial valuation date, is as follows:

Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age Cost Method (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a/ c)
\$ 41,254,319	\$ 105,507,385	\$ 64,253,066	39.10%	\$ 33,027,394	194.54%

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits. The Plan uses the aggregate actuarial cost method which does not identify or separately amortize unfunded actuarial liabilities. As such,

Republic of Palau

Notes to the Financial Statements
For the year ended September 30, 2011

information about the Plan's funded status and funding progress has been prepared using the entry age actuarial cost method for that purpose, and the information presented is intended to serve as a surrogate for the funded status and funding progress of the plan.

Additional information as of the latest actuarial valuation follows:

Valuation Date:	October 1, 2009
Actuarial Cost Method:	Aggregate cost method
Amortization Method:	Level percent open
Remaining Amortization Period:	30 years
Asset Valuation Method:	Market value, including accrued but unpaid contributions
Actuarial Assumptions:	
Investment rate of return:	8.5% per year
Projected salary increases:	3% per annum
COLAS:	0%

(12) Prior Period Adjustments

A summary of significant fund equity/net assets adjustments is as follows:

Exhibit 2 - Statement of Activities

Explanation	Amount
1. To record the loss of a non collateralized time certificate of deposit held by the Pacific Savings Bank which was placed in receivership in 2006.	\$ (1,349,897)
2. The Schedule of Expenditures of U.S. Federal Awards was adjusted to restate prior year accounts receivable postings.	(94,474)
3. The Schedule of Other Country Grants was adjusted to correct a duplicated prior year posting.	279,908
Total	\$ <u><u>(1,164,463)</u></u>

Republic of Palau

Notes to the Financial Statements
For the year ended September 30, 2011

Exhibit 4 - Statement of Revenues, Expenditures and Changes in Fund Balances

<u>Major Fund</u>	<u>Explanation</u>	<u>Amount</u>
General Fund	To record the loss of a non collateralized time certificate of deposit held by the Pacific Savings Bank which was placed in receivership in 2006.	\$ (1,349,897)
Grants Fund	The Schedule of Expenditures of U.S. Federal Awards was adjusted to restate prior year accounts receivable postings.	(94,474)
Grants Fund	The Schedule of Other Country Grants was adjusted to correct a duplicated prior year posting.	279,908
Total		<u>\$ (1,164,463)</u>

(13) Subsequent Events

Events that occur after the statement of net assets date but before the financial statements are available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the statement of net assets date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the statement of net assets date require disclosure in the accompanying notes. Management of the Republic of Palau evaluated the activity of the Republic through the date the report was available to be issued, and determined that the following subsequent event has occurred that requires disclosure in the notes to the financial statements:

On October 6, 2011, the Republic entered into loan agreements with Asian Development Bank for \$12,600,000 at 1% per annum during the grace period, an 1.5% per annum thereafter on the amount outstanding. Outstanding principal is payable in semi-annual installments beginning on May 1, 2019 and due November 1, 2034. The loan will be used for water sector improvement program and is uncollateralized.

REQUIRED SUPPLEMENTARY INFORMATION

REPUBLIC OF PALAU

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Taxes	\$ 29,676,000	\$ 29,676,000	\$ 32,369,158	\$ (2,693,158)
Compact funding	10,267,000	10,267,000	10,267,000	--
Net change in the fair value of investments	--	(8,644)	(8,644)	--
Fees and charges	--	3,116,000	5,819,316	(2,703,316)
Licenses and permits	--	1,914,000	2,916,944	(1,002,944)
Other	--	--	231,377	(231,377)
Total Revenues	<u>39,943,000</u>	<u>44,964,356</u>	<u>51,595,151</u>	<u>6,630,795</u>
Expenditures:				
Ministry of Health	6,453,000	7,492,540	7,645,630	(153,090)
Ministry of Education	6,353,000	6,670,442	6,768,530	(98,088)
Ministry of Infrastructure, Industry and Commerce	6,798,000	7,480,001	9,331,673	(1,851,672)
State Block Grants	4,322,000	4,911,747	4,875,162	36,585
Education Assistance	2,744,000	2,744,000	2,744,000	--
Ministry of Finance/Administration	2,227,000	2,265,002	1,947,243	317,759
Ministry of Justice	3,674,000	3,688,667	4,195,537	(506,870)
Legislative Branch	3,720,000	3,857,891	3,655,193	202,698
Ministry of State	2,221,000	2,159,375	2,145,257	14,118
Judicial Branch	2,175,000	2,175,000	2,172,361	2,639
Ministry of Natural Resources, Environment and Tourism	1,165,000	1,163,964	1,185,392	(21,428)
Office of the President	849,000	1,571,614	1,545,490	26,124
Ministry of Community and Cultural Affairs	905,000	924,760	917,443	7,317
Office of the Vice-President	330,000	352,774	352,334	440
Boards, Commissions and Authorities	783,000	774,426	664,222	110,204
Office of the Public Auditor	340,000	366,800	338,950	27,850
Office of the Special Prosecutor	218,000	106,200	88,617	17,583
Environmental Quality Protection Board	398,000	359,755	302,399	57,356
National Postal Service	267,000	325,300	317,104	8,196
Palau Visitors Authority	605,000	605,000	605,000	--
Compact Review Fund	150,000	150,000	144,066	5,934
National Aviation Administration	126,000	127,055	124,609	2,446
Other	1,646,000	2,563,396	2,392,139	171,257
Total Expenditures	<u>48,469,000</u>	<u>52,835,709</u>	<u>54,458,351</u>	<u>(1,622,642)</u>
Excess of Revenues Over (Under) Expenditures	(8,526,000)	(7,871,353)	(2,863,200)	5,008,153
Other financing sources (uses):				
Operating transfers in	8,000,000	8,000,000	8,094,841	(94,841)
Operating transfers out	--	--	(2,237,419)	2,237,419
Total Other Financing Sources (Uses)	<u>8,000,000</u>	<u>8,000,000</u>	<u>5,857,422</u>	<u>2,142,578</u>
Net Changes in Fund Balances	(526,000)	128,647	2,994,222	2,865,575
Fund balances				
Beginning of year	(15,045,947)	(15,045,947)	(15,045,947)	--
Prior period adjustment	--	--	(1,349,897)	(1,349,897)
End of year	<u>\$ (15,571,947)</u>	<u>\$ (14,917,300)</u>	<u>\$ (13,401,622)</u>	<u>\$ 1,515,678</u>

See Accompanying Independent Auditors' Report.

Republic of Palau

Notes to the Required Supplementary Information
For the year ended September 30, 2011

A. Budgetary Information

Budgets are adopted on a basis consistent with GAAP. The OEK enacts budgets for the General Fund and certain Special Revenue and Capital Project Funds. 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 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 does not establish budgets for the operations of its Special Revenue Funds, except for Compact-related Program Funds. Accordingly, a budget to actual presentation for Special Revenue Funds, except for Compact Program Funds, is not required or presented. Project-length financial plans are adopted for some Capital Project Funds.

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 purposes.

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 assign that portion of the applicable appropriation, is utilized in the governmental funds. Encumbrances outstanding at year end are reported as assigned fund balance and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

B. Budget/GAAP Reconciliation

The net change in fund balance (deficit) to the net change in fund balance (deficit) for the General Fund is as follows:

Net change in fund balance (deficit)	\$	2,877,239
Decrease (Increase) in encumbrances		116,983
Net change in fund balance (deficit)	\$	<u>2,994,222</u>

OTHER SUPPLEMENTARY INFORMATION

Republic of Palau
Combining Schedule of Expenditures by Account
Governmental Funds
For the year ended September 30, 2011

Accounts	Major Governmental Funds			Non-Major Governmental Funds			Total
	General Fund	Grants Fund	Permanent Compact Section 211 F	Special Revenue Funds	Capital Project Funds	Debt Service Funds	
Salaries and Wages	\$ 30,876,659	4,023,498	-	55,585	-	-	34,955,742
Construction	57,249	7,708,142	-	-	623,036	-	8,388,427
Payment of allotments/benefits	11,129,126	1,563,325	-	-	-	-	12,692,450
Utilities	3,770,184	78,231	-	4,840	-	-	3,853,255
Professional and contractual services	475,392	3,332,246	-	9,016	4,322	-	3,820,977
Medical supplies	1,551,418	190,167	-	1,489,077	-	-	3,230,662
Travel	603,071	1,374,779	-	-	-	-	1,977,850
Equipment	141,483	2,198,114	-	18,025	2,000	-	2,359,622
Supplies and materials	1,536,536	824,156	-	22,326	1,243	-	2,384,260
Scholarships and student loans	-	235,042	-	1,266,381	-	-	1,501,423
Principal retirement	-	-	-	-	-	1,599,998	1,599,998
Rentals	606,613	343,537	-	-	-	-	950,150
Investment management fees	-	-	1,037,610	-	-	-	1,037,610
Petroleum products	709,292	237,502	-	5,426	-	-	952,220
Communications and postage	725,653	168,641	-	2,673	-	-	896,968
Vehicles	94,627	498,020	-	9,450	7,395	-	609,492
Improvements	73	2,637,057	-	-	10,256	-	2,647,386
Interest	65	-	-	-	-	637,421	637,486
Food stuffs	751,450	101,144	-	279	-	-	852,874
Compensation and stipends	71,689	353,235	-	8,260	-	-	433,183
Building	-	415,426	-	-	40,000	-	455,426
Repairs and maintenance	57,657	75,410	-	10,943	-	-	144,010
Investment loss on cost basis stock	-	-	-	-	-	-	-
Medical referrals	522,807	-	-	-	-	-	522,807
Donations	303,467	118,044	-	-	-	-	421,511
Dues, fees and registrations	224,524	53,364	-	-	-	-	277,887
Books and library materials	10,864	180,971	-	-	167,849	-	359,684
Indirect costs	-	508,077	-	-	-	-	508,077
Advertising	44,917	63,911	-	1,084	-	-	109,912
Allowances	205,432	7,300	-	-	-	-	212,732
Freight	11,688	9,736	-	44	-	-	21,468
Training	285	50,976	-	-	-	-	51,261
Insurance	16,973	2,719	-	-	-	-	19,692
Computer software	-	-	-	-	-	-	-
Employee incentive awards	-	135	-	-	-	-	135
Representation and entertainment	1,883	2,450	-	-	-	-	4,333
Furniture and fixtures	4,220	530,000	-	-	-	-	534,220
Machinery	150	-	-	-	-	-	150
Other/Miscellaneous	69,885	84,344	-	-	8,608	-	162,837
Total	\$ 54,575,334	27,969,699	1,037,610	2,903,409	864,709	2,237,419	89,588,180

GENERAL FUND

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.

Republic of Palau

Schedule of Revenues

General Fund

For the year ended September 30, 2011

(With comparative totals for the year ended September 30, 2010)

	<u>2011</u>	<u>2010</u>
Taxes:		
Gross receipts	\$ 10,731,062	9,187,669
Salary and wage	7,129,747	6,674,973
Alcohol and tobacco	4,814,375	4,720,971
General import	1,268,950	1,607,170
Travelers head	2,225,097	1,815,508
Hotel occupancy	2,776,511	2,205,031
Fuel excise	704,271	726,178
Road use	419,204	429,920
Fish export	581,394	701,828
Penalties, interest and delinquencies	765,550	626,620
Vessel cabin and foreign water vessel	134,966	97,476
Other	818,031	218
Total Taxes	<u>32,369,158</u>	<u>28,793,562</u>
Compact Funding:		
Section 211 (a)	6,000,000	6,000,000
Section 215 inflation adjustment	4,267,000	4,260,000
Total Compact Funding	<u>10,267,000</u>	<u>10,260,000</u>
Net Change in Fair Value of Investments	<u>(8,644)</u>	<u>15,420</u>
Fees and Charges:		
Airport fees and rentals	1,481,452	1,734,581
Green fees	1,604,085	1,142,948
Water utility charges	936,109	665,004
Postal service	350,991	372,842
Court fines and fees	591,342	216,917
Seaport fees	31,650	27,174
Palau passport fees	83,129	88,341
Banking fees	105,000	77,186
Property sales and rentals	464,575	
Other	170,983	284,875
Total Fees and Charges	<u>5,819,316</u>	<u>4,609,868</u>
Licenses and Permits:		
Foreign labor permits	916,483	1,186,033
Business licenses	203,656	203,956
Foreign investment permits and fees	204,724	211,433
Fishing rights fees	777,394	157,872
Corporate filing fees	29,143	27,979
Other	785,544	209,274
Total Licenses and Permits	<u>2,916,944</u>	<u>1,996,547</u>
Other:		
Other	231,377	230,417
Total Other	<u>231,377</u>	<u>230,417</u>
Total Revenues	<u>\$ 51,595,151</u>	<u>45,905,814</u>

Republic of PalauSchedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
General Fund
For the year ended September 30, 2011

	Budget	Actual	Variance
Revenues:			
Local revenue	\$ 34,706,000	41,336,795	6,630,795
Compact funding - Section 211(a)	6,000,000	6,000,000	-
Compact funding - Section 215 inflation adjustment	4,267,000	4,267,000	-
Net change in the fair value of investments	(8,644)	(8,644)	-
Total Revenues	44,964,356	51,595,151	6,630,795
Expenditures - Budgetary Basis:			
Executive Branch:			
Office of the President:			
President's Office	1,360,096	1,335,735	24,361
Official expense	32,200	30,541	1,659
Grants Coordinator Office	68,700	68,656	44
Council of Chiefs	110,617	110,558	59
Total Office of the President	1,571,613	1,545,490	26,123
Office of the Vice-President:			
Vice-President's office	265,618	265,502	116
National Emergency Management Office	87,156	86,832	324
Total Office of the President	352,774	352,334	440
Ministry of Finance and Administration:			
Minister of Finance/Administration	22,235	22,482	(247)
Information Systems Support Services	160,957	158,871	2,086
Bureau of National Treasury	631,750	630,390	1,360
Bureau of Budget and Planning	194,710	193,536	1,174
Bureau of Public Service System	97,050	96,873	177
Workmen's compensation	37,300	37,204	96
Bureau of Revenue, Customs and Taxation	1,121,100	794,560	326,540
Investment management fees			-
Indirect cost collection		13,327	(13,327)
Total Ministry of Finance	2,265,102	1,947,243	317,859
Ministry of State:			
Office of the Minister	58,000	57,948	52
Consulate Office in Guam	78,000	77,458	542
Embassy in Washington D.C.	281,000	280,852	148
Embassy in Tokyo, Japan	347,300	347,226	74
Embassy in Taipei, Taiwan	77,800	77,626	174
Office of Foreign Affairs	135,413	135,290	123
Embassy in Manila, Philippines	131,000	130,859	141
United Nations Representation Office	217,950	215,712	2,238
Office of the Public Defender	136,000	135,924	76
Office of Administration	77,409	73,539	3,870
Office of the Protocol	37,610	37,273	337
Bureau of International Trade and Technical Assistance	81,464	75,928	5,536
Bureau of Domestic Affairs	178,720	178,450	270
European Union Representation	26,025	26,018	7
Passport Office	45,684	45,154	530
International Organizations Obligations	250,000	250,000	-
Total Ministry of State	2,159,375	2,145,257	14,118

Republic of Palau

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

General Fund

For the year ended September 30, 2011

	Budget	Actual	Variance
Expenditures - Budgetary Basis:			
Ministry of Community and Cultural Affairs			
Office of the Minister	\$ 58,000	55,591	2,409
Bureau of the National Archives	68,100	68,032	68
Bureau of Youth, Sports & Recreation	145,000	144,816	184
Bureau of Aging and Gender	218,000	217,381	619
Sports Facilities Maintenance and Utilities	83,000	82,802	198
Bureau of Arts and Culture	150,660	150,027	633
Palau Severely Disabled Assistance Fund	202,000	198,794	3,206
Total Ministry of Community and Cultural Affairs	<u>924,760</u>	<u>917,443</u>	<u>7,317</u>
Ministry of Education:			
Office of the Minister	55,500	55,450	50
School Books, Supplies and Instructional Equipment	288,783	288,476	307
Bureau of Curriculum and Instruction	372,936	372,872	64
Bureau of School Administration	5,277,113	5,375,626	(98,513)
Food Services Program	676,109	676,106	3
Total Ministry of Education	<u>6,670,441</u>	<u>6,768,530</u>	<u>(98,089)</u>
Ministry of Infrastructure, Industry and Commerce:			
Office of the Minister	58,000	56,362	1,638
OMIP, UNDP & Other Match	450,000	208,885	241,115
PALARIS	121,434	121,427	7
Bureau of Commercial Development	209,210	206,166	3,044
Palau Small Business Development Center (UOG)	30,000	30,000	-
Pacific Business Center Program (UH)	20,000	2,636	17,364
Bureau of Aviation	1,041,600	1,448,427	(406,827)
Bureau of Lands and Survey	761,336	833,764	(72,428)
Bureau of Public Works	1,277,049	1,275,689	1,360
Water and Sewer Operations	2,531,465	3,925,909	(1,394,444)
Melekeok/Capitol Sewer System	74,700	74,658	42
Landfill Operations	42,000	41,297	703
National Capitol Electricity/Maintenance	696,000	940,452	(244,452)
CIP Office Operations	31,000	30,995	5
Rural and Sanitation Project	136,206	135,006	1,200
Total Ministry of Infrastructure, Industry and Commerce	<u>7,480,000</u>	<u>9,331,673</u>	<u>(1,851,673)</u>
Ministry of Justice:			
Office of the Minister	58,000	55,908	2,092
Office of the Attorney General	452,800	448,009	4,791
Bureau of Immigration	245,440	244,083	1,357
Bureau of Public Safety	2,273,074	2,639,316	(366,242)
Division of Marine Law Enforcement	659,353	808,221	(148,868)
Total Ministry of Justice	<u>3,688,667</u>	<u>4,195,537</u>	<u>(506,870)</u>

Republic of PalauSchedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
General Fund
For the year ended September 30, 2011

	Budget	Actual	Variance
Expenditures - Budgetary Basis:			
Ministry of Health			
Office of the Minister	\$ 54,410	54,377	33
Bureau of Public Health	1,109,000	1,141,697	(32,697)
Health Administration	1,966,017	2,171,134	(205,117)
Manila Medical Referral	80,000	63,169	16,831
Hawaii Medical Referral	105,000	104,863	137
Medical Supplies and Drugs	647,213	560,967	86,246
Medical Referrals	351,000	350,909	91
Bureau of Clinical Services	2,470,900	2,712,841	(241,941)
Hemodialysis	520,000	296,674	223,326
Recruitment of Nurses	189,000	188,999	1
Total Ministry of Health	<u>7,492,540</u>	<u>7,645,630</u>	<u>(153,090)</u>
Ministry of Natural Resources, Environment, and Tourism:			
Office of the Minister	55,760	55,716	44
Protected Areas Network			-
Bureau of Marine Resources	490,670	490,482	188
Bureau of Agriculture	372,534	372,064	470
Bureau of Labor and Human Resources	245,000	267,130	(22,130)
Total Ministry of Natural Resources, Environment, and Tourism	<u>1,163,964</u>	<u>1,185,392</u>	<u>(21,428)</u>
Total Executive Branch	<u>33,769,236</u>	<u>36,034,529</u>	<u>(3,046,174)</u>
Boards, Commissions and Authorities:			
Foreign Investment Board	70,295	52,852	17,443
Palau Election Commission	148,500	119,314	29,186
Palau Code Commission	36,900	19,809	17,091
Palau Public Lands Authority	124,031	108,944	15,087
Parole Board	24,000	23,314	686
Palau Housing Authority	64,000	64,000	-
Ethics Commission	35,100	24,493	10,607
Financial Institutions Commission	82,000	90,169	(8,169)
Ngardmau Free Trade Zone Authority	120,000	120,000	-
Casino Gaming	30,000	16,266	13,734
Language Commission	39,600	25,061	14,539
Total Boards, Commissions and Authorities	<u>774,426</u>	<u>664,222</u>	<u>110,204</u>
Judicial Branch:			
Judiciary	2,175,000	2,172,361	2,639
Total Judicial Branch	<u>2,175,000</u>	<u>2,172,361</u>	<u>2,639</u>
Legislative Branch:			
Senate	1,574,798	1,273,048	301,750
Senate legal Staff	164,138	385,171	(221,033)
House of Delegates	1,753,539	1,384,332	369,207
House Legal Staff	160,000	382,650	(222,650)
Joint Staff	195,416	219,992	(24,576)
Association of Pacific Island Legislatures (APIL)	10,000	10,000	-
Total Legislative Branch	<u>3,857,891</u>	<u>3,655,193</u>	<u>202,698</u>

Republic of Palau

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
General Fund

For the year ended September 30, 2011

	Budget	Actual	Variance
Expenditures - Budgetary Basis:			
State Block Grants	\$ 4,911,747	4,875,162	36,585
Independent Agencies:			
Office of the Public Auditor	366,800	338,950	27,850
Office of the Sepcial Prosecutor	106,200	88,617	17,583
Palau Environmental Quality Protection Board (EQPB)	359,755	302,399	57,356
National Postal Service	325,300	317,104	8,196
Palau Visitors Authority	605,000	605,000	-
National Aviation Administration	127,055	124,609	2,446
Total Independent Agencies	<u>1,890,110</u>	<u>1,776,679</u>	<u>113,431</u>
Other Agencies and Activities:			
Palau National Museum	161,000	161,000	-
Micronesian Legal Services	125,000	125,000	-
Palau Community Action Agency	176,000	176,000	-
Head Start Program	101,000	101,000	-
Palau Red Cross	10,000	10,000	-
WIA Grant Contribution	97,000	97,000	-
Civic Action Team Share	250,000	250,000	-
Peace Corps Contribution	25,000	19,753	5,247
PNOC & Sports Organization	365,000	365,000	-
Palau International Coral Reef Center	387,000	387,000	-
Others	825,000	700,386	124,614
Total Other Agencies and Activities	<u>2,522,000</u>	<u>2,392,139</u>	<u>129,861</u>
Green Fee Collection for PAN			-
Compact Review	150,000	144,066	5,934
Education Assistance:			
Palau Community College Operations	2,039,000	2,039,000	-
PCC Board of Trustees	38,000	38,000	-
PCC CRE Program (earmarked)	35,000	35,000	-
COM Board of Regents	25,000	25,000	-
Aid to Non-Public Schools	607,000	607,000	-
Total Education Assistance	<u>2,744,000</u>	<u>2,744,000</u>	<u>-</u>
Total Expenditures	<u>51,905,457</u>	<u>54,458,351</u>	<u>(2,652,224)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(6,941,101)</u>	<u>(2,863,200)</u>	<u>8,269,633</u>
Other Financing Sources (Uses):			
Operating transfers in:			
Compact Section 211 (f) Trust Fund	5,000,000	5,000,000	-
Other Governmental Funds - Compact 211 (c) Communication	249,000	249,000	-
Other Governmental Funds - Compact 211 (d) Mar/Hlth/Sch.	631,000	631,000	-
Other Governmental Funds - Compact 221 (b) Special Block Grant	2,120,000	2,214,841	94,841
Operating transfers out:			
Other Governmental Funds - Debt Service Fund		(2,237,419)	(2,237,419)
Total Other Financing Sources (Uses)	<u>8,000,000</u>	<u>5,857,422</u>	<u>2,142,578</u>
Other Changes in Deficit:			
Increase (decrease) in appropriations			
Increase (decrease) in related assets			
Prior Period Adjustment		(1,349,897)	
Beginning of year		<u>(15,045,947)</u>	
End of year		<u>\$ (13,401,622)</u>	

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REPUBLIC OF PALAU
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2011

	Special Revenue Funds	Debt Service Fund	Capital Projects Funds	Total Nonmajor Governmental Funds (See Exhibit 3)
Assets:				
Investments	\$ 2,363,438	\$ --	\$ 53,179	\$ 2,416,617
Receivables, net:				
General	2,036	--	--	2,036
Accrued interest	5,340	--	--	5,340
Due from other funds	1,022,595	--	643,154	1,665,749
Advances	448	--	--	448
Prepaid items	20,413	--	--	20,413
Restricted assets:				
Investments	3,000,000	--	--	3,000,000
Total Assets	\$ 6,414,270	\$ --	\$ 696,333	\$ 7,110,603
Liabilities and Fund Balances:				
Liabilities:				
Accounts payable	\$ 450,554	\$ --	\$ --	\$ 450,554
Due to other funds	703,891	--	--	703,891
Accrued payroll related	1,043	--	--	1,043
Deferred revenues	--	--	180,454	180,454
Total Liabilities	1,155,488	--	180,454	1,335,942
Fund Balances (Deficit):				
Nonspendable:				
Advances	448	--	--	448
Prepaid items	20,413	--	--	20,413
Restricted:				
Capital projects	--	--	502,179	502,179
Compact	5,560,176	--	--	5,560,176
Other purposes	401,484	--	--	401,484
Assigned:				
Other	133,687	--	13,700	147,387
Unassigned				
Total Fund Balances (Deficit)	(857,426)	--	--	(857,426)
Total Fund Balances (Deficit)	5,258,782	--	515,879	5,774,661
Total Liabilities and Fund Balances	\$ 6,414,270	\$ --	\$ 696,333	\$ 7,110,603

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Special Revenue Funds	Debt Service Fund	Capital Projects Funds	Total Nonmajor Governmental Funds (See Exhibit 4)
Revenues:				
Federal and other grants	\$ 49,330	\$ --	\$ 208,885	\$ 258,215
Compact funding	2,880,000	--	--	2,880,000
Net change in the fair value of investments	82,034	--	16	82,050
Fees and charges	1,854,815	--	--	1,854,815
Fees and charges - combine	34,402	--	--	34,402
Licenses and permits	60,988	--	--	60,988
Other	55,092	--	--	55,092
Total Revenues	<u>5,016,661</u>	<u>--</u>	<u>208,901</u>	<u>5,225,562</u>
Expenditures:				
Ministry of Health	1,797,050	--	--	1,797,050
Education Assistance	1,018,046	--	--	1,018,046
Investment Management Fees	13,247	--	52	13,299
Ministry of Natural Resources, Environment and Tourism	1,786	--	--	1,786
Other	73,280	--	864,657	937,937
Capital Outlay				
Debt service:				
Principal retirement	--	1,599,999	--	1,599,999
Interest	--	637,420	--	637,420
Total Expenditures	<u>2,903,409</u>	<u>2,237,419</u>	<u>864,709</u>	<u>6,005,537</u>
Excess of Revenues Over (Under) Expenditures	2,113,252	(2,237,419)	(655,808)	(779,975)
Other financing sources (uses):				
Operating transfers in	--	2,237,419	--	2,237,419
Operating transfers out	(3,094,841)	--	--	(3,094,841)
Total Other Financing Sources (Uses)	<u>(3,094,841)</u>	<u>2,237,419</u>	<u>--</u>	<u>(857,422)</u>
Net Changes in Fund Balances	(981,589)	--	(655,808)	(1,637,397)
Fund balances				
Beginning of year	6,240,371	--	1,171,687	7,412,058
End of year	<u>\$ 5,258,782</u>	<u>\$ --</u>	<u>\$ 515,879</u>	<u>\$ 5,774,661</u>

See Accompanying Independent Auditors' Report.

Republic of Palau

Non-Major Governmental Funds - Special Revenue Funds

Special revenue funds are used to account and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

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.

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.

Educational Textbook Sale Fund - This fund accounts for the sales and purchase of education textbooks.

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

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.

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

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

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

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

Republic of Palau

Non-Major Governmental Funds - Special Revenue Funds (Continue)

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

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

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

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

REPUBLIC OF PALAU
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
SEPTEMBER 30, 2011

	Drug Fine Collection	Hospital Trust Fund	Educational Textbook Sale	Public and Law Access Unit
Assets:				
Investments	\$ --	\$ --	\$ --	\$ --
Receivables, net:				
General	--	2,036	--	--
Accrued interest	--	--	--	--
Due from other funds	4,694	416,112	21,303	93,141
Advances	--	448	--	--
Prepaid items	--	20,413	--	--
Restricted assets:				
Investments	--	--	--	--
Total Assets	\$ 4,694	\$ 439,009	\$ 21,303	\$ 93,141
Liabilities and Fund Balances:				
Liabilities:				
Accounts payable	\$ 1,860	\$ 288,882	\$ --	\$ 2,270
Due to other funds	--	--	--	--
Accrued payroll related	--	--	--	--
Total Liabilities	<u>1,860</u>	<u>288,882</u>	<u>--</u>	<u>2,270</u>
Fund Balances (Deficit):				
Nonspendable:				
Advances	--	448	--	--
Prepaid items	--	20,413	--	--
Restricted:				
Compact	--	--	--	--
Other purposes	2,834	--	21,303	86,450
Assigned:				
Other	--	129,266	--	4,421
Unassigned				
Total Fund Balances (Deficit)	<u>2,834</u>	<u>150,127</u>	<u>21,303</u>	<u>90,871</u>
Total Liabilities and Fund Balances	\$ 4,694	\$ 439,009	\$ 21,303	\$ 93,141

See Accompanying Independent Auditors' Report.

Sports Facilities Trust	Operator License Fund	Scholarship Fund	PEQPB Mitigation Trust	Palau Agricultural Fund
\$ --	\$ --	\$ --	\$ --	\$ --
--	--	--	--	--
--	--	--	--	--
1,524	179,274	--	115,149	--
--	--	--	--	--
--	--	--	--	--
<u>\$ 1,524</u>	<u>\$ 179,274</u>	<u>\$ --</u>	<u>\$ 115,149</u>	<u>\$ --</u>
\$ --	\$ 5,050	\$ 152,492	\$ --	\$ --
--	--	699,182	--	4,709
--	--	1,043	--	--
<u>--</u>	<u>5,050</u>	<u>852,717</u>	<u>--</u>	<u>4,709</u>
--	--	--	--	--
--	--	--	--	--
1,524	174,224	--	115,149	--
--	--	--	--	--
--	--	(852,717)	--	(4,709)
<u>1,524</u>	<u>174,224</u>	<u>(852,717)</u>	<u>115,149</u>	<u>(4,709)</u>
<u>\$ 1,524</u>	<u>\$ 179,274</u>	<u>\$ --</u>	<u>\$ 115,149</u>	<u>\$ --</u>

REPUBLIC OF PALAU
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
SEPTEMBER 30, 2011

	Compact Section 213 Defense	Compact Section 211 (b) Energy Fund	Compact Section 211 (c) Communication
Assets:			
Investments	\$ 1,915,309	\$ 29	\$ --
Receivables, net:			
General	--	--	--
Accrued interest	5,340	--	--
Due from other funds	--	40,373	102,889
Advances	--	--	--
Prepaid items	--	--	--
Restricted assets:			
Investments	--	3,000,000	--
Total Assets	\$ 1,920,649	\$ 3,040,402	\$ 102,889
Liabilities and Fund Balances:			
Liabilities:			
Accounts payable	\$ --	\$ --	\$ --
Due to other funds	--	--	--
Accrued payroll related	--	--	--
Total Liabilities	--	--	--
Fund Balances (Deficit):			
Nonspendable:			
Advances	--	--	--
Prepaid items	--	--	--
Restricted:			
Compact	1,920,649	3,040,402	102,889
Other purposes	--	--	--
Assigned:			
Other	--	--	--
Unassigned			
Total Fund Balances (Deficit)	1,920,649	3,040,402	102,889
Total Liabilities and Fund Balances	\$ 1,920,649	\$ 3,040,402	\$ 102,889

See Accompanying Independent Auditors' Report.

Compact Section 211 (d) Mar/Hlth/Sch.	Compact Section 211 (e) Maritime	Compact Section 221 (b) Spec. Blk. Grant	Total Nonmajor Special Revenue Funds (See Exhibit C-1)
\$ --	\$ 448,100	\$ --	\$ 2,363,438
--	--	--	2,036
--	--	--	5,340
48,136	--	--	1,022,595
--	--	--	448
--	--	--	20,413
--	--	--	3,000,000
<u>\$ 48,136</u>	<u>\$ 448,100</u>	<u>\$ --</u>	<u>\$ 6,414,270</u>
\$ --	\$ --	\$ --	\$ 450,554
--	--	--	703,891
--	--	--	1,043
<u>--</u>	<u>--</u>	<u>--</u>	<u>1,155,488</u>
--	--	--	448
--	--	--	20,413
48,136	448,100	--	5,560,176
--	--	--	401,484
--	--	--	133,687
--	--	--	(857,426)
<u>48,136</u>	<u>448,100</u>	<u>--</u>	<u>5,258,782</u>
<u>\$ 48,136</u>	<u>\$ 448,100</u>	<u>\$ --</u>	<u>\$ 6,414,270</u>

REPUBLIC OF PALAU*COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2011*

	Drug Fine Collection	Hospital Trust Fund	Educational Textbook Sale	Public and Law Access Unit
Revenues:				
Federal and other grants	\$ --	\$ --	\$ --	\$ --
Compact funding	--	--	--	--
Net change in the fair value of investments	--	--	--	--
Fees and charges	--	1,854,815	--	--
Fees and charges - combine	7,755	--	125	8,547
Licenses and permits	--	--	--	--
Other	--	--	--	--
Total Revenues	<u>7,755</u>	<u>1,854,815</u>	<u>125</u>	<u>8,547</u>
Expenditures:				
Ministry of Health	--	1,797,050	--	--
Education Assistance	--	--	--	--
Investment Management Fees	--	--	--	--
Ministry of Natural Resources, Environment and Tourism	--	--	--	--
Other	26,434	--	--	11,148
Capital Outlay				
Debt service:				
Total Expenditures	<u>26,434</u>	<u>1,797,050</u>	<u>--</u>	<u>11,148</u>
Excess of Revenues Over (Under) Expenditures	(18,679)	57,765	125	(2,601)
Other financing sources (uses):				
Operating transfers out	--	--	--	--
Total Other Financing Sources (Uses)	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Net Changes in Fund Balances	(18,679)	57,765	125	(2,601)
Fund balances				
Beginning of year	21,513	92,362	21,178	93,472
End of year	<u>\$ 2,834</u>	<u>\$ 150,127</u>	<u>\$ 21,303</u>	<u>\$ 90,871</u>

See Accompanying Independent Auditors' Report.

Sports Facilities Trust	Operator License Fund	Scholarship Fund	PEQPB Mitigation Trust	Palau Agricultural Fund
\$ --	\$ --	\$ 49,330	\$ --	\$ --
--	--	--	--	--
--	--	--	--	--
--	--	--	--	--
--	--	--	17,975	--
--	60,988	--	--	--
--	--	54,803	--	--
<u>--</u>	<u>60,988</u>	<u>104,133</u>	<u>17,975</u>	<u>--</u>
--	--	--	--	--
--	--	1,018,046	--	--
--	--	--	--	--
--	--	--	1,786	--
--	35,698	--	--	--
<u>--</u>	<u>35,698</u>	<u>1,018,046</u>	<u>1,786</u>	<u>--</u>
--	25,290	(913,913)	16,189	--
<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
--	25,290	(913,913)	16,189	--
1,524	148,934	61,196	98,960	(4,709)
<u>\$ 1,524</u>	<u>\$ 174,224</u>	<u>\$ (852,717)</u>	<u>\$ 115,149</u>	<u>\$ (4,709)</u>

REPUBLIC OF PALAU

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Compact Section 213 Defense	Compact Section 211 (b) Energy Fund	Compact Section 211 (c) Communication
Revenues:			
Federal and other grants	\$ --	\$ --	\$ --
Compact funding	--	--	249,000
Net change in the fair value of investments	73,567	8,330	15
Fees and charges	--	--	--
Fees and charges - combine	--	--	--
Licenses and permits	--	--	--
Other	289	--	--
Total Revenues	<u>73,856</u>	<u>8,330</u>	<u>249,015</u>
Expenditures:			
Ministry of Health	--	--	--
Education Assistance	--	--	--
Investment Management Fees	11,482	1,440	38
Ministry of Natural Resources, Environment and Tourism	--	--	--
Other	--	--	--
Capital Outlay	--	--	--
Debt service:	--	--	--
Total Expenditures	<u>11,482</u>	<u>1,440</u>	<u>38</u>
Excess of Revenues Over (Under) Expenditures	62,374	6,890	248,977
Other financing sources (uses):			
Operating transfers out	--	--	(249,000)
Total Other Financing Sources (Uses)	<u>--</u>	<u>--</u>	<u>(249,000)</u>
Net Changes in Fund Balances	62,374	6,890	(23)
Fund balances			
Beginning of year	1,858,275	3,033,512	102,912
End of year	<u>\$ 1,920,649</u>	<u>\$ 3,040,402</u>	<u>\$ 102,889</u>

See Accompanying Independent Auditors' Report.

Compact Section 211 (d) Mar/Hlth/Sch.	Compact Section 211 (e) Maritime	Compact Section 221 (b) Spec. Blk. Grant	Total Nonmajor Special Revenue Funds (See Exhibit C-2)
\$ --	\$ --	\$ --	\$ 49,330
631,000	--	2,000,000	2,880,000
8	77	37	82,034
--	--	--	1,854,815
--	--	--	34,402
--	--	--	60,988
--	--	--	55,092
<u>631,008</u>	<u>77</u>	<u>2,000,037</u>	<u>5,016,661</u>
--	--	--	1,797,050
--	--	--	1,018,046
21	172	94	13,247
--	--	--	1,786
--	--	--	73,280
<u>21</u>	<u>172</u>	<u>94</u>	<u>2,903,409</u>
630,987	(95)	1,999,943	2,113,252
(631,000)	--	(2,214,841)	(3,094,841)
<u>(631,000)</u>	<u>--</u>	<u>(2,214,841)</u>	<u>(3,094,841)</u>
(13)	(95)	(214,898)	(981,589)
48,149	448,195	214,898	6,240,371
<u>\$ 48,136</u>	<u>\$ 448,100</u>	<u>\$ --</u>	<u>\$ 5,258,782</u>

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Republic of Palau

Non-Major Governmental Funds - Capital Project Funds

Capital projects funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditures of capital outlays, including the acquisition or construction of capital facilities and other capital assets.

Local Capital Project Fund - This fund is used 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 211a funds or Section 215 inflation funds.

Department of Interior Capital Projects Fund - This fund accounts 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 - This fund accounts for construction activities funded by Compact Section 212b capital account funding and Compact Section 215 inflation funds.

REPUBLIC OF PALAU
COMBINING BALANCE SHEET
NONMAJOR CAPITAL PROJECTS FUNDS
SEPTEMBER 30, 2011

	Local Capital Projects Fund	Department of Interior Capital Projects	Compact Section 212 (b) Capital Account	Total Nonmajor Capital Projects Funds (See Exhibit C-1)
Assets:				
Investments	\$ 10,200	\$ --	\$ 42,979	\$ 53,179
Due from other funds	307,258	263,593	72,303	643,154
Total Assets	\$ 317,458	\$ 263,593	\$ 115,282	\$ 696,333
Liabilities and Fund Balances:				
Liabilities:				
Deferred revenues	\$ --	\$ 180,454	\$ --	\$ 180,454
Total Liabilities	--	180,454	--	180,454
Fund Balances (Deficit):				
Restricted:				
Capital projects	303,758	83,139	115,282	502,179
Assigned:				
Other	13,700	--	--	13,700
Total Fund Balances (Deficit)	317,458	83,139	115,282	515,879
Total Liabilities and Fund Balances	\$ 317,458	\$ 263,593	\$ 115,282	\$ 696,333

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR CAPITAL PROJECTS FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Local Capital Projects Fund	Department of Interior Capital Projects	Compact Section 212 (b) Capital Account	Total Nonmajor Capital Projects Funds (See Exhibit C-2)
Revenues:				
Federal and other grants	\$ 208,885	\$ --	\$ --	\$ 208,885
Net change in the fair value of investments	--	--	16	16
Total Revenues	<u>208,885</u>	<u>--</u>	<u>16</u>	<u>208,901</u>
Expenditures:				
Investment Management Fees	--	--	52	52
Other	864,657	--	--	864,657
Total Expenditures	<u>864,657</u>	<u>--</u>	<u>52</u>	<u>864,709</u>
Excess of Revenues Over (Under) Expenditures	(655,772)	--	(36)	(655,808)
Other financing sources (uses):				
Total Other Financing Sources (Uses)	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Net Changes in Fund Balances	(655,772)	--	(36)	(655,808)
Fund balances				
Beginning of year	973,230	83,139	115,318	1,171,687
End of year	<u>\$ 317,458</u>	<u>\$ 83,139</u>	<u>\$ 115,282</u>	<u>\$ 515,879</u>

See Accompanying Independent Auditors' Report.

Republic of Palau

Non-Major Governmental Funds - Debt Service Funds

The Debt Service Fund accounts for the accumulation of resources, principally transfers from the General Fund for the payment of long-term debt principal and interest. The Debt Service Fund is presented as such in the combining Balance Sheet and the combining Statements of Revenues, Expenditures, and Changes in Fund Balances, Nonmajor governmental funds.

Republic of Palau
 Combined Balance Sheet
 Grants Fund
 September 30, 2011

	U.S. Federal Grants	OTIA Direct Grants	Other Grants	Non-DOI Capital Projects	Other Country Grants	Total
Assets						
Receivables, net:						
General	\$ 1,276	-	-	-	-	1,276
Federal agencies	1,270,259	258,230	-	1,106,467	-	2,634,956
Due from other funds	-	-	979,179	-	2,232,371	3,211,550
Advances	77,871	2,712	62,625	-	3,985	147,193
Prepaid items	182,866	30	63,961	-	150,801	397,658
Total Assets	<u>1,532,272</u>	<u>260,972</u>	<u>1,105,765</u>	<u>1,106,467</u>	<u>2,387,157</u>	<u>6,392,633</u>
Liabilities and Fund Balances:						
Liabilities:						
Accounts payable	736,564	57,368	133,093	972,898	1,119,866	3,019,789
Due to other funds	696,623	168,668	-	144,340	-	1,009,631
Accrued payroll related	64,389	-	9,656	243	5,414	79,702
Deferred revenues	-	-	1,150,669	-	1,351,467	2,502,136
Total Liabilities	<u>1,497,576</u>	<u>226,036</u>	<u>1,293,418</u>	<u>1,117,481</u>	<u>2,476,747</u>	<u>6,611,258</u>
Fund Balances:						
Nonspendable:						
Advances	77,871	2,712	62,625	-	3,985	147,193
Prepaid items	182,866	30	63,961	-	150,801	397,658
Assigned:						
Other	-	32,194	-	-	-	32,194
Unassigned						
Total Fund Balances	<u>(226,041)</u>	<u>-</u>	<u>(314,239)</u>	<u>(11,014)</u>	<u>(244,376)</u>	<u>(795,670)</u>
Total Fund Balances	<u>34,696</u>	<u>34,936</u>	<u>(187,653)</u>	<u>(11,014)</u>	<u>(89,590)</u>	<u>(218,625)</u>
Total Liabilities and Fund Balances \$	<u>1,532,272</u>	<u>260,972</u>	<u>1,105,765</u>	<u>1,106,467</u>	<u>2,387,157</u>	<u>6,392,633</u>

Republic of Palau

Combined Schedule of Revenues, Expenditures and Changes in Fund Balances

Grants Fund

For the year ended September 30, 2011

	U.S. Federal Grants	OTIA Direct Grants	Other Grants	Non-DOI Capital Projects	Other Country Grants	Total
Revenues:						
Federal and other grants	\$ 9,361,345	723,579	1,767,839	3,508,760	12,183,823	27,545,346
Other	-	-	869	-	-	869
Total Revenues	<u>9,361,345</u>	<u>723,579</u>	<u>1,768,708</u>	<u>3,508,760</u>	<u>12,183,823</u>	<u>27,546,215</u>
Expenditures:						
Ministry of Health	4,431,874	42,098	275,427	-	-	4,749,399
Ministry of Education	3,675,159	-	3,586	-	-	3,678,745
Ministry of Infrastructure, Industry and Commerce	311,248	-	-	-	-	311,248
Ministry of Natural Resources, Environment and Office of the President	124,822	86,322	107,267	-	-	318,411
Ministry of Community and Cultural Affairs	71,533	-	75,038	-	-	146,571
Office of the Vice-President	-	-	1,035	-	-	1,035
Office of the Public Auditor	155,742	-	-	-	-	155,742
Environmental Quality Protection Board	-	493,255	-	-	-	493,255
Other	-	-	243,400	-	-	243,400
Other	461,797	84,772	1,250,608	-	-	1,797,177
Capital Outlay:						
Capital projects	-	-	-	3,521,395	12,553,321	16,074,716
Total Expenditures	<u>9,232,175</u>	<u>706,447</u>	<u>1,956,361</u>	<u>3,521,395</u>	<u>12,553,321</u>	<u>27,969,699</u>
Excess of Revenues Over (Under) Expenditures	129,170	17,132	(187,653)	(12,635)	(369,498)	(423,484)
Other Financing Sources (Uses):						
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Changes in Fund Balances	129,170	17,132	(187,653)	(12,635)	(369,498)	(423,484)
Net Assets:						
Beginning of year	-	17,804	-	1,621	-	19,425
Prior Period Adjustment	(94,474)	-	-	-	279,908	185,434
Beginning of year, as restated	<u>(94,474)</u>	<u>17,804</u>	<u>-</u>	<u>1,621</u>	<u>279,908</u>	<u>204,859</u>
End of year	<u>34,696</u>	<u>34,936</u>	<u>(187,653)</u>	<u>(11,014)</u>	<u>(89,590)</u>	<u>(218,625)</u>

REPUBLIC OF PALAU

COFA SECTION 211(B) ENERGY

SPECIAL REVENUE FUND

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Net change in the fair value of investments	\$ --	\$ 8,330	\$ (8,330)
Total Revenues	<u>--</u>	<u>8,330</u>	<u>8,330</u>
Expenditures:			
Investment Management Fees	--	1,440	(1,440)
Total Expenditures	<u>--</u>	<u>1,440</u>	<u>(1,440)</u>
Excess of Revenues Over (Under) Expenditures	--	6,890	6,890
Other financing sources (uses):			
Total Other Financing Sources (Uses)	<u>--</u>	<u>--</u>	<u>--</u>
Net Changes in Fund Balances	--	6,890	6,890
Fund balances			
Beginning of year	--	33,512	3,033,512
End of year	<u>\$ --</u>	<u>\$ 40,402</u>	<u>\$ 3,040,402</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

COFA SECTION 211 (C) COMMUNICATION
SPECIAL REVENUE FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Compact funding	\$ --	\$ 249,000	\$ (249,000)
Net change in the fair value of investments	--	15	(15)
Total Revenues	<u>--</u>	<u>249,015</u>	<u>249,015</u>
Expenditures:			
Investment Management Fees	--	38	(38)
Total Expenditures	<u>--</u>	<u>38</u>	<u>(38)</u>
Excess of Revenues Over (Under) Expenditures	--	248,977	248,977
Other financing sources (uses):			
Operating transfers out	--	(249,000)	249,000
Total Other Financing Sources (Uses)	<u>--</u>	<u>(249,000)</u>	<u>249,000</u>
Net Changes in Fund Balances	--	(23)	(23)
Fund balances			
Beginning of year	--	102,912	102,912
End of year	<u>\$ --</u>	<u>\$ 102,889</u>	<u>\$ 102,889</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

COFA SECTION 211 (D) MARITIME/HEALTH/SCHOLARSHIP

SPECIAL REVENUE FUND

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Compact funding	\$ --	\$ 631,000	\$ (631,000)
Net change in the fair value of investments	--	8	(8)
Total Revenues	<u>--</u>	<u>631,008</u>	<u>631,008</u>
Expenditures:			
Investment Management Fees	--	21	(21)
Total Expenditures	<u>--</u>	<u>21</u>	<u>(21)</u>
Excess of Revenues Over (Under) Expenditures	--	630,987	630,987
Other financing sources (uses):			
Operating transfers out	--	(631,000)	631,000
Total Other Financing Sources (Uses)	<u>--</u>	<u>(631,000)</u>	<u>631,000</u>
Net Changes in Fund Balances	--	(13)	(13)
Fund balances			
Beginning of year	--	48,149	48,149
End of year	<u>\$ --</u>	<u>\$ 48,136</u>	<u>\$ 48,136</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU
 COFA SECTION 211 (E) MARITIME
 SPECIAL REVENUE FUND
 BUDGETARY COMPARISON SCHEDULE
 FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Net change in the fair value of investments	\$ --	\$ 77	\$ (77)
Total Revenues	<u> --</u>	<u> 77</u>	<u> 77</u>
Expenditures:			
Investment Management Fees	--	172	(172)
Total Expenditures	<u> --</u>	<u> 172</u>	<u> (172)</u>
Excess of Revenues Over (Under) Expenditures	--	(95)	(95)
Other financing sources (uses):			
Total Other Financing Sources (Uses)	<u> --</u>	<u> --</u>	<u> --</u>
Net Changes in Fund Balances	--	(95)	(95)
Fund balances			
Beginning of year	--	448,195	448,195
End of year	<u>\$ --</u>	<u>\$ 448,100</u>	<u>\$ 448,100</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

COFA SECTION 213 DEFENSE

SPECIAL REVENUE FUND

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Net change in the fair value of investments	\$ --	\$ 73,567	\$ (73,567)
Other	--	289	(289)
Total Revenues	--	73,856	73,856
Expenditures:			
Investment Management Fees	--	11,482	(11,482)
Total Expenditures	--	11,482	(11,482)
Excess of Revenues Over (Under) Expenditures	--	62,374	62,374
Other financing sources (uses):			
Total Other Financing Sources (Uses)	--	--	--
Net Changes in Fund Balances	--	62,374	62,374
Fund balances			
Beginning of year	--	1,858,275	1,858,275
End of year	\$ --	\$ 1,920,649	\$ 1,920,649

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

COFA SECTION 221 (B) SPECIAL BLOCK GRANT
SPECIAL REVENUE FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Compact funding	\$ --	\$ 2,000,000	\$ (2,000,000)
Net change in the fair value of investments	--	37	(37)
Total Revenues	<u>--</u>	<u>2,000,037</u>	<u>2,000,037</u>
Expenditures:			
Investment Management Fees	--	94	(94)
Total Expenditures	<u>--</u>	<u>94</u>	<u>(94)</u>
Excess of Revenues Over (Under) Expenditures	--	1,999,943	1,999,943
Other financing sources (uses):			
Operating transfers out	--	(2,214,841)	2,214,841
Total Other Financing Sources (Uses)	<u>--</u>	<u>(2,214,841)</u>	<u>2,214,841</u>
Net Changes in Fund Balances	--	(214,898)	(214,898)
Fund balances			
Beginning of year	--	214,898	214,898
End of year	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

COMPACT SECTION 212 B CAPITAL ACCOUNT
CAPITAL PROJECTS FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Net change in the fair value of investments	\$ --	\$ 16	\$ (16)
Total Revenues	<u>--</u>	<u>16</u>	<u>16</u>
Expenditures:			
Investment Management Fees	--	52	(52)
Total Expenditures	<u>--</u>	<u>52</u>	<u>(52)</u>
Excess of Revenues Over (Under) Expenditures	--	(36)	(36)
Other financing sources (uses):			
Total Other Financing Sources (Uses)	<u>--</u>	<u>--</u>	<u>--</u>
Net Changes in Fund Balances	--	(36)	(36)
Fund balances			
Beginning of year	--	115,318	115,318
End of year	<u>\$ --</u>	<u>\$ 115,282</u>	<u>\$ 115,282</u>

See Accompanying Independent Auditors' Report.

SCHEDULE OF EXPENDITURES OF OTHER GRANTS

Republic of Palau
Schedule of Expenditures of Other Grants
For the Year Ended September 30, 2011

Fund 360100 Grantor Account Title	Cost Center	Authorization	Receivable from Grantor (Deferred Revenue) at 9/30/10	(revenues) Cash Receipts FY 2011	Expenditures FY 2011	Receivable from Grantor (Deferred Revenue) at 9/30/11
<u>UNFPA Grant</u>						
UNFPA FY 1996	H63920	\$ 57,889	\$ 1,058	-	-	1,058
<u>UN Pop Education Program</u>						
UN Pop Education Program 1995	E53921	22,940	(1,188)	-	-	(1,188)
Population Education Grants 1996	E63921	27,295	(1,894)	-	-	(1,894)
Population Education Grants 1998	E83921	9,180	(7,239)	-	-	(7,239)
UNFPA - Census Relates 1996	S63921	16,000	(606)	-	-	(606)
Total UN Pop Education Program		75,415	(10,927)	-	-	(10,927)
<u>UNCCD Grant Committee</u>						
UNCCD 4th National Report	A03923	4,000	(3,975)	-	4,130	155
Solar Energy MGMT Demo	A83923	90,000	(5,000)	-	-	(5,000)
UNCCD Gran Committee	S03923	22,950	(4,851)	-	-	(4,851)
Total UNCCD		116,950	(13,826)	-	4,130	(9,696)
<u>UNESCO-PALAU PUBLIC LIBRARY</u>						
Unesco-Pal Public Library	E33924	15,000	(546)	-	-	(546)
<u>WHO APW HEALTH CAREER TRNG</u>						
WHO APW HLTH CAREER TRNG	H43927	32,250	(958)	-	-	(958)
WHO APW HLTH CAREER TRNG	H63927	15,200	(830)	-	-	(830)
WHO PHARMACY MIS	H0WHO1	6,790	(2,582)	-	2,771	189
WHO OTHERS	H0WHO2	10,000	(4,333)	-	485	(3,848)
PHARMACY TECH ONLINE TRNG	H0WHO3	6,000	-	-	3,325	3,325
CE RESIDENCY PROG FY10	H0WHO4	15,200	(23,200)	-	15,200	(8,000)
HRD PROGRAMS	H9WHO1	16,000	442	-	554	996
QA PROGRAMS	H9WHO2	9,000	125	-	-	125
BHCS STRATEGIC PLAN	H9WHO3	14,000	(432)	-	90	(342)
BPHS STRATEGIC PLAN	H9WHO4	24,000	(3,748)	-	3,586	(162)
TOBACCO	H9WHO5	3,000	-	-	-	-
WHO HEALTHY WORK PLACE	H9WHO6	7,000	(5)	-	-	(5)
WHO INJURY PREVENTION	H9WHO7	12,500	(2,820)	-	1,500	(1,320)
POLHN	H9WHO8	26,000	71	-	-	71
Gender Tobacco	H9WHO9	15,000	(2,260)	-	560	(1,700)
LF & NTD SUREVEY	H1WHO0	12,000	-	12,000	-	(12,000)
COLLEGE OF HEALTH	H1WHO1	25,000	-	25,000	20,757	(4,243)
STEPS TRAINING FY2011	H1WHO2	5,000	-	5,000	2,500	(2,500)
HLTH COMM TRAINING FY2011	H1WHO3	7,000	-	7,000	3,184	(3,816)
SCHL GARDENING PROG FY11	H1WHO4	10,000	-	10,000	1,700	(8,300)
WHO FELLOWSHIP PROG FY11	H1WHO5	45,000	-	45,000	41,708	(3,292)
MOH LIBRARY UPGRD POLN	H1WHO6	19,700	-	19,000	17,101	(1,899)
WHO TOBACCO	H1WHO7	5,000	-	-	4,454	4,454
CLIMATE CHANGE FY11	H1WHO8	5,000	-	5,000	2,500	(2,500)
PW NTAT'L STEPS SURVEY	H1WHO9	28,000	-	28,000	4,500	(23,500)
Total WHO APW health Career Trng		373,640	(40,529)	156,000	126,475	(70,054)
<u>UNDP Public Sector Program</u>						
UNDP Public Sector Program	A73929	447,642	-	-	-	-
PAL Capacity Dev for NPP	F83929	45,000	(4,024)	-	4,049	25
UN DEVEL PROGRAMME (UNDP)	F53929	161,000	-	-	-	-
Total UNDP		653,642	(4,024)	-	4,049	25
<u>Climate Change (UN) GET</u>						
National Biodiversity Plan	A23930	330,000	(11,870)	-	-	(11,870)
Climate Change Interim	A43930	15,000	(313)	-	-	(313)
2ND National Comm. UNFCCC	A63930	405,000	130,010	15,000	-	115,010
PAC ADAPT TO CLIMATE CHNG	A93930	741,000	(49,002)	62,025	186,051	75,024
PACC MOH - Implementing Partner	H13930	17,000	-	17,000	-	(17,000)
PACC BMR - Implementing Partner	M13930	11,000	-	11,000	-	(11,000)
PACC BOA - Implementing partner	N13930	11,000	-	11,000	-	(11,000)
PACC Palaris - Implementing Partner	R13930	20,000	-	20,000	-	(20,000)
Total Climate Change (UN) GET		1,550,000	68,825	136,025	186,051	118,851
<u>National Biosafety Framework</u>						
National Biosafety Framework	A23931	131,000	42,350	-	-	42,350

Republic of Palau
Schedule of Expenditures of Other Grants
For the Year Ended September 30, 2011

Fund 360100 Grantor Account Title	Cost Center	Authorization	Receivable from Grantor (Deferred Revenue) at 9/30/10	(revenues) Cash Receipts FY 2011	Expenditures FY 2011	Receivable from Grantor (Deferred Revenue) at 9/30/11
<u>GEF Operational Focal Point</u>						
GEF Operational Plan	A23932	8,500	2,070	-	-	2,070
<u>SPREP (International Water IWP)</u>						
Inte'l Water of the Pac	A23933	97,875	(568)	-	-	(568)
Int'l Water of the Pacific FY04	F43933	102,200	3,700	-	-	3,700
Total SPREP		200,075	3,132	-	-	3,132
<u>UNDP (WSSD Grants)</u>						
UNDP (WSSD) Projects	A23934	5,965	(50)	-	-	(50)
CEDAW Translation	C0UN01	4,000	-	-	-	-
Int'l Women's Day 2010	C0UN02	2,000	-	-	-	-
17th Annual Women's Conference	C0UN03	1,000	-	-	-	-
Total UNDP		12,965	(50)	-	-	(50)
<u>SPREP</u>						
Ozone Depleting Substance	A33936	50,000	7,773	-	170	7,943
Ozone Depleting Substance	A73936	3,400	6,358	6,000	8,679	9,037
Ozone Depleting Substance	A03936	60,000	(32,914)	24,000	26,599	(30,315)
Ozone Depleting Substance	A13936	20,000	(10,000)	10,000	1,157	(18,843)
Total SPREP		133,400	(28,783)	40,000	36,605	(32,178)
<u>PADI Aware Foundation</u>						
Project Aware	A33937	1,500	21,284	-	-	21,284
<u>UN Pops Grants</u>						
U.N. Pops Grant	A33938	346,400	11,816	-	-	11,816
<u>UNDP (NCSA) Global Env. Mgmt</u>						
UNDP (Global Env. Mgmt.)	A33939	25,000	24,838	-	-	24,838
<u>UNICEF</u>						
Justice Program	J33940	6,200	(345)	-	-	(345)
<u>PALAU NCSA</u>						
PALAU NCSA - TTP/03/G41	F43943	200,000	(29,792)	-	-	(29,792)
<u>Access to Benefit Sharing</u>						
Access to Benefit Sharing Program	F43945	31,343	(19)	-	-	(19)
<u>FOOD & AGRICULTURE</u>						
National Forest Policy	R53946	4,350	(833)	-	-	(833)
<u>REPORT ON BIODIVERSITY</u>						
NR4 GEF-CBD BTNA Phase II	A03947	15,000	(7,653)	-	20,744	13,091
3rd Report on Biodiversity	A63947	16,500	(199)	-	-	(199)
Total Report on Biodiversity		31,500	(7,852)	-	20,744	12,892
<u>8th OEK Orientation & WRKS</u>						
8th OEK Oreintation & WRKS	K93948	22,000	(281)	-	-	(281)
Support to ROP Congress Projects	K13848	200,000	-	20,000	19,827	(173)
		222,000	(281)	20,000	19,827	(454)
<u>UNEP / FNR-RIO</u>						
FNR to Rio Convention	A03949	34,567	(6,364)	21,980	20,119	(8,225)
<u>SAICM - EOPB</u>						
QSP Trust Fund - SAICM	R93951	125,000	(47,980)	54,748	-	(102,728)
<u>PW Feasibility Study Energy</u>						
PW Feasability Study	R83953	17,000	(4,310)	-	3,932	(378)
<u>2ND FRANCE-OCEANIA SUMMIT</u>						
2nd France-Oceania Summit	A63954	34,410	(1,307)	-	-	(1,307)

Republic of Palau
Schedule of Expenditures of Other Grants
For the Year Ended September 30, 2011

Fund 360100 Grantor Account Title	Cost Center	Authorization	Receivable from Grantor (Deferred Revenue) at 9/30/10	(revenues) Cash Receipts FY 2011	Expenditures FY 2011	Receivable from Grantor (Deferred Revenue) at 9/30/11
3RD FRANCE-OCEANIA SUMMI	P93954	22,904	-	-	-	-
		57,314	(1,307)	-	-	(1,307)
<u>Watercourse Splash</u>						
Watercourse Splash	A23955	6,000	(104)	-	-	(104)
<u>Japan Grant (Horifuma Arima)</u>						
Japan Grant (Horifuma Arima)	A23956	70,809	5	-	-	5
Ngchesar Elementary School Renovation	E43956	54,895	(52)	-	-	(52)
Nippon Foundation Grant	R63956	25,493	(7,123)	-	225	(6,898)
Total Japan Grant		151,197	(7,170)	-	225	(6,945)
<u>SPREP Grants (Fruit Fly)</u>						
SPREP Grants (Fruit Fly)	R23957	4,495	(15)	-	-	(15)
<u>President (Korean Grant)</u>						
President (Korean Grant)	A23958	9,532	(509)	-	-	(509)
14th APPCED Conference	K03958	20,000	(69)	-	-	(69)
Palau Submarine Fiber Optic Cable Study	K13958	100,000	-	100,000	75,039	(24,961)
		129,532	(578)	100,000	75,039	(25,539)
<u>Electronic Tech. Grants (Japan Grant)</u>						
Electronic Tech. Grants (Japan Grant)	A23959	500,000	(27,208)	-	-	(27,208)
<u>Canada Funds</u>						
Palau National Youth Policy	C43960	36,500	(873)	-	-	(873)
<u>Secretariat Pacific Comm</u>						
Secretariat Pacific Comm	R13961	6,000	2,837	-	-	2,837
<u>Vanuatu Grants</u>						
Vanuatu Grants (NEMO)	A13962	8,269	(863)	-	-	(863)
<u>SPF Org. Comm - China Grants</u>						
SPF Org. Comm - China Grants	A93963	231,000	(839)	-	-	(839)
<u>Info Dev. Planning (IBRD)</u>						
Info Dev. Implement (IBRD)	A93960	200,000	21,225	-	-	21,225
Infor Dev. Planning (IBRD)	A93965	103,627	(21,380)	-	-	(21,380)
Total Info Dev. Planning (IBRD)		303,627	(155)	-	-	(155)
<u>Republic of China Grants</u>						
China Grants - Sport Comm	A83966	56,087	-	-	-	-
National Youth Policies Development	C43966	6,000	(2,296)	-	-	(2,296)
PM & SP Capacity Building	F63966	200,000	(134)	-	-	(134)
PM & SP Capacity Building	F73966	10,000	(10,000)	-	-	(10,000)
ROC-PAC Summit Security	J63966	30,000	(5,132)	-	-	(5,132)
Micronesia Chief Executive Summit	S13966	50,000	-	50,000	50,356	356
Total Republic of China Grants		352,087	(17,562)	50,000	50,356	(17,206)
<u>Forum Secretariat Grants</u>						
Forum Sect. Drought Relief 1998	A83967	10,180	(2,156)	-	-	(2,156)
Forum Import Mang Wrkshp 2001	A13967	2,300	2,028	-	-	2,028
Chief Executive Summit	S13967	20,000	-	20,000	19,874	(126)
Total Forum Sect. Drought Relief		32,480	(128)	20,000	19,874	(254)
<u>Computerization (State)</u>						
Computerization (State) 1998	S83968	10,000	(172)	-	-	(172)
<u>FFA - Grants (President's Office)</u>						
FAA- President's Office	A03969	19,941	(50)	-	-	(50)
FAA - President's Office	A13969	39,000	(70)	-	-	(70)
FAA - President's Office	A23969	61,195	(50)	-	-	(50)
FAA - President's Office	A33969	71,194	(1,474)	-	-	(1,474)
36TH PACIFIC ISLS FORUM	A53969	68,360	(47)	-	-	(47)
FAA - President's Office	A73969	86,100	(258)	-	-	(258)
FAA - President's Office	A83969	14,980	(14,980)	-	-	(14,980)
FAA - Conferences	A93969	4,975	(727)	-	-	(727)
PALM 2000 (Tokyo Japan)	S03969	16,656	(495)	-	-	(495)
TRAVEL - FOC/FORUM Meeting	P63969	65,000	(2,716)	-	-	(2,716)

Republic of Palau
Schedule of Expenditures of Other Grants
For the Year Ended September 30, 2011

Fund 360100 Grantor Account Title	Cost Center	Authorization	Receivable from Grantor (Deferred Revenue) at 9/30/10	(revenues) Cash Receipts FY 2011	Expenditures FY 2011	Receivable from Grantor (Deferred Revenue) at 9/30/11
Annual Meeting of IWC	P73969	18,600	(5,192)	-	-	(5,192)
Total FFA - Grants		466,001	(26,059)	-	-	(26,059)
PMA Office Building/Infrastructure						
PMA Office Building/Infrastructure 1995	A53970	39,994	(2,219)	-	-	(2,219)
PMA Observer & Monitoring 1996	A63970	66,790	(2,605)	-	-	(2,605)
SPREP (CBEMP) Palau EQPB 2000	R03970	8,895	(397)	-	-	(397)
Total PMA Office Building/Infrastructure		115,679	(5,221)	-	-	(5,221)
Fisheries Forum Agency						
FAA Recrit Quality Pers	A13971	30,000	(1,154)	-	-	(1,154)
TAIYO (TAOCH) CLEARING	B91401	25,000	25,000	-	-	25,000
Vessel Monitoring System	J13971	22,009	-	16,424	1,750	-
Marine Law Observer	J8FFA1	25,000	(2,859)	-	94	(2,765)
Palau PDF 15%	R03971	52,472	(48,636)	-	2,919	(45,717)
42nd PIF Leaders Meeting	R13971	63,842	-	63,842	41,571	(22,271)
Fisheries & Maritime Cons.	R23971	30,000	25	-	-	25
55th Tuna Conference	R43971	16,203	(190)	-	-	(190)
FFC59 MEETING IN MAJURO	R53971	4,348	(27)	-	-	(27)
FFA-Palau PDF Fund- 15%	R83971	165,940	(17,706)	53,611	35	(71,282)
FFA Sonsorol Fishing Boat	S53971	114,975	(2,337)	-	-	(2,337)
Boundary Delimitation Pro	S73971	16,985	(362)	-	-	(362)
FFA (PDF Conference)	S83971	4,980	(1,159)	-	-	(1,159)
PI Forum Leaders Meeting	S8FFA1	100,000	(7,816)	-	5,717	(2,099)
Total Fisheries Forum Agency		671,754	(57,221)	133,877	52,086	(148,184)
Foreign Grants State						
Office Equip - Australia Grant	S50301	38,027	(1,639)	-	-	(1,639)
SPC Youth Skills Training	S53972	5,000	(2,706)	-	-	(2,706)
Total Foreign Grants State		43,027	(4,345)	-	-	(4,345)
SPREP (Ngermeduu Conservation)						
Marine Project / Area Project	B23972	13,252	(5,303)	-	-	(5,303)
Ngermeduu Conservation Area	R23972	27,500	(3,718)	-	-	(3,718)
Ngermeduu Conservation Area	R33972	30,000	(6,305)	-	-	(6,305)
FFA Ngarchelong Clam Project	S23972	20,000	25	-	-	25
Total SPREP (Ngermeduu Conservation)		90,752	(15,301)	-	-	(15,301)
GIS/GPS Training (SPREP)						
GIS/GPS Training	R23973	32,296	(21,112)	-	8,220	(12,892)
Tax Equipment Furniture & Supplies						
Tax Equipment Furniture & Supplies	A83973	25,000	(260)	-	-	(260)
Palau Youth Empowerment Fund						
Palau Youth Empowerment Fund 1998	C83974	53,551	(14,680)	-	1,035	(13,645)
PMA Port Samplers (SPC)	R63974	14,790	(392)	-	-	(392)
Total Palau Youth Empowerment Fund		68,341	(15,072)	-	1,035	(14,037)
Australian Grants						
Coral Reef Aware Program	A43975	2,000	(2,000)	-	-	(2,000)
Project 5/99	A93975	1,572	(19)	-	-	(19)
Equipment for Youth Program	C03975	1,984	(194)	-	-	(194)
MCCA-BPNA Palauan Language & CASP	C1ARC1	10,725	-	23,283	9,033	(14,250)
MCCA-BPNA Survey Analysis	C1ARC2	12,558	-	-	-	-
Pur Microfilm Read/Printer	C65001	8,600	(298)	-	-	(298)
Inventory Bar Code System	H43975	13,800	(4,143)	-	-	(4,143)
AUSAID	H73975	4,800	-	-	-	-
Ramsar Wetl'ds Cons Fund	S70201	6,796	(5,721)	-	-	(5,721)
Total Australian Grants		62,835	(12,375)	23,283	9,033	(26,625)
Japan Rotary Club Donation						
Japan Rotary Club Donation	R63976	24,725	(106)	-	-	(106)
Pal/Jpn Fisheries Conslt.	R13976	18,013	(1,208)	-	-	(1,208)
Total Rotary Club Donation		42,738	(1,314)	-	-	(1,314)
FFA - Kayangel Fishing Project						
FFA Grant Tatirou Group	S03977	50,000	(15)	-	-	(15)
FFA Sonsorol State Boat	S13977	100,000	(127)	-	-	(127)
Total Kayangel Fishing Project		150,000	(142)	-	-	(142)

Republic of Palau
Schedule of Expenditures of Other Grants
For the Year Ended September 30, 2011

Fund 360100 Grantor Account Title	Cost Center	Authorization	Receivable from Grantor (Deferred Revenue) at 9/30/10	(revenues) Cash Receipts FY 2011	Expenditures FY 2011	Receivable from Grantor (Deferred Revenue) at 9/30/11
<u>SPREP Grants</u>						
SPREP (Coral Reef Comm)1997	R73979	12,050	(287)	-	-	(287)
Pilot Project (Solid Waste)1999	R93979	39,998	(2)	-	-	(2)
Total SPREP Grants		52,048	(289)	-	-	(289)
<u>WildAid-Packard Foundation</u>						
WildAid-Packard Foundation	J33980	72,867	(3,254)	-	-	(3,254)
Packard EBM Project-EQPB	A63980	107,755	2,530	-	11,519	14,049
EQPB EBM Project Cycle II	A03980	53,687	(51,813)	-	19,614	(32,199)
		234,309	(52,537)	-	31,133	(21,404)
<u>Marine Res Conservation</u>						
Marine Res Conservation	R53980	38,900	(4,764)	-	-	(4,764)
<u>CDC & H V Hepatitis Survey</u>						
CDC & HIV Hepatitis Survey	H33981	5,472	(15)	-	-	(15)
<u>FHP Foundation Grant</u>						
FHP Foundation Grant	H63984	39,505	(2,840)	-	-	(2,840)
<u>RR & TC Pacific Basin Grant</u>						
RR & TC Pacific Basin Grant	H63985	54,000	9,900	-	-	9,900
RR & TC Pacific Basin Grant	H83985	22,000	(479)	-	-	(479)
SDSU Foundation	H93985	23,100	(178)	-	-	(178)
Total RR &TC Pacific Basin Grant		99,100	9,243	-	-	9,243
<u>Pacific Basin Development Council</u>						
Pacific Basin Development Council	A63986	4,800	(1,011)	-	-	(1,011)
<u>DNA Project (University of Utah)</u>						
Palau Youth Project 2007	H73987	22,000	(257)	-	-	(257)
Palau Youth Project	H83987	48,864	(74)	-	-	(74)
DNA Project (University of Utah)	H93987	16,700	(39)	-	-	(39)
		87,564	(370)	-	-	(370)
<u>Christa M. Fellowship Program</u>						
Christa M. Fellowship Program 1997	E73990	20,558	(4,719)	-	-	(4,719)
Christa M. Fellowship Program 1998	E83990	10,279	(79)	-	-	(79)
Christa M. Fellowship Program 1999	E93990	10,279	(279)	-	-	(279)
Christa M. Fellowship Program 2000	E03990	10,279	(4,405)	-	-	(4,405)
Christa M. Fellowship Program 2002	E23990	10,003	(4,933)	-	-	(4,933)
Total Christa M. Fellowship Program		61,398	(14,415)	-	-	(14,415)
<u>MOH SMALL GRANTS - OTHERS</u>						
MOH SEOW FY211	H13991	50,000	-	50,000	5,311	(44,689)
<u>LSTA State Grants</u>						
LSTA State Grants	E93992	44,274	(1,035)	-	-	(1,035)
LSTA State Grants	E13992	40,377	(801)	-	-	(801)
LSTA State Grants FY07	E73992	54,349	41,115	-	-	41,115
LSTA State Grant 2009	E93992	41,983	(40,011)	41,983	41,983	(40,011)
Total LSTA State Grants		180,983	(732)	41,983	41,983	(732)
<u>Genetic Study (MOH)</u>						
Genetic Study	H13993	405,000	(593)	-	-	(593)
Total Genetic Study (MOH)		405,000	(593)	-	-	(593)
<u>Palau Public Library Grants</u>						
Palau Public Library Grant	E23994	39,630	(13,433)	-	-	(13,433)
<u>Census (Rare Ctr Trop Con)</u>						
Census	A33995	25,000	(92)	-	-	(92)
<u>Protected Areas Network</u>						
TNC MOU Assist to PAN	A83997	6,000	(57)	-	-	(57)
Protected Areas Network	R43997	39,700	(535)	-	-	(535)
		45,700	(592)	-	-	(592)
<u>National Assessment Report-BPOA</u>						

Republic of Palau
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Fund 360100 Grantor Account Title	Cost Center	Authorization	Receivable from Grantor (Deferred Revenue) at 9/30/10	(revenues) Cash Receipts FY 2011	Expenditures FY 2011	Receivable from Grantor (Deferred Revenue) at 9/30/11
National Assessment Report	R48920	5,000	(2,102)	-	-	(2,102)
UNDP (SEDREA) ENERGY						
UNDP (SEDREA) ENERGY	A58922	25,000	-	-	-	-
Renewable Energy (SEDREA)	P98922	10,000	(358)	19,897	21,727	1,472
		35,000	(358)	19,897	21,727	1,472
UNDP/UNCCD/GEF						
UNDP (SEDREA) Energy	A68923	12,000	(113)	-	-	(113)
SPAIN GRANTS						
Pacific Educatin Development Framework	E18960	42,980	-	-	43,031	43,031
10th International Coral Reef Sympo						
International Coral Reef Sympo	F48961	1,400	1,400	-	-	1,400
Giant Clam Farming Project						
Giant Clam Farming Project	T88962	14,967	(3,956)	-	2,320	(1,636)
Giant Clam Farming Project	T48962	15,000	(589)	-	-	(589)
		29,967	(4,545)	-	2,320	(2,225)
TUNA DATA COORDINATOR						
Tuna DATA Entry Technician	R88963	8,756	(12)	-	-	(12)
Tuan Data Coordinator	R68963	11,575	(7)	-	-	(7)
		20,331	(19)	-	-	(19)
HOUSEHOLD INCOME/EXP SURVEY						
Househol Income/Expenditures Survey	F68964	26,684	(8)	-	-	(8)
Fisheries Forum Association						
Hosting Consultants Negotiations	S5FFA1	7,081	(4,088)	-	-	(4,088)
Foreign Dignitary Housing	S4FFA1	51,310	(2,645)	-	-	(2,645)
Total FAA		58,391	(6,733)	-	-	(6,733)
Korean Grants						
Bur.of INT'L EXPO	S88967	7,085	18	-	-	18
HOSPITAL EQUIP - IINDIA GRT						
HOSPITAL EQUIP - INDIA GRT	H58968	149,841	(90)	-	-	(90)
Ministry of State Equipments	S08968	100,000	(99,975)	-	70,302	(29,673)
Total India Grants		249,841	(100,065)	-	70,302	(29,763)
PALAU DIGITAL ARCHIVING						
DIGITAL ARCHIVING	S58969	240,000	(426)	-	-	(426)
DRUG DETECTOR DOG UNIT						
DRUG DETECTOR DOG UNIT	F58970	175,000	(71)	-	-	(71)
INDEPENDENCE DAY (ROC)						
12th Independence Day	P6ROC1	100,000	(1,940)	-	-	(1,940)
President's Expenses	P6ROC2	200,000	(1,735)	-	-	(1,735)
13th Independence Day	P7ROC1	50,000	(2,480)	-	-	(2,480)
Total Independence day		350,000	(6,155)	-	-	(6,155)
Total FAA						
CZECH REPUBLIC GRANT						
Czech Dentist Dr. Palek	H78973	23,953	4,211	-	-	4,211
Dental Health Care - CZK	H98973	13,379	(9,787)	-	9,978	191
Total CZECH Republic Grant		37,332	(5,576)	-	9,978	4,402
HUMANITARIAN ASSISTANCE TO PSB						
Humanitarian Assistance to PSB	F18944	-	-	320,000	441,364	121,364
Humanitarian Assistance to PSB	F78974	3,355,000	(51,616)	-	-	(51,616)
		3,355,000	(51,616)	320,000	441,364	69,748
IWRM Project (SOPAC)						
IWRM Project (SOPAC)	A78975	31,300	1,483	-	656	2,139

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SOPAC-Ngerikiil Watershed	A98975	408,385	(146,701)	195,240	150,727	(191,214)
IWRM BOA	M98975	10,000	-	10,000	7,393	(2,607)
Water Policy Activities	P18975	34,320	-	34,320	11,503	(22,817)
IWRM Palaris	R98975	30,000	-	30,000	5,428	(24,572)
		514,005	(145,218)	269,560	175,707	(239,071)
PROTECT MARINE BIODIVERSITY						
Protect Marine Biodiversity	A78976	43,000	(3,156)	-	-	(3,156)
PRIDE GRANTS						
Curriculum Frameworks	E7PRI1	150,000	(1,053)	-	-	(1,053)
Palau Achievement Tests	E7PRI2	150,000	(600)	-	603	3
Palauan Textbook	E7PRI3	88,899	(3)	-	-	(3)
MOE School Handbook	E8PRI1	43,000	(2)	-	-	(2)
Total PRIDE		431,899	(1,658)	-	603	(1,055)
MICRONESIAN CHALANGE DONATION						
Micronesian Chalange Donation TRKY	A78978	75,000	(7,008)	-	1,921	(5,087)
Micronesian Chalange Donation Guam	A8GUM1	7,500	7,500	-	-	7,500
Micronesian Chalange Donation PAN	A9TNC1	50,000	(22,584)	-	551	(22,033)
		132,500	(22,092)	-	2,472	(19,620)
ENERGY SECT IN 5 ACP ISLS						
Energy Sect in 5 ACP Isls	F88979	287,650	1,595	-	1,199	2,794
PAL renewable energy NPE2	F8PE02	430,170	(65,387)	-	-	(65,387)
Tech. Coop. Facility	F0TFC1	147,000	(17,679)	868	45,414	26,867
		864,820	(81,471)	868	46,613	(35,726)
NEMO PEACESAT ASSISTANCE						
Nemo PEACESAT Assistance	J68980	1,938	(217)	-	-	(217)
NATIONAL FISH & WILDLIFE FOUNDATION						
Coral Reef Conservation	J68981	41,152	11,630	-	-	11,630
Sustainable Land MGMT						
Sustainable Land MGMT	A88983	46,750	(27,535)	81,932	121,764	12,297
Taiwan (ROC) Grants						
One Light Project	A18984	100,000	-	100,000	100,000	-
Energy Support ASST-OPER	A88984	1,669,000	(231,000)	-	-	(231,000)
UN 64TH GEN ASSEMBLY	A98984	50,000	-	-	-	-
Purchase X-Ray Machines	H08984	150,000	(149,646)	-	112,463	(37,183)
66th UN General Assembly	P18984	25,000	-	25,000	22,185	(2,815)
TAIWAN/PALAU UN TRAINING	S98984	30,000	820	-	-	820
		2,024,000	(379,826)	125,000	234,648	(270,178)
Turky Grants						
Continental Shelf - Ext	R98986	150,000	(36,368)	(1,902)	16,485	(17,981)
Peleliu Multipurpose Gymnasium	S98686	150,000	-	-	-	-
		300,000	(36,368)	(1,902)	16,485	(17,981)
STATISTICS						
Socio Economic Assesment	H18987	35,000	-	-	26,317	26,317
Continental Shelf 09-00180						
Contintal Shelf	R98988	154,765	(78,076)	-	-	(78,076)
Palau Conservatio Society Grants						
Capacity Enhancement	R08989	3,250	(3,250)	-	-	(3,250)
Capacity Enhancement	R18989	20,000	-	20,000	-	(20,000)
		23,250	(3,250)	20,000	-	(23,250)
PICRC Assistance						
Database Design	R08990	10,000	(1,606)	-	-	(1,606)

Republic of Palau
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 For the Year Ended September 30, 2011

Fund 360100 Grantor Account Title	Cost Center	Authorization	Receivable from Grantor (Deferred Revenue) at 9/30/10	(revenues) Cash Receipts FY 2011	Expenditures FY 2011	Receivable from Grantor (Deferred Revenue) at 9/30/11
<u>UN Grants</u>						
Biodiversity Cons Program	9935-PR0001	111,449	(655)	-	-	(655)
Total Other Grants		<u>18,372,229</u>	<u>(1,261,955)</u>	<u>1,273,251</u>	<u>1,393,708</u>	<u>(1,150,669)</u>

SCHEDULE OF EXPENDITURES OF OTHER COUNTRY GRANTS

Republic of Palau

Schedule of Expenditures of Other Country Grants
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<u>ROC TAIWAN GRANT 2000</u>					
R24940 PALAU NAT'L MUSEUM COMPLX	2,600,000	(26,981)	-	-	(26,981)
R03120 AIRPORT GENERATOR	95,612	(6,367)	-	-	(6,367)
SUB TOTAL	<u>9,346,062</u>	<u>(33,348)</u>	<u>-</u>	<u>-</u>	<u>(33,348)</u>
<u>STATE ECONOMIC STIMULUS PACKAGE 2002</u>					
B21001 NGARDMAU ROAD & DOCK PROJ	100,000	(530)	-	-	(530)
R24890 SDA SCHL ROAD IMPV PROJ	100,000	(4,497)	-	-	(4,497)
SUB TOTAL	<u>798,665</u>	<u>(5,027)</u>	<u>-</u>	<u>-</u>	<u>(5,027)</u>
<u>STATE ECONOMIC STIMULUS PACKAGE 2003</u>					
B30103 MEDORM ABAI ROOFING EXTEN	8,000	-	-	-	-
B30502 DESPENSARY FACILITY IMPRV	120,000	-	-	-	-
B30603 NGERBECHED LANDFIL DRAIN	10,000	-	-	-	-
B30604 KOROR CBD/CAUSEWAY RD POS	10,000	-	-	-	-
B30605 MEYUNS ELEMENTARY PHAS2&3	7,000	-	-	-	-
B30702 MAIN ROAD STRIP CONCR PAV	100,000	-	-	-	-
B30802 CHOLL VARIOUS PROJECTS	50,000	-	-	-	-
B30902 OKOTOL ROAD CONSTRUCT/IMP	100,000	-	-	-	-
B30904 OLLEI STORAGE TANK PROJ	20,000	-	-	-	-
B31101 ROAD CONSTRUCTION & IMPRO	70,000	-	-	-	-
B31201 NGATPANG DOCK/AQUA IMPROV	50,000	-	-	-	-
B31202 AQUACULTURE PROJECT	50,000	-	-	-	-
B31301 CONCRETE ROAD PAVING/IMPR	100,000	-	-	-	-
B31401 WATER PUMP	8,000	-	-	-	-
B31501 PELELIU INCINERATOR PROJ	46,000	-	-	-	-
B31601 TELECOMMUNICATION UPGRADE	75,000	-	-	-	-
R34838 TEAKWOOD AND LUMBER	35,000	-	-	-	-
R34840 FISHING AGGREGATE DEVICES	100,000	-	-	-	-
R34843 BLS LAND SURVEYING EQUIP	85,000	-	-	-	-
F34817 NEW PRODUCT DEV COMMITTEE	75,000	-	-	-	-
R34960 NORTHERN BABLD'D WTRLNE	1,100,000	-	-	-	-
R34891 PELELIU CONCRETE RD EXT	500,000	-	-	-	-
R44893 INTER-ISLAND WATER TRANS	791,000	-	-	-	-
J34920 BPS EQUIP IMPRV. GRANTS	664,000	-	-	-	-
R24831 COMPLETION OF CAPITAL,ETC	6,799,000	-	-	-	-
R24832 ROADS,PARKING LOTS & ETC	2,750,000	-	-	-	-
R24834 LANDSCAPING & ETC	451,000	-	-	-	-
B30102 ELECHUI WATER SYSTEM	70,000	(17,671)	-	17,640	(31)
B30104 MEDORM RD EXTENTION/IMPRO	30,000	(17,646)	-	-	(17,646)
B30202 NGERIKIIL PUMP STATION	30,000	(8,857)	-	-	(8,857)
B30303 STATE BOAT DRYDOCK	35,000	-	-	-	35,000
B30306 ANGARU STATE OFFICE RENOV	15,000	(5,000)	-	-	(5,000)
B31403 CLAM FARM	10,000	(4,913)	-	-	(4,913)
B31502 CAMP BECK DREDGING	50,000	14,712	-	-	14,712
R34839 CLAM FARMING PROJECTS	100,000	(2,755)	-	2,429	(326)
R34841 NAT'L CAPITAL REL PH III	3,450,000	(18,363)	-	-	(18,363)
SUB TOTAL	<u>17,964,000</u>	<u>(25,493)</u>	<u>-</u>	<u>20,069</u>	<u>(5,424)</u>
<u>STATE ECONOMIC STIMULUS PACKAGE 2004</u>					
B40701 MELEKEOK STATE BUILDING	11,000	(9,351)	-	-	(9,351)
B40401 WATER SYSTEM IMPROVEMENT	80,000	(13,120)	-	13,120	-
B40402 WAVE RETAINING WALL/EROSI	15,000	(14,321)	-	9,000	(5,321)
B40501 ISLAND RING ROAD	92,000	(17,097)	-	-	(17,097)
B40601 T-DOCK REPAIR	500,000	(1,441)	-	-	(1,441)
SUB TOTAL	<u>10,015,449</u>	<u>(55,330)</u>	<u>-</u>	<u>22,120</u>	<u>(33,210)</u>
<u>STATE ECONOMIC STIMULUS PACKAGE 2005</u>					
B50602 T-DOCK POOL FILL & PAVING	20,000	(19,000)	-	-	(19,000)
B51601 SONSOROL INTERSTATE TRANS	92,000	(24,837)	-	2,750	(22,087)
SUB TOTAL	<u>3,563,000</u>	<u>(43,837)</u>	<u>-</u>	<u>2,750</u>	<u>(41,087)</u>
<u>STATE ECONOMIC STIMULUS PACKAGE 2006</u>					
R64827 NORTH BABELDAOB WATERLINE	115,000	-	-	5,508	5,508
R64836 WB PETROLEUM T/A MATCHING	200,000	-	-	19,600	19,600

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R84898 PHASE IV-FINAL A/N ROAD	3,100,000	20,000	20,000	-	-
SUB TOTAL	15,290,000	20,000	20,000	25,108	25,108
<u>BABELDAOB INTRA-STATE ROADS & DOCK IMPROVEMENTS</u>					
G70101 MEDORM HAMLET RD REPAIR	200,000	3,865	-	-	3,865
G71401 IMEKANG DOCK IMPROVE	200,000	(18,053)	-	18,000	(53)
SUB TOTAL	7,520,000	(14,188)	-	18,000	3,812
<u>STATE ECONOMIC STIMULUS PACKAGE 2008</u>					
B80101 AIMELIIK ROAD REPAIR PROJ	25,000	-	-	-	-
B80102 ELECHUI WATER SYS - PH II	150,000	(39,634)	-	32,400	(7,234)
B80103 AIMELIIK PUBL WORKS BLDG	50,000	(16,750)	-	-	(16,750)
B80202 AIRAI ROAD IMPROVEMENT PR	239,000	-	-	-	-
B80401 TOBI VARIOUS IMPROV PROJ	-	-	-	-	-
B80501 KAYANGEL GARBAGE FACILITY	65,000	(38,429)	-	-	(38,429)
B80601 KOROR KB BRIDGE PARK PROJ	-	-	-	-	-
B80701 MELEKEOK ROAD IMPROVEMENT	100,000	-	-	-	-
B80801 CHOLL TYPHOON SHELTER	200,000	160,683	-	-	160,683
B80803 NGARAARD NEW ROAD PROJ	100,000	(30,631)	-	-	(30,631)
B80804 NGARAARD WATER PUMP STATI	50,000	(48,341)	-	-	(48,341)
B80805 ORREDAKL TO ULIMANG ROAD	300,000	(4,530)	-	4,449	(81)
B80901 NGARCHELONG MAIN ROAD IMP	100,000	(13,573)	-	9,500	(4,073)
B81001 NGARDMAU ROAD PAVING PROJ	250,000	(96)	-	-	(96)
B81101 NGERMETENGEL COMM BAI	225,000	(412)	-	-	(412)
B81102 NGERMETENGEL DOCK IMPROVE	125,000	(68,266)	-	-	(68,266)
B81103 NGAREM ROAD IMPR PH IV	40,000	(345)	-	-	(345)
B81104 NGAREML ELEM ROAD PAVEMNT	60,000	(8,521)	-	-	(8,521)
B81105 NGARMESKANG WTRFALLS ROAD	100,000	(98,886)	-	-	(98,886)
B81201 AQUACULTURE PROJ PHIV	150,000	(96)	-	-	(96)
B81301 NGCHESAR MAIN ROAD IMPROV	200,000	(50,204)	-	18,000	(32,204)
B81401 NGIWAL WATER SYSTEM IMPRO	160,000	77,469	-	22,524	99,993
B81402 NGIWAL DOCK REPAIR	40,000	(20,053)	-	-	(20,053)
B81501 PELELIU STATE BOAT REPAIR	330,000	(9,604)	-	-	(9,604)
S78969 PALAU DIGITAL ARCHIVING	125,000	(3,191)	-	-	(3,191)
S84813 CNMI CONSUL ABAI CONTRIB	25,000	-	-	-	-
P84810 COMPACT REVIEW	175,000	-	-	-	-
P84811 PRES DIGITAL ARCHIV/OTHER	225,000	(36)	-	-	(36)
F84812 CAPITOL COMPLX INFO SUPPL	347,000	(200,600)	-	39,293	(161,307)
F84814 CAPITOL COMPLEX MIS-PH2	1,000,000	(100,400)	-	-	(100,400)
H84854 HOSP SOLAR LIGHTING PROJ	2,500,000	(56,388)	-	-	(56,388)
R84971 KOROR SEWER SYS PROJ PH 2	2,255,000	218,212	-	29,440	247,652
SUB TOTAL	9,711,000	(352,623)	-	155,607	(197,016)
<u>STATE ECONOMIC STIMULUS PACKAGE 2009</u>					
B90701 MELEKEOK MAIN ROAD	850,000	(67,720)	-	-	(67,720)
R94823 IMEKANG DOCK	1,000,000	(63,524)	-	69,577	6,053
J94825 GLOBAL POSITIONING SYSTEM	1,900,000	(2,000)	-	-	(2,000)
J94826 LIGHT EMITTING DIODE	800,000	(2,553)	-	4,756	2,203
B90901 NGERCHELONG MAIN ROAD	810,000	(78,694)	-	75,002	(3,692)
B91101 NGERMLENGUI BRIDGE	640,000	(50,152)	-	46,934	(3,218)
R94824 KOKSAI/NGCHESAR ACCESS RD	5,000,000	(516,027)	-	494,885	(21,142)
SUB TOTAL	11,000,000	(780,670)	-	691,154	(89,516)
<u>STATE ECONOMIC STIMULUS PACKAGE 2010</u>					
R04821 ENERGY EFFICIENT BUILDING FY2010	445,000	(114,185)	222,500	317,213	(19,472)
R04824 KOKSAI-NGCHESAR ROAD II FY2010	3,000,000	(441,435)	1,500,000	2,293,783	352,348
R04830 AGRI DEV. CENTER FY2010	750,000	(239,071)	375,000	574,559	(39,512)
R04835 COCONUT TREE PLANTING FY2010	175,000	(57,582)	87,500	134,594	(10,488)
R04837 MALAKAL MARINE RESOURCE FY2010	750,000	(176,817)	375,000	478,863	(72,954)
R04840 STATE MARINE SANCTUARY FY2010	400,000	(164,700)	200,000	319,276	(45,424)
R04842 TWN EXPERT AGRICULTURE FY2010	150,000	(150,000)	-	148,392	(1,608)
R04844 BEAUTIFICATION PROJECT FY2010	100,000	-	50,000	45,000	(5,000)
H04850 MOH EQUIP & OTHERS FY2010	1,500,000	(600,000)	900,000	1,479,620	(20,380)

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R04871 PCC SCHOOL OF EXCELENCE FY2010	300,000	-	-	-	-
R04872 BASKETBALL COURTS FY2010	150,000	(33,195)	75,000	108,263	68
R04873 MOE SOLAR PROJECT FY2010	600,000	(112,771)	300,000	350,790	(61,981)
B00201 RABIT FISH HATCHERY FY2010	400,000	(91,515)	200,000	265,523	(25,992)
B01001 NGARDMAU CONCRETE ROAD FY2010	500,000	(142,680)	250,000	366,885	(25,795)
B01002 NGARDMAU BOTANICAL GARDEN FY2010	30,000	(30,000)	-	30,000	-
B01201 TWN EXPERT AQUACULTURE FY2010	150,000	(150,000)	-	146,939	(3,061)
B01301 NGCHESAR CONCRETE ROAD FY2010	600,000	(35,908)	300,000	301,523	(34,385)
SUB TOTAL	<u>10,000,000</u>	<u>(2,539,859)</u>	<u>4,835,000</u>	<u>7,361,224</u>	<u>(13,635)</u>
 <u>STATE ECONOMIC STIMULUS PACKAGE 2011</u>					
B10101 KOKSAI-NEKKEN RD. FY2011	525,000	-	235,750	140,300	(95,450)
B10201 RABIT FISH HATCH EQP FY11	30,000	-	30,000	-	(30,000)
B10202 AIRAI ROAD FY2011	350,000	-	157,500	221,523	64,023
B10601 NGERMID RD PROJ. PHI FY11	400,000	-	180,000	185,471	5,471
B10602 T/M-DOCK RD. REHAB FY2011	500,000	-	250,000	279,880	29,880
B10701 MELKEOK HIST PIER FY2011	200,000	-	90,000	119,667	29,667
B10801 NGARARD RD. UL-ELAB FY11	150,000	-	52,500	3,061	(49,439)
B10802 NGARARD RD. NGKEKLAU FY11	250,000	-	112,500	50,403	(62,097)
B10901 NGARCHELONG ROAD FY2011	275,000	-	123,750	118,293	(5,457)
B10902 BADRULCHAU TOUR.CNTR FY11	50,000	-	40,000	67	(39,933)
B11001 NGARDMAU RD. PHIII FY2011	250,000	-	137,500	136,914	(586)
B11101 NGERML ROAD REHAB FY2011	500,000	-	225,000	176,891	(48,109)
B11201 TWN EXPERT AQUA FY2011	29,000	-	14,500	-	(14,500)
B11301 NGCHESAR ST. ROAD FY2011	250,000	-	87,500	4,140	(83,360)
C14821 JUDICIARY INFO SYST FY'11	820,000	-	190,000	231,534	41,534
R14824 KOKSAI-NGCHSR RD PII FY11	4,000,000	-	1,800,000	1,580,586	(219,414)
R14830 LIVESTOCK DEV. PROJ FY'11	173,000	-	137,000	47,280	(89,720)
R14837 MALAKAL MRN RES PHII FY11	500,000	-	225,000	123,790	(101,210)
R14842 TWN EXPERT AGRI FY2011	29,000	-	14,500	-	(14,500)
R14844 GREEN REVLTN PHII FY'11	300,000	-	212,500	28,510	(183,990)
R14971 KOR SEWER PMP UPG FY2011	400,000	-	160,000	168,700	8,700
R1PE01 TWN INFRA PROJ. EVAL FY11	19,000	-	9,000	5,700	(3,300)
SUB TOTAL	<u>10,000,000</u>	<u>-</u>	<u>4,484,500</u>	<u>3,622,710</u>	<u>(861,790)</u>
R04999 ROC TWN ADMIN COST	668,957	(42,231)	-	23,525	(18,706)
SUB TOTAL	<u>668,957</u>	<u>(42,231)</u>	<u>-</u>	<u>23,525</u>	<u>(18,706)</u>
GRAND TOTAL	<u>105,877,133</u>	<u>(3,872,606)</u>	<u>9,339,500</u>	<u>11,942,267</u>	<u>(1,269,838)</u>
AS REPORTED IN PRIOR YEAR		3,592,698			
PRIOR PERIOD ADJUSTMENT		(279,908)			