

REPUBLIC OF PALAU
NATIONAL GOVERNMENT

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

YEAR ENDED SEPTEMBER 30, 2007

REPUBLIC OF PALAU
NATIONAL GOVERNMENT

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEAR ENDED SEPTEMBER 30, 2007

REPUBLIC OF PALAU
FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2007

TABLE OF CONTENTS

	<u>Page</u>
I. Independent Auditors' Report	1
II. Basic Financial Statements	
Management's Discussion and Analysis	3
Government-Wide Financial Statements:	
Statement of Net Assets	11
Statement of Activities	12
Governmental Fund Financial Statements:	
Balance Sheet	13
Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficit)	14
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficit) to the Statement of Activities	15
Fiduciary Fund Financial Statements:	
Statement of Fiduciary Net Assets	16
Statement of Changes in Fiduciary Net Assets	17
Discretely Presented Component Unit Financial Statements:	
Combining Statement of Net Assets	18
Combining Statement of Revenues, Expenses, and Changes in Net Assets	19
Notes to the Basic Financial Statements	20
III. Required Supplementary Information - Other than Management's Discussion and Analysis	50
Schedule of Revenues, Expenditures, and Changes in Deficit - Budget and Actual - General Fund	51
Notes to the Required Supplementary Information - Budgetary Reporting	52
IV. Other Supplementary Information	53
Combining Schedule of Expenditures by Account - Governmental Funds	54
General Fund	55
Schedule of Revenues - General Fund	56
Schedule of Revenues, Expenditures, and Changes in Deficit - Budget and Actual - General Fund	57
Nonmajor Governmental Funds:	
Combined Balance Sheet	62
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances	63

REPUBLIC OF PALAU
FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2007

TABLE OF CONTENTS, CONTINUED

	<u>Page No.</u>
IV. Other Supplementary Information, Continued	
Nonmajor Governmental Funds - Special Revenue Funds:	
Combining Balance Sheet	64
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficits)	66
Nonmajor Governmental Funds - Capital Projects Funds:	68
Combining Balance Sheet	69
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	70
Nonmajor Governmental Funds - Debt Service Fund	71
Grants Fund:	
Combining Balance Sheet – Grants Fund	72
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	73
Statement of Revenues, Expenditures and Changes in Deficit - Budget and Actual - Compact Section 211(b) - Energy Fund	74
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Compact Section 211(c) - Communications Fund	75
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Compact Section 211(d) - Maritime, Health and Scholarship Fund	76
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Compact Section 211(e) - Maritime Fund	77
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Compact Section 213 - Defense	78
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Compact Section 221(b) - Special Block Grants	79
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Compact Section 212(b) - Capital Account	80
Schedule of Expenditures of Other Grants	81

INDEPENDENT AUDITORS' REPORT

His Excellency Tommy E. Remengesau Jr.
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, 2007, which collectively comprise the Republic's basic financial statements as set forth in Section II of the foregoing table of contents. These financial statements are the responsibility of the management of the Republic. Our responsibility is to express an opinion on the respective financial statements based on our audit. We did not audit the financial statements of the Palau Community College and the Palau District Housing Authority, which represent 2%, 4% and 0.3%, respectively, of the assets, net assets and revenues of the Republic's discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for the Palau Community College and the Palau District Housing Authority, is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Republic's internal control over financial reporting. Accordingly, we express no such opinion. 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 the other auditors provide a reasonable basis for our opinions.

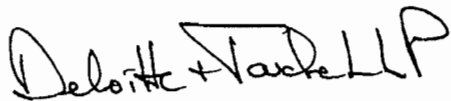
In our opinion, based on our audit and the reports of other auditors, such financial statements, as set forth in Section II of the foregoing table of contents, present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Republic of Palau as of September 30, 2007, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis, on pages 3 through 10, as well as the Schedule of Revenues, Expenditures, and Changes in Deficit - Budget and Actual - General Fund and notes thereto, as set forth in Section III of the foregoing table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the management of the Republic. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and we express no opinion on it.

As discussed in Note 12 to the financial statements, the beginning net assets of the governmental activities within the accompanying financial statements has been restated.

Our audit was conducted for the purpose of forming an opinion on the Republic's respective financial statements that collectively comprise the Republic's basic financial statements. The Other Supplementary Information, as set forth in Section IV of the foregoing table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Republic. This supplementary information is the responsibility of the management of the Republic. Such additional information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 24, 2008, 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, 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.

A handwritten signature in black ink that reads "Deloitte + Stark LLP". The signature is written in a cursive, flowing style.

June 24, 2008

REPUBLIC OF PALAU

Management's Discussion and Analysis Year Ended September 30, 2007

This report presents a discussion and analysis of the Republic of Palau (ROP) financial performance during fiscal year ended September 30, 2007.

FINANCIAL HIGHLIGHTS

- The total assets of ROP exceeded its liabilities at the close of fiscal year by \$465,134,367. Of this amount, \$285,543,457 was invested in capital assets, net of related debt, and \$181,360,560 was restricted. Unrestricted net assets, the amount that may be used to meet the government's ongoing responsibilities, was a deficiency of \$1,769,650.
- ROP's total assets increased by \$107,268,896 primarily due to inclusion of infrastructure cost prior to fiscal year 2003 and increase in compact road expenditures. Previous to fiscal year 2007, the compact road cost confirmation received included only the cost of construction despite our request for confirmation on the entire project cost including design and administration. We were able to receive confirmation of the entire project cost as of fiscal year ended September 30, 2007.
- At end of the current fiscal year, unreserved fund balance deficit for the General Fund Budget to Actual was \$6,827,239 or 12% of total general fund expenditures. The general fund unreserved fund balance deficit increased by \$4,672,051 or 217% from last year. This was due to deficiency of revenues under estimate, accrued expenditures mostly international organization dues for fiscal years 2007 and prior, and Pacific Savings Bank TCD reserve due to uncertainty of its collection.
- ROP's total debt increased by \$5,395,284 or 31% during the fiscal year as additional loan proceeds was received from ICBC for Airport Improvement Projects. ROP expended \$1,142,858 in scheduled principal reductions on debt.

OVERVIEW OF THE FINANCIAL STATEMENT

The financial statements presented herein include all activities of the Republic of Palau. These statements include three components 1) Government-wide financial statements; 2) fund financial statements and 3) Notes to the basic financial statements. Required and Other Supplementary Information are included in addition to the basic financial statements.

Government-wide Financial Statements are designed to provide readers with a broad overview of ROP finances, in a manner similar to a private-sector business. They include a Statement of Net Assets and a Statement of Activities. Both of these statements are presented using the accrual method of accounting; therefore, revenues and expenses are taken into account regardless of when cash is received or when liabilities are paid.

The Statement of Net Assets presents information of all ROP assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets will serve the reader as a useful indicator of whether the financial position of ROP is improving or deteriorating.

The statement of activities presents information showing how ROP'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 only result in cash flows in future fiscal periods. For

REPUBLIC OF PALAU

Management's Discussion and Analysis, Continued Year Ended September 30, 2007

example, uncollected taxes and earned but unused vacation leave result in cash flows for future periods. The focus of the Statement of Activities is on both the gross and net cost of various activities that are provided by the government's general tax and other revenues. This is intended to summarize information and simplify the user's analysis of cost of various government services and/or subsidy to the component units.

The governmental activities reflect ROP's basic services including, but not limited to, Public Safety, Health Care, General Administration and Public Works. These services are financed primarily with taxes and grants. The component units reflect private sector type operations where the fee for service typically covers all or most of the cost of operations including depreciation.

Fund Financial Statements are groupings of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. ROP uses fund accounting to ensure and demonstrate finance-related legal compliances.

The fund financial statements provide detailed information about the most significant funds, not ROP as a whole. Some funds are required to be established by law. However, management establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money.

Government funds - Most of ROP's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial* assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of ROP's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance ROP programs. The differences of results in the Governmental fund financial statements to those in the Government-Wide financial statements are explained in a reconciliation schedule following each Governmental Fund financial statement on page 15 of this report.

Fiduciary Funds are used to account for resources held by ROP in a trustee capacity or as an agent for others. These funds are restricted in purpose and do not represent discretionary assets of ROP. Therefore, these assets are not presented as part of the government-wide financial statements because the resources of these funds are not available to support ROP's own programs.

Notes to the Financial Statement - 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 are a required part of the basic financial statements and can be found on pages 20 through 49 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

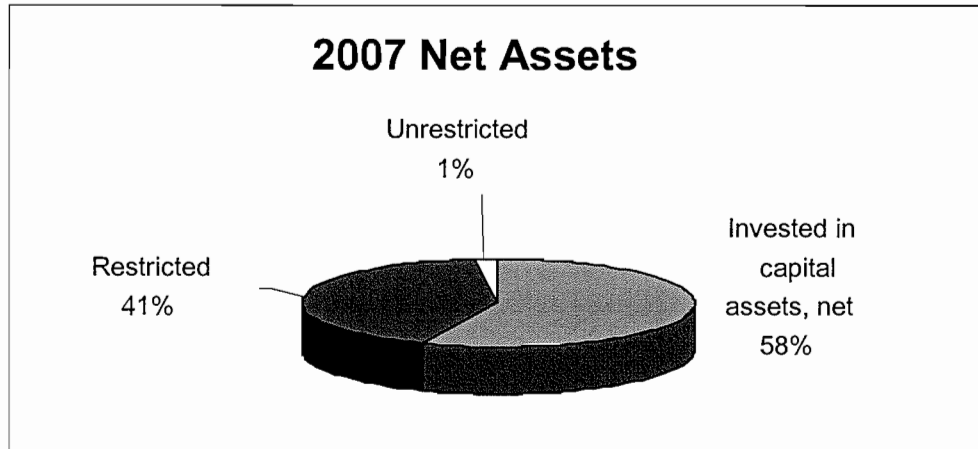
Republic of Palau assets exceeded its liabilities by \$465,134,367 at the close of the most recent fiscal year as compared to \$366,145,904 at the close of the last fiscal year. This represents a 19% increase. A comparative analysis of the changes is presented below:

REPUBLIC OF PALAU

Management's Discussion and Analysis, Continued
Year Ended September 30, 2007

STATEMENT OF NET ASSETS

	<u>Governmental Activities</u>	
	<u>2007</u>	<u>2006 Restated</u>
Assets:		
Current assets	\$ 22,796,433	\$ 18,505,746
Capital assets	308,400,596	254,794,547
Other noncurrent assets	<u>182,927,389</u>	<u>162,951,008</u>
Total assets	<u>514,124,418</u>	<u>436,251,301</u>
Liabilities:		
Current liabilities	22,728,631	19,605,162
Noncurrent liabilities	<u>26,261,420</u>	<u>21,277,361</u>
Total liabilities	<u>48,990,051</u>	<u>40,882,523</u>
Net assets:		
Invested in capital assets, net of related debt	285,543,457	238,164,641
Restricted	181,360,560	161,863,410
Unrestricted	<u>(1,769,650)</u>	<u>(4,659,273)</u>
Total net assets	\$ <u>465,134,367</u>	\$ <u>395,368,778</u>



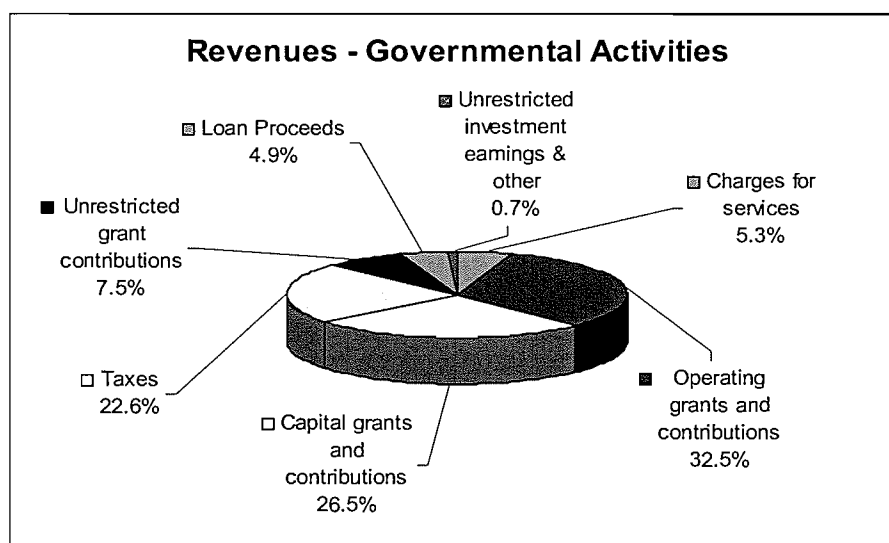
Below is the summary of the changes in net assets for the year ended September 30, 2007 in comparison to fiscal year 2006:

	<u>Governmental Activities</u>	
	<u>2007</u>	<u>2006</u>
Revenues:		
Program revenues:		
Charges for services	\$ 6,944,052	\$ 7,956,221
Operating grants and contributions	42,540,540	24,306,375
Capital grants and contributions	65,847,930	31,985,206
General revenues:		
Taxes	29,763,571	29,375,528
Unrestricted grant contributions	9,840,000	-
Unrestricted investment earnings	490,573	-
Other	<u>443,422</u>	<u>10,278,657</u>
Total revenues	<u>155,870,088</u>	<u>103,901,987</u>

REPUBLIC OF PALAU

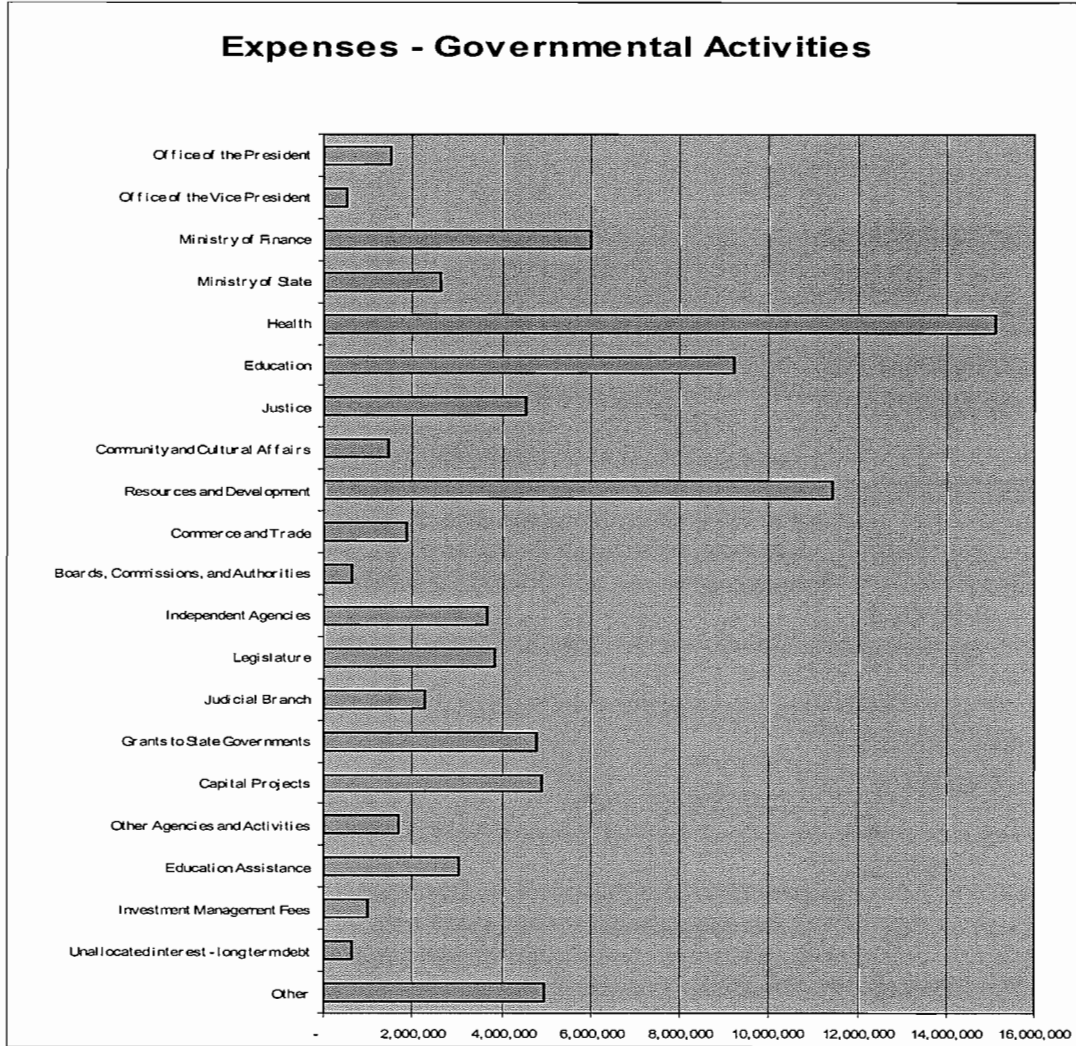
Management's Discussion and Analysis, Continued Year Ended September 30, 2007

	Governmental Activities	
	<u>2007</u>	<u>2006 Restated</u>
Expenses:		
Office of the President	1,506,859	1,681,974
Office of the Vice President	546,076	563,249
Ministry of Finance	6,036,991	3,276,929
Ministry of State	2,638,598	2,375,113
Ministry of Health	15,119,688	14,244,594
Ministry of Education	9,072,723	8,822,840
Ministry of Justice	4,562,357	4,443,301
Ministry of Community and Cultural Affairs	1,473,909	1,170,975
Ministry of Resources and Development	11,594,043	9,261,544
Ministry of Commerce and Trade	2,033,031	2,072,928
Boards, Commissions, and Authorities	671,155	598,723
Independent Agencies	3,673,282	3,146,707
Legislature Branch	3,856,281	3,575,293
Judicial Branch	2,291,117	2,278,066
Grants to State Governments	4,810,970	4,711,000
Capital Projects	4,924,485	8,527,768
Other Agencies and Activities	1,685,037	2,190,491
Education Assistance	3,017,619	3,031,179
Investment management fees	1,021,131	952,334
Unallocated interest –long term debt	634,427	656,594
Other	<u>4,934,720</u>	<u>2,111,516</u>
Total expenses	<u>86,104,499</u>	<u>79,693,118</u>
Change in net assets	69,765,589	24,208,869
Net assets at the beginning of the year	<u>395,368,778</u>	<u>371,159,909</u>
Net assets at the end of the year	\$ <u>465,134,367</u>	\$ <u>395,368,778</u>



REPUBLIC OF PALAU

Management's Discussion and Analysis, Continued Year Ended September 30, 2007



Investment in capital assets, net of related debt represents 61.4% of ROP's net equity at the end of the fiscal year. These capital assets are used to provide services to citizens: consequently, these assets are not available for future spending. ROP's net investment in its capital assets is reported net of related debt, but it should be noted that resources needed to repay this debt must be internally provided from other sources. Liquidation of capital assets is not an alternative to providing funds to service debt and other related liabilities.

ROP has fund equity in various grant programs, however, these funds are to be used to fund continual budgets related to specific programs. The special revenue funds that ROP maintains were grants received from external sources and some created through the establishment of fees by the Legislature to serve specific purposes. Accordingly the revenues generated may only be used for functionality as directed by legislation and by the term of the grants.

Unrestricted net assets had a negative balance of \$1,769,650 at the end of the current fiscal year.

REPUBLIC OF PALAU

Management's Discussion and Analysis, Continued
Year Ended September 30, 2007

FINANCIAL ANALYSIS OF FUNDS

Governmental Funds – ROP's major governmental funds this fiscal year are General Fund, Grants Fund, and Compact Trust Fund. The focus of the governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources.

At September 30, 2007, ROP's governmental funds reported combined fund balances of \$186,309,807 and at September 30, 2006 ROP reported \$164,541,829, an increase of \$21,767,978 or 13.2%.

Approximately \$567,170 of the combined fund balances includes unreserved fund balance deficit, a reduction of \$10,713,792 or 94.9% under last year deficit. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has been committed for (1) Continuing appropriations - non lapsing programs \$442,896 (2) Related assets such as Compact Trust Fund reserved for future use, receivables, etc., \$182,460,909, (3) Encumbrances that are contracts and purchase orders \$3,798,731, and 4) Debt Service \$174,441.

The General Fund is the chief operating fund of ROP. At September 30, 2007, the General Fund reported revenues at \$45,506,361, a decrease of \$103,035 below the previous year (.02%), while reported expenditures at \$54,759,495. Total other financing sources (uses), net of \$5,182,793 combined with revenues of \$45,506,361 resulted in a net change in fund balance deficit of \$4,070,341. The cumulative fund balance deficit at end of year was \$2,963,511.

Special Revenue (Grants Fund)

These funds include US Federal grants, Other Country grants, Non-DOI Capital Projects (FAA funded), Other Grants, and OTIA direct grants fund. They are grouped and categorized as major fund. Of the total revenues of \$38,293,208, US Federal Contributions made up 45%, Other Country grants (ROC) 43%, and Other Grants (various countries and foundations) 12% for the year ended.

Permanent Fund includes Compact Section 211(f) Trust Fund. Market value of the fund at end of fiscal year was \$177,092,936, an increase of \$19,978,835 or 12.7%. Five (5) million was appropriated from this fund for the year ended.

Other Governmental Funds are various funds grouped and categorized as Nonmajor Governmental Funds. They include General Fund Special Revenue, Compact Non Trust, Local CIP, and Debt Service Fund. The Hospital Trust Fund and Compact Section 221(b) Special Block Grants made up most of these fund revenues for the year ended.

General Fund Budgetary Highlights

Differences between the General Fund original budget and the final amended budget reflected noteworthy changes in expenditure amounts and a relatively minor variance in revenue amounts. Actual General Fund resources available for spending on budgeted needs were \$4.2 million less than the final amended budget adopted by ROP because recreational fees and the timing of grant revenues (which will be received in the next fiscal year) were less than expected. Actual expenditures were \$0.8 million less than the final amended budget adopted by ROP because of variances in headcount of full time employees (FTE's) and delays in certain projects. A detailed statement of budget variances for the General Fund can be found on pages 51 and 52.

REPUBLIC OF PALAU

Management's Discussion and Analysis, Continued Year Ended September 30, 2007

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

ROP investment in capital assets for its governmental activities as of September 30, 2007, amounted to \$308,400,596 (net of accumulated depreciation of \$72,289,389), as compared to \$254,794,547 (net of accumulated depreciation of \$61,566,926) for the year ended September 30, 2006.

Primary Government Capital Assets
(Net of accumulated depreciation, where applicable)

	Governmental Activities	
	<u>2007</u>	<u>2006</u>
Land	\$ 4,238,850	\$ 3,588,626
Buildings and improvements, net	76,260,313	38,408,904
Machinery and equipment, net	5,466,987	3,612,801
Vehicles	808,068	870,223
Infrastructure	54,856,125	46,223,830
Construction in progress	<u>166,770,254</u>	<u>162,090,164</u>
Totals	\$ <u>308,400,596</u>	\$ <u>254,794,547</u>

Please refer to Note 4 to the accompanying financial statements for additional information regarding capital assets.

Long-Term Debt

At September 30, 2007, ROP had total long-term obligations of \$29,576,036 as compared to \$23,967,598 in the prior year.

ROP's changes in long-term obligations by type are as follows:

	Governmental Activities	
	<u>2007</u>	<u>2006</u>
Accrued Vacation Leave	\$ 3,718,897	\$ 3,467,601
Loans Payable	22,857,139	17,499,997
Due to U.S. Government	<u>3,000,000</u>	<u>3,000,000</u>
Totals	\$ <u>23,967,598</u>	\$ <u>23,967,598</u>

Refer to Note 6 to the accompanying financial statements for additional information regarding long-term obligations.

Economic Factors and Next Year's Budget

In the recently concluded Fiscal year 2007, local revenue collected was only \$35.0 million; almost 11.6% below projections of \$39.5 million. This follows a similarly slow year in Fiscal year 2006 in which local revenue was 3.8% below projections of \$37.2 million. Compact revenues have been predictably constant while indirect cost recoveries and investment income varies with the size of the program, the market and the amount of investment.

REPUBLIC OF PALAU

Management's Discussion and Analysis, Continued Year Ended September 30, 2007

Local revenue short fall has been partly due to rising energy costs which has affected prices from businesses to end consumers. Additionally, Palau in the last few years have completed some major needed infrastructure projects that now require proper maintenance which adds to the rising budget requirements. In Fiscal year 2006 Palau had a deficit of a little under \$2.2 million and for Fiscal year 2007 it ballooned to just a little under \$6.8 million. The trend is likely to continue in Fiscal year 2008 unless some of the measures below are undertaken.

Palau recognizes the continued budget shortfall and the increasing budget requirements and continues to seek ways to minimize the discrepancies. Despite implementation of a Cost Reduction Plan in which current spending has shown welcome restraint, authorities understand more needs to be done. Thus the administration since 2006 and more recently during the preparation of 2008 Fiscal year budget has been relentlessly pushing for some tax reform measures. Recognizing that improvements in tax administration is key to reversing revenue weakness, the authorities have taken the following measures. These include suspending licenses for non filers, making cash registry mandatory and conducting more frequent audits.

Authorities still feel these measures may not be enough and are looking at proposing some of the measures from a 1998 report of a Tax Reform Advisory Committee. These measures include eliminating exemptions under the import tax and abolishing refunds under the salary and wages tax which is expected to facilitate administration and increase the tax base. Other measures that are being looked at is moving from a gross revenue tax to a net profit tax, taxing in-kind payments under the salary and wages tax and possibly replacing the import tax with a VAT and excise taxes.

Requests for Information

The financial report is designed to provide a general overview of the Republic of Palau Consolidated Government's finances and to demonstrate accountability for monies received. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Minister of Finance, P.O. Box 6011, Koror, Republic of Palau 96940.

REPUBLIC OF PALAU

Statement of Net Assets
September 30, 2007

	Primary Government	Component Units
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 6,988,476	\$ 5,398,662
Time certificates of deposit	299,100	700,485
Investments	4,985,411	12,319,669
Receivables, net of allowance for uncollectibles	9,510,417	9,421,559
Inventories	-	4,560,422
Other current assets	555,233	304,435
Restricted assets:		
Cash and cash equivalents	457,796	5,423,878
Time certificates of deposit	-	537,396
Investments held for Endowment Foundation	-	1,631,240
Total current assets	22,796,433	40,297,746
Noncurrent assets:		
Restricted assets:		
Investments	179,550,710	-
Cash and cash equivalents and time certificates of deposit	1,399,785	207,112
Investments	1,739,500	1,000,000
Receivables, net of allowance for uncollectibles	-	16,815,178
Capital assets, net of accumulated depreciation	308,400,596	56,980,823
Foreclosed real estate	-	254,000
Other noncurrent assets	237,394	1,412,259
Total noncurrent assets	491,327,985	76,669,372
Total assets	\$ 514,124,418	\$ 116,967,118
LIABILITIES		
Current liabilities:		
Bank overdraft	\$ -	\$ -
Note payable	198,142	182,496
Current portion of long-term obligations	1,371,428	1,175,205
Accounts payable	5,688,867	2,926,167
Contract payable	6,539,755	-
Due to state governments	946,681	-
Due to component units	1,766,949	-
Accrued payroll and others	2,216,668	-
Current portion of compensated absences payable	1,943,188	-
Other liabilities	1,044,676	1,769,528
Income tax refunds	695,826	-
Deferred revenue	316,451	420,783
Total current liabilities	22,728,631	6,474,179
Noncurrent liabilities:		
Noncurrent portion of long-term obligations	21,485,711	44,950,916
Compensated absences payable, net of current portion	1,775,709	-
Due to U.S. Government	3,000,000	-
Deposits	-	513,904
Deferred credit	-	16,172
Total noncurrent liabilities	26,261,420	45,480,992
Total liabilities	48,990,051	51,955,171
NET ASSETS		
Invested in capital assets, net of related debt	285,543,457	29,108,927
Restricted for:		
Nonexpendable:		
Future operations	176,389,958	1,526,892
Expendable:		
Compact related	4,796,161	-
Retirement of indebtedness	174,441	-
Other purposes	-	22,620,094
Unrestricted	(1,769,650)	11,756,034
Total net assets	465,134,367	65,011,947
Total liabilities and net assets	\$ 514,124,418	\$ 116,967,118

See accompanying notes to basic financial statements.

REPUBLIC OF PALAU

Statement of Activities
For the Year Ended September 30, 2007

Functions/Programs	Expenses	Program Revenues		Net (Expenses) Revenues Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	Component Units
Primary government:						
Governmental activities:						
Ministry of Health	\$ 15,119,688	\$ 1,923,544	\$ 5,273,128	\$ -	\$ (7,923,016)	\$ -
Ministry of Education	9,072,723	-	2,407,989	-	(6,664,734)	-
Ministry of Resources and Development	11,594,043	-	342,311	-	(11,251,732)	-
State Block Grants	4,810,970	-	-	-	(4,810,970)	-
Education assistance	3,017,619	-	2,000,000	-	(1,017,619)	-
Ministry of Finance	6,036,991	1,075,995	3,694,047	-	(1,266,949)	-
Ministry of Justice	4,562,357	121,025	666,852	-	(3,774,480)	-
Legislative Branch	3,856,281	-	-	-	(3,856,281)	-
Investment management fees	1,021,131	-	578,903	-	(442,228)	-
Ministry of State	2,638,598	-	424,175	-	(2,214,423)	-
Judicial Branch	2,291,117	191,878	-	-	(2,099,239)	-
Ministry of Commerce and Trade	2,033,031	2,671,885	325,203	-	964,057	-
Office of the President	1,506,859	-	456,857	-	(1,050,002)	-
Ministry of Community and Cultural Affairs	1,473,909	7,058	4,850	-	(1,462,001)	-
Office of the Vice-President	546,076	-	130,246	-	(415,830)	-
Boards, Commissions & Authorities	671,155	239,603	-	-	(431,552)	-
Independent Agencies	3,673,282	383,597	331,000	-	(2,958,685)	-
Other Agencies and Activities	1,685,037	-	-	-	(1,685,037)	-
Capital projects	4,924,485	-	-	65,847,930	60,923,445	-
Unallocated interest - long-term debt	634,427	-	-	-	(634,427)	-
Future operations	-	-	25,425,203	-	25,425,203	-
Other	4,934,720	329,467	479,776	-	(4,125,477)	-
Total primary government	\$ 86,104,499	\$ 6,944,052	\$ 42,540,540	\$ 65,847,930	29,228,023	-
Component units:						
National Development Bank of Palau	\$ 938,391	\$ 1,296,659	\$ -	\$ -	-	358,268
Palau Community College	8,359,414	2,656,236	3,061,096	326,641	-	(2,315,441)
Palau National Communications Corporation	9,342,547	8,776,138	-	159,810	-	(406,599)
Palau International Coral Reef Center	1,520,084	274,774	276,825	-	-	(968,485)
Palau Visitors Authority	813,477	627	-	888,030	-	75,180
Public Utilities Corporation	23,785,534	19,688,858	-	145,240	-	(3,951,436)
Palau District Housing Authority	122,303	86,448	19,350	-	-	(16,505)
Total component units	\$ 44,881,750	\$ 32,779,740	\$ 3,357,271	\$ 1,519,721	-	(7,225,018)
General revenues:						
Taxes:						
Business gross receipts					9,572,148	-
Salary and wage					6,911,830	-
Alcohol and tobacco					4,551,844	-
General import					2,046,284	-
Travelers head					1,864,269	-
Hotel occupancy					1,736,206	-
Other					3,080,990	-
Grants and contributions not restricted for specific programs					9,840,000	-
Unrestricted investment earnings					490,573	1,770,168
Contributions from Primary Government					-	2,902,000
Other					443,422	-
Total general revenues					40,537,566	4,672,168
Change in net assets					69,765,589	(2,552,850)
Net assets at the beginning of the year					395,368,778	67,564,797
Net assets at the end of the year					\$ 465,134,367	\$ 65,011,947

See accompanying notes to basic financial statements.

REPUBLIC OF PALAU

Balance Sheet
Governmental Funds
September 30, 2007

	General	Special	Permanent		Other Governmental Funds	Total
		Revenue	Grants	Compact Section 211(f)		
ASSETS						
Cash and cash equivalents	\$ 7,038,364	\$ -	\$ -	\$ -	\$ -	\$ 7,038,364
Time certificates of deposit	1,648,997	-	-	-	-	1,648,997
Investments	2,787,279	-	-	-	3,937,632	6,724,911
Receivables, net:						
Taxes	3,526,308	-	-	-	-	3,526,308
General	482,074	1,175,140	-	-	9,581	1,666,795
Federal agencies	-	3,751,993	-	-	-	3,751,993
Accrued interest	4,326	-	542,226	-	18,769	565,321
Due from other funds	4,521,508	2,724,107	-	-	11,260,693	18,506,308
Advances	133,973	76,115	-	-	769	210,857
Inventory	46,467	-	-	-	-	46,467
Prepaid items	107,580	427,723	-	-	-	535,303
Restricted assets:						
Cash and cash equivalents	457,796	-	-	-	-	457,796
Investments	-	-	176,550,710	-	3,000,000	179,550,710
	<u>\$ 20,754,672</u>	<u>\$ 8,155,078</u>	<u>\$ 177,092,936</u>	<u>\$ 18,227,444</u>	<u>\$ 224,230,130</u>	

LIABILITIES AND FUND BALANCES

LIABILITIES AND FUND BALANCES						
Liabilities:						
Note payable	\$ 198,142	\$ -	\$ -	\$ -	\$ -	\$ 198,142
Accounts payable	3,887,487	1,159,197	-	-	642,183	5,688,867
Contract payable	-	4,327,733	-	-	2,212,022	6,539,755
Due to state governments	946,681	-	-	-	-	946,681
Due to component units	1,621,577	-	-	-	145,372	1,766,949
Accrued payroll and others	2,216,668	-	-	-	-	2,216,668
Other liabilities	167,002	171,124	702,978	-	3,572	1,044,676
Deferred revenue	-	135,997	-	-	180,454	316,451
Due to other funds	13,984,800	2,341,602	-	-	2,179,906	18,506,308
Income tax refunds	695,826	-	-	-	-	695,826
Total liabilities	<u>23,718,183</u>	<u>8,135,653</u>	<u>702,978</u>	<u>5,363,509</u>	<u>37,920,323</u>	
Fund balances:						
Reserved for:						
Continuing appropriations	419,435	-	-	-	23,461	442,896
Related assets	2,968,960	101,991	176,389,958	-	3,000,000	182,460,909
Encumbrances	475,333	3,049,906	-	-	273,492	3,798,731
Debt service	-	-	-	-	174,441	174,441
Unreserved (deficits):						
General fund	(6,827,239)	-	-	-	-	(6,827,239)
Special revenue funds	-	(3,132,472)	-	-	2,698,396	(434,076)
Capital projects funds	-	-	-	-	6,694,145	6,694,145
Total fund balances	<u>(2,963,511)</u>	<u>19,425</u>	<u>176,389,958</u>	<u>12,863,935</u>	<u>186,309,807</u>	
	<u>\$ 20,754,672</u>	<u>\$ 8,155,078</u>	<u>\$ 177,092,936</u>	<u>\$ 18,227,444</u>		

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	308,400,596
Long-term liabilities, including loans payable, are not due and payable in the current period and therefore are not reported in the funds. The liabilities include:	
Long term obligation	(22,857,139)
Compensated absences	(3,718,897)
Due to U.S. Government	(3,000,000)
	<u>(29,576,036)</u>

Net assets of governmental activities \$ 465,134,367

See accompanying notes to basic financial statements.

REPUBLIC OF PALAU

Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficit)
Governmental Funds
Year Ended September 30, 2007

	General	Special Revenue	Permanent		Other Governmental Funds	Total
		Grants	Compact Section 211(f)			
Revenues:						
Taxes	\$ 29,763,571	\$ -	\$ -	\$ -	\$ -	\$ 29,763,571
Federal and other grants	-	38,293,208	-	-	-	38,293,208
Compact funding	9,840,000	-	-	-	2,877,000	12,717,000
Net increase in the fair value of investments	490,573	-	25,425,203	-	590,160	26,505,936
Fees and charges	3,147,261	-	-	-	2,042,095	5,189,356
Licenses and permits	1,884,522	-	-	-	-	1,884,522
Other	380,434	-	-	-	51,731	432,165
Total revenues	45,506,361	38,293,208	25,425,203	-	5,560,986	114,785,758
Expenditures:						
Current:						
Ministry of Health	6,977,770	5,273,128	-	-	1,900,084	14,150,982
Ministry of Education	6,456,303	2,407,989	-	-	-	8,864,292
Ministry of Resources and Development	6,893,317	334,831	-	-	3,145	7,231,293
State Block Grants	4,810,970	-	-	-	-	4,810,970
Education assistance	3,017,619	-	-	-	-	3,017,619
Ministry of Finance	2,312,023	3,694,047	-	-	-	6,006,070
Ministry of Justice	4,045,859	35,852	-	-	25,758	4,107,469
Legislative Branch	3,840,735	-	-	-	-	3,840,735
Investment management fees	1,529	-	1,001,508	-	18,094	1,021,131
Ministry of State	2,601,516	55,829	-	-	-	2,657,345
Judicial Branch	2,274,153	-	-	-	-	2,274,153
Ministry of Commerce and Trade	1,417,057	325,203	-	-	-	1,742,260
Office of the President	1,026,040	456,857	-	-	-	1,482,897
Ministry of Community and Cultural Affairs	969,356	4,850	-	-	6,653	980,859
Office of the Vice-President	410,811	130,246	-	-	-	541,057
Boards, Commissions and Authorities	671,155	-	-	-	-	671,155
Office of the Public Auditor	356,748	331,000	-	-	-	687,748
Office of the Special Prosecutor	238,124	-	-	-	-	238,124
Environmental Quality Protection Board	376,092	-	-	-	-	376,092
National Postal Service	276,402	-	-	-	-	276,402
Palau Visitors Authority	925,000	-	-	-	-	925,000
Civil Service Pension Plan	400,000	-	-	-	-	400,000
Adjudicated claims	665,224	-	-	-	-	665,224
National Aviation Administration	139,419	-	-	-	-	139,419
Other agencies and activities	1,685,037	-	-	-	-	1,685,037
Other	1,971,236	466,033	-	-	1,332,620	3,769,889
Capital outlay:						
Capital projects	-	24,763,600	-	-	413,673	25,177,273
Debt service:						
Principal retirement	-	-	-	-	1,142,858	1,142,858
Interest	-	-	-	-	634,427	634,427
Total expenditures	54,759,495	38,279,465	1,001,508	-	5,477,312	99,517,780
Excess (deficiency) of revenues over (under) expenditures	(9,253,134)	13,743	24,423,695	-	83,674	15,267,978
Other financing sources (uses):						
Loan proceeds	-	-	-	-	6,500,000	6,500,000
Operating transfers in	8,696,474	481,707	-	-	3,358,943	12,537,124
Operating transfers out	(3,513,681)	(495,450)	(5,000,000)	-	(3,527,993)	(12,537,124)
Total other financing sources (uses), net	5,182,793	(13,743)	(5,000,000)	-	6,330,950	6,500,000
Net change in fund balances (deficit)	(4,070,341)	-	19,423,695	-	6,414,624	21,767,978
Fund balances at beginning of year	1,106,830	19,425	156,966,263	-	6,449,311	164,541,829
Fund balances (deficit) at end of year	\$ (2,963,511)	\$ 19,425	\$ 176,389,958	\$ -	\$ 12,863,935	\$ 186,309,807

See accompanying notes to basic financial statements.

REPUBLIC OF PALAU

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended September 30, 2007

Amounts reported for governmental activities in the statement of activities on page 12 are different from changes in fund balances because:

Net change in fund balances - total governmental funds from page 14 \$ 21,767,978

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period, including increases to construction in progress and transfers from construction in progress to infrastructure of \$46,547,986. 53,606,049

Proceeds from long-term debt (6,500,000)

The repayment of principal of long-term debt consumes the current financial resources of governmental funds which has no effect on net assets. 1,142,858

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore, are not reported as expenditures in governmental funds. These expenses include accrued annual leave and interest payable that are reported in the statement of activities, but not in funds (251,296)

Change in net assets of governmental activities as presented on page 12. \$ 69,765,589

See accompanying notes to basic financial statements.

REPUBLIC OF PALAU

Statement of Fiduciary Net Assets
Fiduciary Funds
September 30, 2007

	Private Purpose Trust	Pension (and Other Employee Benefit) Trust	Total
	<u>Trust</u>	<u>Trust</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 1,078,576	\$ 227,405	\$ 1,305,981
Time certificate of deposit	-	150,000	150,000
Receivables, net:			
Contributions	2,101,499	794,600	2,896,099
Loan	3,000,000	-	3,000,000
Accrued interest and dividends	354,002	-	354,002
Other	32,679	145,600	178,279
Investments:			
Common stock	34,285,760	28,116,752	62,402,512
U.S. Government obligations	19,372,709	12,675,631	32,048,340
Corporate bonds	6,548,010	3,675,913	10,223,923
Mutual funds	6,672,033	-	6,672,033
Money market funds	601,193	916,076	1,517,269
Fixed Income	-	304,542	304,542
Time certificate of deposit with an uninsured bank	-	1,452,609	1,452,609
Capital assets, net	382,034	23,287	405,321
	<u>74,428,495</u>	<u>48,482,415</u>	<u>122,910,910</u>
Total assets			
<u>LIABILITIES</u>			
Benefits payable	308,223	-	308,223
Other liabilities and accruals	68,203	124,645	192,848
	<u>376,426</u>	<u>124,645</u>	<u>501,071</u>
Total liabilities			
<u>NET ASSETS</u>			
Held in trust for:			
Social security benefits	74,052,069	-	74,052,069
Pension benefits	-	48,357,770	48,357,770
	<u>74,052,069</u>	<u>48,357,770</u>	<u>122,409,839</u>
Total net assets			

See accompanying notes to basic financial statements.

REPUBLIC OF PALAU

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
Year Ended September 30, 2007

	Private Purpose Trust	Pension (and Other Employee Benefit) Trust	Total
Additions:			
Contributions:			
Employer	\$ -	\$ 2,363,020	\$ 2,363,020
Employee	8,701,204	2,474,640	11,175,844
Other	396,312	-	396,312
Total contributions	<u>9,097,516</u>	<u>4,837,660</u>	<u>13,935,176</u>
Investment earnings:			
Net increase in the fair value of investments	7,120,813	5,332,370	12,453,183
Interest and dividends	2,032,946	1,497,719	3,530,665
Total investment earnings	<u>9,153,759</u>	<u>6,830,089</u>	<u>15,983,848</u>
Less investment expense	<u>282,999</u>	<u>279,866</u>	<u>562,865</u>
Net investment earnings	<u>8,870,760</u>	<u>6,550,223</u>	<u>15,420,983</u>
Other	<u>196,756</u>	<u>400,000</u>	<u>596,756</u>
Total additions	<u>18,165,032</u>	<u>11,787,883</u>	<u>29,952,915</u>
Deductions:			
Benefits	6,262,841	6,035,367	12,298,208
General and administrative	807,402	334,478	1,141,880
Total deductions	<u>7,070,243</u>	<u>6,369,845</u>	<u>13,440,088</u>
Change in net assets	11,094,789	5,418,038	16,512,827
Net assets at the beginning of the year	<u>62,957,280</u>	<u>42,939,732</u>	<u>105,897,012</u>
Net assets at the end of the year	<u>\$ 74,052,069</u>	<u>\$ 48,357,770</u>	<u>\$ 122,409,839</u>

See accompanying notes to basic financial statements.

REPUBLIC OF PALAU

Combining Statement of Net Assets
Component Units
September 30, 2007

	National Development Bank of Palau	Palau Community College	Palau National Communications Corporation	Palau International Coral Reef Center	Palau Visitors Authority	Public Utilities Corporation	Palau District Housing Authority	Total
<u>Assets</u>								
Current assets:								
Cash and cash equivalents	\$ 2,158,368	\$ 562,500	\$ 1,000,306	\$ 111,948	\$ 81,141	\$ 574,854	\$ 909,545	\$ 5,398,662
Time certificates of deposit	-	-	-	63,691	-	636,794	-	700,485
Investments	-	-	-	-	-	12,319,669	-	12,319,669
Receivables, net:								
General	80,457	2,069,176	741,422	4,984	(336)	2,127,393	41,052	5,064,148
Receivable from primary government	-	784,309	335,831	85,767	162,602	866,739	-	2,235,248
Grantor agency	-	-	-	18,951	-	68,540	-	87,491
Loans	1,626,540	-	-	-	-	-	177,668	1,804,208
Accrued interest	220,875	-	-	-	-	-	9,589	230,464
Inventories	9,280	173,179	397,210	118,856	-	3,861,897	-	4,560,422
Prepaid items	22,059	-	52,205	15,189	24,069	190,913	-	304,435
Total current assets	4,117,579	3,589,164	2,526,974	419,386	267,476	20,646,799	1,137,854	32,705,232
Other assets, restricted:								
Cash and cash equivalents	759,461	587,115	4,077,302	-	-	-	-	5,423,878
Time certificates of deposit	537,396	-	-	-	-	-	-	537,396
Investments held for Endowment Foundation	-	1,631,240	-	-	-	-	-	1,631,240
Total other assets, restricted	1,296,857	2,218,355	4,077,302	-	-	-	-	7,592,514
Noncurrent assets:								
Time certificates of deposit	207,112	-	-	-	-	-	-	207,112
Loans receivable	15,388,285	-	-	-	-	-	1,426,893	16,815,178
Investments	1,000,000	-	-	-	-	-	-	1,000,000
Capital assets, net of accumulated depreciation	64,548	1,100,177	25,161,606	2,912,146	115,847	27,598,324	28,175	56,980,823
Foreclosed real estate	254,000	-	-	-	-	-	-	254,000
Other	-	-	45,046	-	-	1,324,172	43,041	1,412,259
Total noncurrent assets	16,913,945	1,100,177	25,206,652	2,912,146	115,847	28,922,496	1,498,109	76,669,372
Total assets	\$ 22,328,381	\$ 6,907,696	\$ 31,810,928	\$ 3,331,532	\$ 383,323	\$ 49,569,295	\$ 2,635,963	\$ 116,967,118
<u>Liabilities and Net Assets</u>								
Current liabilities:								
Current portion of long-term debt	\$ 285,716	\$ -	\$ 889,489	\$ -	\$ -	\$ -	\$ -	\$ 1,175,205
Short-term loan payable	-	-	-	-	-	182,496	-	182,496
Accounts payable	15,881	284,799	38,306	35,285	52,609	2,499,287	-	2,926,167
Accrued payroll and others	108,657	280,530	214,366	73,667	32,909	278,668	17,567	1,006,364
Deferred revenue	-	156,687	43,000	221,096	-	-	-	420,783
Other liabilities	-	183,508	-	-	-	579,656	-	763,164
Total current liabilities	410,254	905,524	1,185,161	330,048	85,518	3,540,107	17,567	6,474,179
Noncurrent liabilities:								
Notes payable, net of current portion	7,571,456	-	30,379,460	-	-	7,000,000	-	44,950,916
Deposits	-	-	513,904	-	-	-	-	513,904
Deferred credit	-	-	-	-	-	16,172	-	16,172
Total noncurrent liabilities	7,571,456	-	30,893,364	-	-	7,016,172	-	45,480,992
Total liabilities	7,981,710	905,524	32,078,525	330,048	85,518	10,556,279	17,567	51,955,171
Net assets:								
Invested in capital assets, net of related debt	64,548	1,100,177	(2,030,041)	2,912,146	115,847	26,918,075	28,175	29,108,927
Restricted								
Nonexpendable	-	1,526,892	-	-	-	-	-	1,526,892
Expendable	14,282,123	556,602	-	75,565	-	5,393,718	2,312,086	22,620,094
Unrestricted	-	2,818,501	1,762,444	13,773	181,958	6,701,223	278,135	11,756,034
Total net assets	14,346,671	6,002,172	(267,597)	3,001,484	297,805	39,013,016	2,618,396	65,011,947
\$ 22,328,381	\$ 6,907,696	\$ 31,810,928	\$ 3,331,532	\$ 383,323	\$ 49,569,295	\$ 2,635,963	\$ 116,967,118	

See accompanying notes to basic financial statements.

REPUBLIC OF PALAU

Combining Statement of Revenues, Expenses, and Changes in Net Assets
Component Units
Year Ended September 30, 2007

	National Development Bank of Palau	Palau Community College	Palau National Communications Corporation	Palau International Coral Reef Center	Palau Visitors Authority	Public Utilities Corporation	Palau District Housing Authority	Total
Operating revenues:								
Charges for services	\$ 1,726,869	\$ 2,361,380	\$ 8,433,668	\$ 245,099	\$ -	\$ 19,413,054	\$ 69,979	\$ 32,250,049
Grants and contributions	-	3,061,096	-	276,825	-	-	19,350	3,357,271
Other	(437,150)	294,856	342,470	1,304	627	307,587	16,469	526,163
Total operating revenues	1,289,719	5,717,332	8,776,138	523,228	627	19,720,641	105,798	36,133,483
Operating expenses:								
Cost of services	406,631	6,687,421	3,602,207	891,680	749,447	19,115,917	84,798	31,538,101
Depreciation	35,638	597,467	2,932,396	516,624	19,550	2,470,986	9,606	6,582,267
Administration costs	131,388	1,074,526	1,323,292	111,953	44,480	939,731	27,899	3,653,269
Total operating expenses	573,657	8,359,414	7,857,895	1,520,257	813,477	22,526,634	122,303	41,773,637
Operating income (loss)	716,062	(2,642,082)	918,243	(997,029)	(812,850)	(2,805,993)	(16,505)	(5,640,154)
Nonoperating revenues (expenses):								
Contributions from primary government	-	2,385,000	-	450,000	-	-	67,000	2,902,000
Net increase in the fair value of investments	-	176,419	-	-	-	1,152,923	-	1,329,342
Interest income	155,782	-	172,681	-	-	87,504	24,859	440,826
Write-down of receivable from a local bank	-	-	-	-	-	(1,000,000)	-	(1,000,000)
Interest expense	(364,894)	-	(1,457,127)	173	-	(260,021)	-	(2,081,869)
Gain(loss) on retirement of fixed assets	6,940	-	(54,455)	-	-	1,121	-	(46,394)
Other, net	160	-	26,930	28,371	-	(31,783)	-	23,678
Total nonoperating revenues (expenses), net	(202,012)	2,561,419	(1,311,971)	478,544	-	(50,256)	91,859	1,567,583
Capital contributions	-	326,641	159,810	-	888,030	145,240	-	1,519,721
Change in net assets	514,050	245,978	(233,918)	(518,485)	75,180	(2,711,009)	75,354	(2,552,850)
Net assets at the beginning of the year	13,832,621	5,756,194	(33,679)	3,519,969	222,625	41,724,025	2,543,042	67,564,797
Net assets at the end of the year	\$ 14,346,671	\$ 6,002,172	\$ (267,597)	\$ 3,001,484	\$ 297,805	\$ 39,013,016	\$ 2,618,396	\$ 65,011,947

See accompanying notes to basic financial statements.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2007

(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 Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Republic's accounting policies are described below.

A. Reporting Entity

The Government of the Republic of Palau is a constitutional government comprised of three branches: the Legislative Branch (Olbiil Era Kelulau (OEK)); the Executive Branch, with the President as the chief executive officer; and the Judicial Branch.

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

Each 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. Potential component units that do not meet the financial accountability criteria, but where the Republic appoints a voting majority of the governing board, are deemed to be related organizations. The nature and relationship of the Republic's component units and related organizations are disclosed in the following section.

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

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2007

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

1. Blended Component Units

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 Republic of Palau Public Law (RPPL) No. 2-29, passed into law on May 28, 1987, and revised by RPPL No. 3-64, passed into law on December 20, 1991, and began operations 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.

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 was 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 and RPPL 6-37. 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

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 RMI, one member from the FSM as designated by those governments. The Board shall grant voting membership to a student representative.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2007

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

2. Discretely Presented Component Units, Continued

B. Palau Community College, Continued

The purpose of PCC, as defined by RPPL No. 4-2, is to be the institution of higher education for the Republic of Palau and to provide 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 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 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 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.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2007

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

2. Discretely Presented Component Units, Continued

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 PUC is to establish and operate electrical utility services within the Republic.

3. Omitted Component Units

Funding for the following entity derives 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.

Complete financial statements for each of the individual component units may be obtained at the units' administrative offices.

B. Government-Wide Financial Statements

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

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

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

REPUBLIC OF PALAU

Notes to Financial Statements September 30, 2007

(1) Summary of Significant Accounting Policies, Continued

B. Government-Wide Financial Statements, Continued

- *Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt that are attributed to the acquisition, construction or improvement of those assets.
- *Restricted net assets – nonexpendable* consists of permanent funds in which donors or other outside sources have stipulated that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to the principal.
- *Restricted net assets – expendable* consists of resources in which the Republic is legally or contractually obligated to spend resources in accordance with restrictions either externally imposed by creditors, grantors, contributors, and the like, or imposed by law.
- *Unrestricted net assets* consist of net assets, which do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, (for example, internally restricted) to indicate that management does not consider them to be available for general operations. They often have restrictions that are imposed by management, but can be removed or modified.

The government-wide Statement of Net Assets reports \$181,360,560 of restricted net assets, none of which is restricted by enabling legislation.

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

C. Fund Financial Statements

The fund financial statements present a balance sheet and a statement of revenues, expenditures, and changes in fund balances for the Republic's major and aggregated non-major funds.

Separate financial statements are provided for governmental funds and fiduciary funds even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements pursuant to GASB reporting standards, with nonmajor governmental funds being combined into a single column.

The Republic reports its financial position and results of operations in funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures/expenses. Transactions between funds within a fund type, if any, have not been eliminated.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2007

(1) Summary of Significant Accounting Policies, Continued

D. Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources management focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements account for the general governmental activities of the Republic and are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as they become susceptible to accrual; generally when they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Republic considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Significant revenues susceptible to accrual include income and gross revenue taxes, federal grants, federal reimbursements and other reimbursements for use of materials and services. Miscellaneous revenues from other financing sources are recognized when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Investments and related investment earnings are recorded at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Expenditures generally are recorded in the period in which the related fund liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Amounts reported as program revenue include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. General revenue is derived from taxation, investment income and other fees that are not allocated to specific programs.

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 includes the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2007

(1) Summary of Significant Accounting Policies, Continued

D. Measurement Focus and Basis of Accounting, Continued

The Republic reports the following fund types:

a. Governmental Fund Types

i. 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.

ii. Special Revenue Funds

These funds account for specific revenue sources that have been aggregated according to enabling legislation to support specific governmental activities.

iii. Capital Projects Funds

These funds account for the acquisition or construction of major Republic capital facilities financed primarily from loans and federal reimbursements.

iv. Debt Service Fund

This fund accounts for the accumulation of resources, principally transfers from the General Fund for the payment of long-term debt principal and interest.

v. Permanent Fund

This fund accounts for resources that are legally restricted to the extent that only earnings, and not principal, may be used to support programs for the benefit of the government.

b. Fiduciary Fund Types

i. Private Purpose Trust Fund

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

ii. Pension (and Other Employee Benefit) Trust Fund

This fund accounts for resources held in trust by the Republic of Palau Civil Service Pension Trust Fund for members and beneficiaries of the Republic's pension plan.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2007

(1) Summary of Significant Accounting Policies, Continued

D. Measurement Focus and Basis of Accounting, Continued

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

The Grants Fund, a Governmental Fund Type – Special Revenue Fund, is utilized to account for grants received from the United States and other countries.

Compact Section 211(f) Fund, a Governmental Fund Type - Permanent Fund, is 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.

E. Reporting Standards

As allowed by GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the Republic's discretely presented component units follow all GASB pronouncements and those Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins that were issued on or before November 30, 1989, except those that conflict with a GASB pronouncement.

F. Estimates

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

G. Cash and Cash Equivalents and Time Certificates of Deposit

GASB Statement No. 3 previously required government entities to present deposit risks in terms of whether the deposits fell into the following categories:

- Category 1 Deposits that are federally insured or collateralized with securities held by the Republic or its agent in the Republic's name;
- Category 2 Deposits that are uninsured but fully collateralized with securities held by the pledging financial institution's trust department or agent in the Republic's name; or

REPUBLIC OF PALAU

Notes to Financial Statements September 30, 2007

(1) Summary of Significant Accounting Policies, Continued

G. Cash and Cash Equivalents and Time Certificates of Deposit, Continued

Category 3 Deposits that are collateralized with securities held by the pledging financial institution's trust department or agent but not in the Republic's name and non-collateralized deposits.

GASB Statement No. 40 amended GASB Statement No. 3 to in effect eliminate disclosure for deposits falling into categories 1 and 2 but retained disclosures for deposits falling under category 3. Category 3 deposits are those deposits that have exposure to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the Republic's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized, or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name. The Republic does not have a deposit policy for custodial credit risk.

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

As of September 30, 2007, the carrying amount of the primary government's total cash and cash equivalents and time certificates of deposit were \$9,145,157 and the corresponding bank balances were \$10,424,307. Of the bank balance amounts, \$8,906,029 are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2007, bank deposits in the amount of \$621,921 were FDIC insured.

As of September 30, 2007, the carrying amount of the fiduciary funds total cash and cash equivalents and time certificates of deposit were \$2,908,590 and the corresponding bank balances were \$2,969,709. Of the bank balance amounts, \$1,524,127 is maintained in financial institutions subject to FDIC insurance. As of September 30, 2007, bank deposits in the amount of \$300,000 were FDIC insured.

At September 30, 2007, the carrying amount of the discretely presented component units total cash and cash equivalents and time certificate of deposits were \$12,267,533 and the corresponding bank balances were \$12,982,817. Of the bank balance amounts, \$12,674,262 is maintained in financial institutions subject to FDIC insurance. As of September 30, 2007, bank deposits in the amount of \$1,438,109 were FDIC insured.

The Republic does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial risk.

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

At September 30, 2007 the Republic has cash deposits and investments in bank accounts that exceed federal depository insurance limits.

REPUBLIC OF PALAU

Notes to Financial Statements September 30, 2007

(1) Summary of Significant Accounting Policies, Continued

H. 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 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.

I. Inventories

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

J. 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.

K. Interfund Receivables and Payables

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

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

L. 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 \$403,422, which is maintained by the primary government and administered on behalf of designated beneficiaries. Furthermore, investments of \$176,550,710, 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 note 13).

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 Financial Statements
September 30, 2007

(1) Summary of Significant Accounting Policies, Continued

M. Fixed Assets

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

Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at fair market value at the date 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. Buildings and infrastructure projects with a cost that equals or exceeds \$100,000 are capitalized. The costs of normal maintenance and repairs that do not add to the value of assets or materially extend asset lives are not capitalized.

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, 2007.

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

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

O. 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.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2007

(1) Summary of Significant Accounting Policies, Continued

P. Compensated Absences

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

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

Q. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

The unreserved fund balances for the governmental funds represent the amount available for budgeting future operations. The reserve for related assets as of September 30, 2007, is represented by the following assets:

	<u>General</u>	<u>Grants Fund</u>	<u>Compact Section 211(f)</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Investments	\$ 1,739,500	\$ -	\$ -	\$ -	\$ 1,739,500
Cash and time certificate of deposit	1,039,684	-	-	-	1,039,684
Advances	74,609	51,515	-	-	126,124
Inventory	46,467	-	-	-	46,467
Prepaid items	14,327	50,476	-	-	64,803
Restricted assets:					
Cash and cash equivalents	54,373	-	-	-	54,373
Investments	-	-	176,389,958	3,000,000	179,389,958
	<u>\$ 2,968,960</u>	<u>\$101,991</u>	<u>\$ 176,389,958</u>	<u>\$ 3,000,000</u>	<u>\$182,460,909</u>

R. Fund Balance Reserves and Designation

The Republic's fund balance reserves represent those portions of fund balance (1) not appropriable for expenditures or (2) legally segregated for a specific future use. In the accompanying combined balance sheet, reserves for related assets such as inventories, petty cash and long-term receivables are examples of the former. Reserves for encumbrances, contracts and continuing appropriations are examples of the latter. Continuing appropriations of the General Fund at September 30, 2007, primarily consist of block grants to the States, which are available until expended.

S. Reclassifications

Due to the provisions of GASB Statement No. 34, major governmental funds presented in a previous year may not be major funds presented in the current year.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2007

(1) Summary of Significant Accounting Policies, Continued

T. New Accounting Standards

In fiscal year 2007, the Republic implemented the following pronouncements:

GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, which establishes accounting and reporting standards for impairment of capital assets.

GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section*, an amendment to NCGA Statement 1, which improves the understandability and usefulness of statistical section information and adds information from the new financial reporting model for state and local governments required by GASB Statement No. 34.

GASB Statement No. 47, *Accounting for Termination Benefits*, which establishes guidance for state and local governmental employers on accounting and financial reporting for termination benefits. These benefits include incentives for voluntary terminations (e.g., early retirement window programs) and severance payments with respect to involuntary terminations.

GASB Technical Bulletin No. 2004-2, *Recognition of Pension and Other Postemployment Benefit Expenditures/Expense and Liabilities by Cost-Sharing Employers*, which clarifies the requirements of GASB Statement Nos. 27 and 45 for recognition of pension and other postemployment benefit expenditures/expense and liabilities by cost-sharing employers.

The implementation of these pronouncements did not have a material impact on the accompanying financial statements.

In April 2004, GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. GASB Statement No. 43 establishes uniform financial reporting for other postemployment benefit plans by state and local governments. The provisions of this statement are effective for periods beginning after December 15, 2006. The Republic does not believe that the implementation of this statement will have a material effect on its financial statements.

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. GASB Statement No. 45 establishes standards for the measurement, recognition, and display of other postemployment benefits expense/expenditures and related liabilities, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The provisions of this statement are effective for periods beginning after December 15, 2007. The Republic does not believe the implementation of this statement will have a material effect on its financial statements.

In September 2006, GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfer of Assets and Future Revenues*. GASB Statement No. 48 establishes criteria that governments will use to ascertain whether certain transactions should be regarded as a sale or a collateralized borrowing. The statement also includes a provision that stipulates that governments should not revalue assets that are transferred between financial reporting entity components. The provisions of this statement are effective for periods beginning after December 15, 2006. Management does not believe that the implementation of this statement will have a material effect on its financial statements.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2007

(1) Summary of Significant Accounting Policies, Continued

T. New Accounting Standards, Continued

In December 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. GASB Statement No. 49 provides guidance and consistency under which a governmental entity would be required to report a liability related to pollution remediation. The provisions of this statement are effective for periods beginning after December 15, 2007. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Republic.

In May 2007, GASB issued Statement No. 50, *Pension Disclosures an amendment of GASB Statements No. 25 and 27*. GASB Statement No. 50 more closely aligns the financial reporting requirements for pensions with those for other post-employment benefits. The provisions of this statement are effective for periods beginning after June 15, 2007. Management does not believe the implementation of this statement will have a material effect on the financial statements of the Republic.

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, 2009. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Republic.

U. Risk Financing

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

V. Total Columns

Total columns are presented primarily to facilitate financial analysis. The Management's Discussion and Analysis includes certain prior year summarized comparative information in total. Such information does not include sufficient detail to constitute a full comparative presentation. Accordingly, such information should be read in conjunction with the Republic's financial statements for the year ended September 30, 2006 from which summarized information was derived.

(2) Investments

GASB Statement No. 3 previously required government entities to present investment risks in terms of whether the investments fell into the following categories:

Category 1 Investments that are insured or registered, or securities held by the Republic or its agent in the Republic's name;

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2007

(2) Investments, Continued

- Category 2 Investments that are uninsured and unregistered for which the securities are held by the counterparty's trust department or agent in the Republic's name; or
- Category 3 Investments that are uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the Republic's name.

GASB Statement No. 40 amended GASB Statement No. 3 to in effect eliminate disclosure for investments falling into categories 1 and 2, and provided for disclosure requirements addressing other common risks of investments such as credit risk, interest rate risk, concentration of credit risk, and foreign currency risk. GASB Statement No. 40 did retain and expand the element of custodial credit risk in GASB Statement No. 3.

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

- A. Wherever feasible, incoming cash shall be deposited to, or invested in an account which is earning a return.
- B. There is no limit on the amount of cash equivalents which may be held. Minimum standards of quality for investment at the time of purchase for the U.S. investment portfolios shall be:
1. Equities. At least 90% of the cost basis of the equity portfolio shall be rated "B" or better by a national rating service. Non-rated stocks, such as banks (Keefe rating or equivalent) or insurance companies (Best rating or equivalent), must be equal or higher in quality, or fall within the 10% allowance.
 - a. The equity portfolio shall be diversified among issues and industry classifications. No more than 25% of each activity investment manager's portfolio may be invested in any single classification as described by the Standard and Poor's 500 Index unless prior approval is received from the ROP.
 - b. The beta coefficient for the equity investment managers in total shall not exceed 1.35.
 2. Bonds, mortgage backed securities and other Evidence of Indebtedness. Corporate issues must be rated "A" or better by a national rating service. There is no limit on direct obligations of the U.S. Treasury or Agency Securities.
 3. Cash equivalents. The manager may engage in all short-term investment practices including but not limited to: U.S. Treasury and Agency Securities, banker's acceptances, certificates of deposit, commercial paper and repurchase agreements using any of the foregoing as collateral. The following restrictions apply:
 - a. Commercial paper must be rate A1/P1 or higher by Standard & Poor's Corporation or Moody's Investor Services.
 - b. Certificates of deposit must be with FDIC insured institutions. Deposits in institutions with less than \$100,000,000 in assets are acceptable, but may not exceed the amount of the deposit insurance unless fully collateralized by U.S. Treasury Securities.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2007

(2) Investments, Continued

4. No investment may be made in a single corporate entity which exceeds 15% of the total assets invested by the investment manager at the time of purchase without prior approval of the Republic. Total assets shall be determined by the market value of the last quarterly appraisal.

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 State's name by the Republic's custodial financial institutions at September 30, 2007.

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 five percent (5%) or more of total investments for the Republic. As of September 30, 2007, the Republic did not hold an investment in any one issuer 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.

As of September 30, 2007, investments at fair value for the primary government's individual major governmental funds, nonmajor governmental funds in the aggregate, fiduciary funds and discretely presented component units, are as follows:

Governmental Funds

	<u>Fair Value</u>
General Fund:	
Common stock	\$ 1,739,505
Mutual funds	68,954
Money market funds	<u>978,820</u>
	\$ <u>2,787,279</u>
Compact Section 211(f) Trust Fund:	
Fixed income securities	\$ 52,887,000
Equities	118,562,244
Money market funds	<u>5,101,466</u>
	\$ <u>176,550,710</u>
Nonmajor Governmental Funds:	
Common stock	\$ 2,393,948
Money market funds	<u>4,543,684</u>
	\$ <u>6,937,632</u>

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2007

(2) Investments, Continued

Governmental Funds, Continued

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of debt instruments. The following represents the Compact Trust Fund fixed income securities at September 30, 2007:

Investment Type	Fair Value	Investment Maturities (In Years)				Ratings
		Less than 1 year	1 - 5 years	6 - 10 years	more than 10 years	
US Treasury Obligations	\$ 9,239,437	\$ 212,367	\$ 5,190,970	\$ 178,938	\$ 3,657,162	AAA
US Government Agencies	19,853,358	1,066,609	3,178,700	1,834,373	13,773,676	AAA
Municipal Obligations	887,769	72,834	-	665,489	149,446	AAA
Preferred Stock	14,231	14,231	-	-	-	AAA
Corporate Bonds	1,423,778	-	471,836	275,536	676,406	A
Corporate Bonds	1,201,541	-	167,221	404,817	629,503	A-
Corporate Bonds	1,254,211	-	96,626	395,839	761,746	A+
Corporate Bonds	31,781	-	31,781	-	-	A1
Corporate Bonds	1,851,809	466,954	294,468	418,246	672,141	AA
Corporate Bonds	575,400	-	575,400	-	-	AA-
Corporate Bonds	12,481,660	-	778,909	244,820	11,457,931	AAA
Corporate Bonds	9,259	-	-	-	9,259	Ba1
Corporate Bonds	30,856	-	-	30,856	-	Baa1
Corporate Bonds	34,089	-	-	34,089	-	Baa3
Corporate Bonds	45,150	-	45,150	-	-	BB
Corporate Bonds	242,609	-	-	132,117	110,492	BB+
Corporate Bonds	1,347,724	-	292,119	184,407	871,198	BBB
Corporate Bonds	651,326	-	15,931	186,603	448,792	BBB-
Corporate Bonds	<u>1,711,012</u>	<u>-</u>	<u>-</u>	<u>825,877</u>	<u>885,135</u>	BBB+
	\$ <u>52,887,000</u>	\$ <u>1,832,995</u>	\$ <u>11,139,111</u>	\$ <u>5,812,007</u>	\$ <u>34,102,887</u>	

Fiduciary Funds

Republic of Palau Social Security Retirement Fund:

	Fair Value
Common stock	\$ 34,285,760
U.S. Government obligations	19,372,709
Corporate bonds	6,548,010
Mutual Funds	6,672,033
Money market funds	601,193
	<u>\$ 67,479,705</u>

The following represents the Retirement Fund's fixed income securities at September 30, 2007:

Investment Type	Fair Value	Investment Maturities (In Years)				Rating
		Less Than 1	1 - 5	6 - 10	More Than 10	
U.S. Treasury notes	\$ 4,554,965	\$ -	\$ 925,852	\$ 1,903,295	\$ 1,725,818	AAA
Other U.S. government obligations	14,429,899	1,171,288	3,341,192	1,476,037	8,441,382	AAA
Other U.S. government obligations	346,938	-	-	346,938	-	AA

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2007

(2) Investments, Continued

Fiduciary Funds, Continued

Investment Type	Fair Value	Investment Maturities (In Years)				Rating
		Less Than 1	1 - 5	6 - 10	More Than 10	
Municipal obligations	40,907	40,907	-	-	-	AAA
Corporate bonds	1,478,932	-	531,146	196,855	750,931	AAA
Corporate bonds	1,278,620	74,514	754,031	200,355	249,720	AA
Corporate bonds	2,624,882	-	858,980	962,826	803,076	A
Corporate bonds	1,165,576	115,053	126,054	653,224	271,245	BBB
	<u>\$ 25,920,719</u>	<u>\$ 1,401,762</u>	<u>\$ 6,537,255</u>	<u>\$ 5,739,530</u>	<u>\$ 12,242,172</u>	

Republic of Palau Civil Service Pension Trust Fund:

	<u>Fair Value</u>
Common stock	\$ 28,116,752
U.S. Government obligations	12,463,219
Corporate bonds	3,675,913
Fixed income	304,542
Money market funds	<u>1,128,488</u>
	<u>\$ 45,688,914</u>

The following represents the Pension Trust Fund's fixed income securities at September 30, 2007:

Investment Type	Fair Value	2007 Investment Maturities (In Years)				Rating
		Less Than 1	1 - 5	6 - 10	More Than 10	
Mortgage and asset backed Securities	\$ 5,639,536	\$ -	\$ -	\$ -	\$ 5,639,536	AAA
International bonds	190,756	190,756	-	-	-	AA
International bonds	16,397	-	-	16,397	-	AA+
International bonds	63,452	-	-	-	63,452	A-
Government bonds	6,823,683	290,054	4,271,990	1,205,110	1,056,529	AAA
Municipal obligations	33,937	33,937	-	-	-	AAA
Corporate bonds	593,727	-	208,065	195,856	189,806	AAA
Corporate bonds	702,571	-	171,500	148,556	382,515	AA
Corporate bonds	693,629	-	383,559	310,070	-	AA-
Corporate bonds	321,348	-	-	-	321,348	A
Corporate bonds	340,504	-	-	146,659	193,845	A+
Corporate bonds	474,720	66,889	-	166,689	241,142	A-
Corporate bonds	64,910	-	-	-	64,910	A3
Corporate bonds	157,887	-	85,717	-	72,170	BBB
Corporate bonds	326,617	56,357	-	270,260	-	BBB+
	<u>\$ 16,443,674</u>	<u>\$ 637,993</u>	<u>\$ 5,120,831</u>	<u>\$ 2,459,597</u>	<u>\$ 8,225,253</u>	

Discretely Presented Component Units

	<u>Cost</u>
National Development Bank of Palau:	
Common stock	\$ <u>1,000,000</u>

An investment in the common stock of Palau Rock Island Air, Inc. is stated at cost as fair value is not readily determinable. The investment is collateralized by real property owned by certain shareholders in the airline. The airline has ceased operations and it is uncertain when operations will recommence. Management of the Bank believes that operations of the airline will commence and that collateral of the investment is sufficient.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2007

(2) Investments, Continued

Discretely Presented Component Units, Continued

	<u>Fair Value</u>
Palau Community College:	
Fixed income	\$ 506,007
Domestic equities	880,653
International equities	244,580
	\$ 1,631,240

In 2007, PCC's fixed income investment totaling \$506,007 was invested in U.S. government agencies, which are unrated.

Public Utilities Corporation:	
Fixed income	\$ 3,826,260
Domestic equities	3,842,270
Others	4,651,139
	\$ 12,319,669

The following represents the Discretely Presented Component Units fixed income securities at September 30, 2007:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (In Years)</u>				<u>Rating</u>
		<u>Less Than 1</u>	<u>1 - 5</u>	<u>6 - 10</u>	<u>More Than 10</u>	
U.S. Treasury Notes	\$ 2,340,920	\$ 30,009	\$ 1,927,135	\$ 298,965	\$ 84,811	AAA
U.S. Government and Agencies	433,624	-	-	-	433,624	AAA
Corporate Bonds	121,072	-	-	90,198	30,874	AAA
Corporate Bonds	39,223	-	-	-	39,223	AA
Corporate Bonds	175,755	-	71,104	104,651	-	AA-
Corporate Bonds	106,213	-	31,416	38,249	36,548	A+
Corporate Bonds	74,325	-	-	34,831	39,494	A
Corporate Bonds	77,075	-	-	-	77,075	A-
Corporate Bonds	146,652	-	-	73,691	72,961	BBB+
Corporate Bonds	104,323	-	-	104,323	-	BBB
Corporate Bonds	71,621	-	-	36,091	35,530	BBB-
International Bonds	40,317	-	-	-	40,317	AA-
International Bonds	71,416	-	36,273	-	35,143	A-
International Bonds	23,724	-	-	-	23,724	BBB+
	\$ 3,826,260	\$ 30,009	\$ 2,065,928	\$ 780,999	\$ 949,324	

(3) Receivables

Receivables as of September 30, 2007, for the primary government's individual major governmental funds, and nonmajor governmental funds and fiduciary funds in the aggregate, including applicable allowances for uncollectible accounts, are as follows:

	<u>General</u>	<u>Grants Fund</u>	<u>Compact Section 211(f)</u>	<u>Nonmajor Governmental Funds</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Receivables:						
Taxes	\$ 3,526,308	\$ -	\$ -	\$ -	\$ -	\$ 3,526,308
General	1,211,074	1,175,140	-	10,672,753	3,376,168	16,435,135
Federal agencies	-	3,751,993	-	-	-	3,751,993
Loan	-	-	-	-	3,000,000	3,000,000
Accrued interest	4,326	-	542,226	18,769	354,002	919,323
	4,741,708	4,927,133	542,226	10,691,522	6,730,170	27,632,759
Less: allowance for uncollectibles	(729,000)	-	-	(10,663,172)	(301,790)	(11,693,962)
Net receivables	\$ 4,012,708	\$ 4,927,133	\$ 542,226	\$ 28,350	\$ 6,428,380	\$ 15,938,797

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2007

(3) Receivables, Continued

	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
General	\$ 80,457	\$2,552,089	\$3,427,104	\$ 48,283	\$ 18,043	\$2,719,315	\$ 41,052	\$ 8,886,343
Primary government	-	784,309	335,831	85,767	162,602	866,739	-	2,235,248
Loan	18,296,073	-	-	-	-	-	1,689,561	19,985,634
Grantor agency	-	-	-	18,951	-	68,540	-	87,491
Accrued interest	<u>220,875</u>	-	-	-	-	<u>16,078</u>	<u>9,589</u>	<u>246,542</u>
	18,597,405	3,336,398	3,762,935	153,001	180,645	3,670,672	1,740,202	31,441,258
Less allowance for uncollectible	<u>(1,281,248)</u>	<u>(482,913)</u>	<u>(2,685,682)</u>	<u>(43,299)</u>	<u>(18,379)</u>	<u>(608,000)</u>	<u>(85,000)</u>	<u>(5,204,521)</u>
	<u>\$17,316,157</u>	<u>\$2,853,485</u>	<u>\$1,077,253</u>	<u>\$109,702</u>	<u>\$162,266</u>	<u>\$3,062,672</u>	<u>\$1,655,202</u>	<u>\$26,236,737</u>

Differences in component unit receivables due from the primary government and the primary government's liability to component units results primarily from receivable balances reserved for as bad debts at the component unit level.

The Republic received \$3,355,000 in the Other Grants fund as grants during the year ended September 30, 2007 for funding assistance to an uninsured bank which went into receivership on November 7, 2006. The grant provided three conditions: 1) funding assistance to the Receiver shall be provided in the amount necessary to pay no more than \$2,000 to each non-insider depositor, as an interest-free, reimbursable grant, to be paid back by the Receiver within twelve months after the receipt of such funds. Repayment obligations shall be collateralized by the Receiver in a manner acceptable to the Republic; 2) The Republic of Palau shall pay each school, church and state government 100% of their verifiable deposits, minus the first \$2,000, which should be paid by the Receiver. For each sum claim paid, the Republic shall take an assignment of the claim in a form acceptable to the Republic and the Receiver. Such funds shall be replenished for use by the Republic for capital improvement related projects, within twelve months after receipt of such funds; and 3) Funds paid back by the Receiver pursuant to 1) above shall be used for capital improvement related projects subject to approval. The Republic has not received any reimbursement from the Receiver as of September 30, 2007. The payment to the receiver was expended upon payment. Reimbursements will be recorded to the Other Grants Fund upon repayment by the receiver.

Loans receivable of the Fiduciary Funds represents a loan of the Republic of Palau Social Security Retirement Fund due from the National Development Bank of Palau. The loan bears interest based on the Wall Street Journal prime rate plus 0.5%, provided it is not less than 4.5% nor more than 7.5%, is due semi-annually, with the principal balance due on or before August 27, 2018. The loan is collateralized by the full faith and credit of the Republic.

(4) Fixed Assets

Capital asset activities for the year ended September 30, 2007, are as follows:

Governmental Activities

	Balance at October 1, 2006	Additions	Deletions and Transfers	Balance at September 30, 2007
Assets not being depreciated:				
Land	\$ 3,588,626	\$ 650,224	\$ -	\$ 4,238,850
Construction in progress	<u>162,090,164</u>	<u>51,228,076</u>	<u>(46,547,986)</u>	<u>166,770,254</u>
Total capital assets not being depreciated	<u>165,678,790</u>	<u>51,878,300</u>	<u>(46,547,986)</u>	<u>171,009,104</u>

REPUBLIC OF PALAU

Notes to Financial Statements September 30, 2007

(4) Fixed Assets, Continued

Governmental Activities, Continued

Capital assets being depreciated:				
Buildings and other improvements	59,688,231	41,216,617	-	100,904,848
Machinery and equipment	11,984,583	3,090,400	(629,786)	14,445,197
Vehicles	4,197,748	367,599	(48,447)	4,516,900
Infrastructure	<u>74,812,121</u>	<u>15,001,815</u>	<u>-</u>	<u>89,813,936</u>
Total capital assets being depreciated	<u>150,682,683</u>	<u>59,676,431</u>	<u>(678,233)</u>	<u>209,680,881</u>
Total capital assets at cost	<u>316,361,473</u>	<u>111,554,731</u>	<u>(47,226,219)</u>	<u>380,689,985</u>
Accumulated depreciation:				
Buildings and other improvements	(21,279,327)	(3,365,208)	-	(24,644,535)
Machinery and equipment	(8,371,782)	(1,236,214)	629,786	(8,978,210)
Vehicles	(3,327,526)	(429,754)	48,447	(3,708,833)
Infrastructure	<u>(28,588,291)</u>	<u>(6,369,520)</u>	<u>-</u>	<u>(34,957,811)</u>
Total accumulated depreciation	<u>(61,566,926)</u>	<u>(11,400,696)</u>	<u>678,233</u>	<u>(72,289,389)</u>
Capital assets, net	<u>\$ 254,794,547</u>	<u>\$ 100,154,035</u>	<u>\$ (46,547,986)</u>	<u>\$ 308,400,596</u>

Depreciation expense was charged to governmental functions as follows:

Ministry of Health	\$ 1,097,581
Ministry of Education	216,331
Ministry of Resources and Development	7,186,250
Ministry of Finance	73,006
Ministry of Justice	459,488
Legislative Branch	28,491
Ministry of State	16,128
Judicial Branch	43,959
Ministry of Commerce and Trade	452,193
Office of the President	23,962
Ministry of Community and Cultural Affairs	493,050
Office of the Vice-President	5,019
Independent Agencies	88,117
Other Agencies and Activities	14,914
Unallocated	<u>1,202,207</u>
Total depreciation expense	<u>\$ 11,400,696</u>

Fiduciary Funds

Fixed assets of the Fiduciary Funds as of September 30, 2007, are as follows:

	Balance at October <u>1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	Balance at September <u>30, 2007</u>
Office equipment and furniture	\$ 197,148	\$ 82,498	\$ (22,441)	\$ 257,205
Land	207,018	-	-	207,018
Building and improvement	132,315	-	-	132,315
Vehicles	<u>79,980</u>	<u>13,700</u>	<u>-</u>	<u>93,680</u>
	616,461	96,198	(22,441)	690,218
Less accumulated depreciation	<u>(255,423)</u>	<u>(48,847)</u>	<u>19,373</u>	<u>(284,897)</u>
	<u>\$ 361,038</u>	<u>\$ 47,351</u>	<u>\$ (3,068)</u>	<u>\$ 405,321</u>

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2007

(5) Note Payable

Primary Government

On June 28, 2002 the Republic's Washington Embassy entered into a loan agreement with a bank in the amount of \$160,000 for the purpose of funding overdraft facilities. Although the loan was due on May 20, 2004, including interest at 7% per annum, \$198,142 remain outstanding at September 30, 2007. This loan is in noncompliance with local requirements since only the President of the Republic is authorized to enter into debt agreements.

Discretely Presented Component Units

National Development Bank of Palau

The Bank entered into a \$300,000 revolving credit line on October 28, 2004 for the purpose of supplementing disbursements of approved loans and temporary cash requirements for operations. 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 \$400,000 in TCDs.

Changes in short-term loans payable of the Bank for the year ended September 30, 2007, are as follows:

	Balance October <u>1, 2006</u>	<u>Additions</u>	<u>Reductions</u>	Balance September <u>30, 2007</u>
Short-term loans payable	\$ <u>300,000</u>	\$ <u>-</u>	\$ <u>(300,000)</u>	\$ <u>-</u>

Public Utilities Corporation (PUC)

PUC entered into a revolving credit line agreement on March 14, 2005 under which a commercial bank will extend credit to PUC in the form of drawings, from time to time until March 14, 2006, in such sums as PUC may request but which shall not exceed \$500,000 in the aggregate principal amount for the purpose of financing short-term working capital and to purchase equipment, generator parts, transmission and distribution system parts and any other purchases requiring letters of credit. Interest is subject to rate changes based on the interest rate paid on the deposit account and is payable monthly. On April 4, 2007, the revolving credit line agreement was amended to decrease the principal amount to \$440,000 and to extend the credit term until March 1, 2008.

PUC entered into a term loan on December 23, 2004 in the amount of \$1,800,000 for the purpose of financing short-term working capital. On October 6, 2005 the loan was refinanced for an additional \$600,000 for the purpose of financing property improvements of its new office building. The loan is due on March 2008 including interest at a rate of 3.50% per annum.

The revolving credit line and term loan are collateralized by time certificates of deposit totaling \$636,794 as of September 30, 2007.

Movements in short-term borrowings for the year ended September 30, 2007 are as follows:

	Balance at October <u>1, 2006</u>	<u>Additions</u>	<u>Repayments</u>	Balance at September <u>30, 2007</u>
Term loan	\$ 1,746,542	\$ -	\$ (1,564,046)	\$ 182,496
Portfolio credit line	2,296,522	-	(2,296,522)	-
Credit line	<u>499,287</u>	<u>-</u>	<u>(499,287)</u>	<u>-</u>
	\$ <u>4,542,351</u>	\$ <u>-</u>	\$ <u>(4,359,855)</u>	\$ <u>182,496</u>

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2007

(6) Long-Term Obligations

Primary Government

As of September 30, 2007, the primary government had the following long-term debt outstanding:

Loan payable to the Mega International Commercial Bank (MICB, formerly the International Commercial Bank of China) in the amount of \$20,000,000, interest at 3.5% per annum, principal payable in semi-annual installments of \$571,429 plus interest, due June 21, 2020. This loan was used for construction of a new national capital in Melekeok State and is uncollateralized.	\$ 14,857,139
Loan payable to the MICB in the amount of \$8,000,000, interest at 3.5% per annum, principal payable in semi-annual installments of \$428,600 commencing on November 30, 2007, plus interest, due October 28, 2024. This loan was used to fund the Palau International Airport Repaving Project and is uncollateralized.	8,000,000
	<u>\$ 22,857,139</u>

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>
2008	\$ 1,371,428	\$ 775,803	\$ 2,147,231
2009	1,599,998	720,570	2,320,568
2010	1,599,998	784,899	2,384,897
2011	1,599,998	716,734	2,316,732
2012	1,599,998	649,644	2,249,642
2013 - 2017	8,228,560	1,924,648	10,153,208
2018 - 2022	5,714,259	604,169	6,318,428
2023 - 2025	<u>1,142,900</u>	<u>55,346</u>	<u>1,198,246</u>
	<u>\$ 22,857,139</u>	<u>\$ 6,231,813</u>	<u>\$ 29,088,952</u>

As provided for in the Compact of Free Association, the Republic was awarded \$3 million which it had agreed to repay in financial year 2007. The Republic has restricted assets of \$3 million in the Compact Section 211(b) Energy special reserve fund to fund this repayment, refer to note 13 for discussion on potential release of liability.

Changes in long-term liabilities of the primary government for the year ended September 30, 2007, are as follows:

	<u>Balance October 1, 2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance September 30, 2007</u>	<u>Due Within One Year</u>
Loans payable:					
MICB loan	\$ 17,499,997	\$ 6,500,000	\$ (1,142,858)	\$ 22,857,139	\$ 1,371,428
Other:					
Compensated absences	3,467,601	2,977,204	(2,725,908)	3,718,897	1,943,188
Due to U.S. Government	<u>3,000,000</u>	<u>-</u>	<u>-</u>	<u>3,000,000</u>	<u>-</u>
	<u>\$ 23,967,598</u>	<u>\$ 9,477,204</u>	<u>\$ (3,868,766)</u>	<u>\$ 29,576,036</u>	<u>\$ 3,314,616</u>

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2007

(6) Long-Term Obligations, Continued

Discretely Presented Component Units

Palau National Communications Corporation (PNCC)

Loan payable to the Rural Utilities Services (RUS), interest at 4.59%, due November 30, 2029, payable in monthly installments of \$192,181, including interest. The loan is collateralized by substantially all PNCC assets and a pledge of its revenues.

\$ 31,268,949

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

<u>Year ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 889,489	\$ 1,416,686	\$ 2,306,175
2009	931,186	1,374,989	2,306,175
2010	974,838	1,331,337	2,306,175
2011	1,020,537	1,285,638	2,306,175
2012	1,068,378	1,237,797	2,306,175
2013 - 2017	6,141,777	5,389,100	11,530,877
2018 - 2022	7,722,795	3,808,082	11,530,877
2023 - 2027	9,710,799	1,820,078	11,530,877
2028 - 2029	<u>2,809,150</u>	<u>86,853</u>	<u>2,896,003</u>
	<u>\$ 31,268,949</u>	<u>\$ 17,750,560</u>	<u>\$ 49,019,509</u>

National Development Bank of Palau

Loan payable to the MICB, with interest at 3.5% per annum, principal payable in semi-annual installments of \$142,858 plus interest, due July 1, 2024. This loan was used to fund various loan programs of the Bank and is collateralized by a guarantee of the Republic.

\$ 4,857,172

Loan payable to the Republic of Palau Social Security Retirement Fund with interest based on the Wall Street Journal prime rate plus 0.5%, provided it is not less than 4.5% or more than 7.5%, and semi-annual mandatory payments to a sinking fund of \$104,772 up to 2016 for the purpose of repayment of the principal. Interest is payable semi-annually, with the principal balance due on or before August 27, 2018. The loan is collateralized by the full faith and credit of the Republic.

3,000,000

\$ 7,857,172

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2007

(6) Long-Term Obligations, Continued

National Development Bank of Palau, Continued

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

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 285,716	\$ 390,155	\$ 675,871
2009	285,716	379,845	665,561
2010	285,716	370,000	655,716
2011	285,716	360,000	645,716
2012	285,716	350,155	635,871
2013 - 2017	1,428,580	1,599,843	3,028,423
2018 - 2022	4,428,580	429,036	4,857,616
2023 - 2024	<u>571,432</u>	<u>19,998</u>	<u>591,430</u>
	<u>\$ 7,857,172</u>	<u>\$ 3,899,032</u>	<u>\$ 11,756,204</u>

Public Utilities Corporation

Loan payable to the MICB in the amount of \$7,000,000, interest at 3.5% per annum, principal payable in semi-annual installments of \$200,000 plus interest commencing on December 11, 2009, due December 11, 2026. The loan was to finance the purchase of portable generators, a crankshaft assembly and other necessary equipment to facilitate the overhaul of aging generators.

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

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ -	\$ 249,083	\$ 249,083
2009	-	248,403	248,403
2010	400,000	240,547	640,547
2011	400,000	226,353	626,353
2012	400,000	212,742	612,742
2013 - 2017	2,000,000	848,303	2,848,303
2018 - 2022	2,000,000	493,286	2,493,286
2023 - 2027	<u>1,800,000</u>	<u>140,428</u>	<u>1,940,428</u>
	<u>\$ 7,000,000</u>	<u>\$ 2,659,145</u>	<u>\$ 9,659,145</u>

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2007

(6) Long-Term Obligations, Continued

Changes in long-term liabilities of the discretely presented component units for the year ended September 30, 2007, are as follows:

	Balance October 1, 2006	Additions	Reductions	Balance September 30, 2007	Due Within One Year
Loans payable:					
MICB loan	\$ 12,000,000	\$ -	\$ (142,828)	\$ 11,857,172	\$ 285,716
RUS	32,117,998	-	(849,049)	31,268,949	889,489
ROP Retirement Fund	1,500,000	1,500,000	-	3,000,000	-
Other:					
Customer deposits	435,352	215,135	(136,583)	513,904	-
Deferred credit	16,172	-	-	16,172	-
	<u>\$ 46,069,522</u>	<u>\$ 1,715,135</u>	<u>\$ (1,128,460)</u>	<u>\$ 46,656,197</u>	<u>\$ 1,175,205</u>

(7) 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, 2007, the Republic made no payments under this agreement, refer to note 13 for potential release of liability.

(8) Interfund Receivables and Payables

Receivables and payables between funds reflected as due to/from other funds in the governmental fund balance sheet at September 30, 2007, are summarized as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor governmental funds	\$ 2,179,906
General	Grants Fund	2,341,602
Grants Fund	General	2,724,107
Nonmajor governmental funds	General	<u>11,260,693</u>
		<u>\$ 18,506,308</u>

(9) Transfers In/Out

Operating Fund Transfers

Operating transfers in/out for each major governmental fund and non-major governmental funds in the aggregate, for the year ended September 30, 2007, are as follows:

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2007

(9) Transfers In/Out , Continued

<u>Source</u>	<u>Recipient</u>	<u>Transfer Out</u>	<u>Transfer In</u>
<u>Major Governmental Funds</u>			
General	Nonmajor governmental funds	\$ 3,358,943	\$ 3,527,993
Compact Section 211(f)	General	5,000,000	5,000,000
General	Grants Fund	154,738	-
Grants Fund	General	<u>168,481</u>	<u>323,219</u>
		<u>8,682,162</u>	<u>8,851,212</u>
<u>Nonmajor Governmental Funds</u>			
Nonmajor governmental funds	General	3,527,993	3,358,943
Nonmajor governmental funds	Grants Fund	<u>326,969</u>	<u>326,969</u>
		<u>3,854,962</u>	<u>3,685,912</u>
		\$ <u>12,537,124</u>	\$ <u>12,537,124</u>

Operating transfers out were provided for under appropriation by the OEK. Transfers are used to (1) move revenues from the fund that statute requires to collect them to the fund that statute requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. There were no one-time transfers of funds during the year ended September 30, 2007.

(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 sick leave at September 30, 2007, amounted to \$6,969,027.

B. Promissory Notes

During 1998, the Republic executed four noninterest bearing, nonnegotiable promissory notes in the amounts of \$3,002,693, \$152,000, \$54,100 and \$21,714, respectively, to various international organizations in lieu of its membership fees. The notes are payable on demand. As of September 30, 2007, demand had not occurred. The notes are in the custody of a bank. The Republic has not recorded these notes as it believes the debt is essentially defeased by cash and deposits in the same amount with the organizations.

C. Federal Grants

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

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2007

(10) Commitments and Contingencies, Continued

C. Federal Grants, Continued

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. Cumulative questioned costs of \$801,692 have been set forth in the Republic's Single Audit Report for the year ended September 30, 2007. The ultimate disposition of these questioned costs can be determined only by final action of the respective grantor agencies. Therefore, no provision for any liability that may result upon resolution of this matter has been made in the accompanying financial statements.

D. Insurance Coverage

The Republic does not maintain insurance coverage for a significant amount of fixed assets or inventory. In the event of a loss, the Republic may be self-insured to a material extent.

E. Unfunded Liability

An actuarial valuation of the Republic of Palau Social Security Retirement Fund has determined that the Fund has an actuarial deficiency of approximately \$21,419,000 as of October 1, 2006. 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, 2007 to correct this funding deficiency. No recognition is given in the accompanying financial statements to the present value of liabilities of prospective benefit payments or the present value of future contributions required from employees or employers.

F. Litigation

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

(11) Republic of Palau Civil Service Pension Trust Fund

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

The Pension Fund provides retirement, security and other benefits to employees, and their spouses and dependents, of the Republic, Republic State Governments and Republic agencies, funds and public corporations, which are paid monthly and are two percent of each member's average monthly salary. Normal benefits are of credited total service up to a maximum of thirty years total service. Generally, benefits vest after three years of credited service. 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 contribution rates are

REPUBLIC OF PALAU

Notes to Financial Statements September 30, 2007

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

established by RPPL No. 2-26 at six percent (6%) of total payroll and matched dollar for dollar by the employer. The Republic contributed \$2,402,208, \$2,312,491 and \$2,363,020 to the Pension Fund during fiscal years 2005, 2006 and 2007, respectively. Per the provisions of RPPL No. 2-26 and RPPL No. 3-21, the Republic shall from time to time contribute additional sums to the Pension Fund in order to keep the Pension Fund on a sound actuarial basis. The Pension Fund issues a stand-alone financial report, which is available at its office site.

Under the provisions of the RPPL No. 2-26, the Pension Fund's Board of Trustees adopted a Trust Fund Operation Plan which has the force and effect of law and which sets forth the procedures for the administration and coverage of the Plan. Amendments to the Plan are subject to the requirements of Title 6 of the Palau National Code. The Republic's payroll for fiscal year 2007 was covered in total by the Pension Fund's pension plan.

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 10% per year on the investment of present and future assets, (b) a 3% increase in employee salaries until retirement, and (c) members are assumed to retire at their normal retirement date.

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

RPPL No. 5-45 earmarked \$1,000,000 to the Fund, to be derived from revenues generated from a Virtual Pachinko Business. Of this \$1,000,000, RPPL No. 6-12, passed into law on September 30, 2002, allocated \$500,000 to the Pension Fund for the employer contribution of the Palau Community College (PCC) for employees of PCC electing to participate. PCC employees opting to retroactively participate shall be enrolled in the Pension Fund effective as of their start date with PCC or October 1, 1987, whichever is later. These employees are required to pay into the Pension Fund their proportionate contribution for each year of retroactive participation. The Pension Fund did not receive funds related to RPPL No. 6-12 from the Republic during the year ended September 30, 2007.

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

As a result of the provisions of RPPL No. 6-12, PCC employees who opted to claim prior year's service executed payment agreements with the Pension Fund totaling \$978,907 for prior year's service claimed. As these employees are not mandated to continue payment agreements and can elect to have contributions refunded upon termination of payment agreements, and due to the uncertainty of collection of the employee's share through RPPL No. 6-12, the Pension Fund has elected not to record PCC employee receivables for prior years service. The Pension Fund received \$58,857 from PCC employees during the year ended September 30, 2007.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2007

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

The Pension Fund's October 1, 2005 actuarial valuation determined the unfunded pension benefit obligation as follows:

	<u>Total</u>
Active participants	\$ 33,893,000
Participants in pay status	47,711,000
Participants with vested deferred benefits	<u>1,565,000</u>
Total pension benefit obligation	83,169,000
Net assets available for benefits, at market value	<u>41,965,000</u>
Unfunded benefit obligation	\$ <u>41,204,000</u>

The actuarial valuation did not provide a breakdown of actuarial present value of vested and non-vested accumulated plan benefits by sponsor or net assets available for benefits by sponsor.

(12) Restatement

Subsequent to the issuance of the Republic's 2006 financial statements, management of the Republic determined that capital assets at September 30, 2006 were understated by \$29,222,874. As a result, capital asset balances have been restated from the amounts previously reported as follows:

	<u>Government-Wide</u>
Net assets previously reported at September 30, 2006	\$ 366,145,904
Understatement of capital assets	<u>29,222,874</u>
Net assets as restated at September 30, 2006	\$ <u>395,368,778</u>

(13) Subsequent Event

On May 8, 2008, the U.S. Congress approved the forgiveness of debt in the amount of \$3,000,000 payable to the U.S. Government. The terms and conditions require ROP to establish a trust fund wherein ROP agrees to utilize these funds solely for maintenance and upkeep of the Compact Road.

REPUBLIC OF PALAU

REQUIRED SUPPLEMENTARY INFORMATION
- BUDGETARY REPORTING

YEAR ENDED SEPTEMBER 30, 2007

REPUBLIC OF PALAU

Schedule of Revenues, Expenditures, and Changes
in Deficit - Budget and Actual - General Fund
Year Ended September 30, 2007

	Original Budget	Final Budget	Actual - Budgetary Basis (see note 1)	Variance
Revenues:				
Local revenue	\$ 37,644,417	\$ 39,552,704	\$ 34,976,010	\$ (4,576,694)
Compact funding - Section 211(a)	6,000,000	6,000,000	6,000,000	-
Compact funding - Section 215 inflation adjustment	3,840,000	3,840,000	3,840,000	-
Indirect cost recoveries	-	266,662	199,778	(66,884)
Net increase in the fair value of investments	-	1,529	490,573	489,044
Total revenues	47,484,417	49,660,895	45,506,361	(4,154,534)
Expenditures - budgetary basis:				
Office of the President	857,000	1,056,778	1,036,007	20,771
Office of the Vice-President	402,000	422,000	415,227	6,773
Ministry of Finance	2,217,000	2,341,937	2,322,179	19,758
Ministry of State	2,346,000	2,482,000	2,583,560	(101,560) *
Ministry of Community and Cultural Affairs	1,011,000	991,732	969,269	22,463
Ministry of Education	6,692,000	6,823,940	6,521,116	302,824
Ministry of Commerce and Trade	1,448,000	1,448,000	1,422,409	25,591
Ministry of Justice	4,203,000	4,188,000	4,073,198	114,802
Ministry of Health	7,190,000	7,212,477	6,981,157	231,320
Ministry of Resources and Development	6,642,000	7,187,000	6,963,335	223,665
Boards, Commissions and Authorities	677,000	720,000	659,722	60,278
Judicial Branch	2,276,000	2,276,328	2,274,153	2,175
Legislative Branch	3,761,500	3,933,500	3,801,880	131,620
State Block Grants	4,811,000	4,811,000	4,810,970	30
Independent Agencies	2,410,000	2,423,559	2,300,788	122,771
Other Agencies and Activities	3,192,440	4,668,607	4,660,486	8,121
Education Assistance	4,287,619	3,017,619	3,017,619	-
Total expenditures	54,423,559	56,004,477	54,813,075	1,191,402
Deficiency of revenues under expenditures	(6,939,142)	(6,343,582)	(9,306,714)	(2,963,132)
Other financing sources (uses):				
Operating transfers in	8,790,000	8,790,000	8,696,474	(93,526)
Operating transfers out	(1,850,858)	(3,120,858)	(3,513,681)	(392,823)
Total other financing sources (uses), net	6,939,142	5,669,142	5,182,793	(486,349)
Net change in unreserved fund deficit	-	(674,440)	(4,123,921)	(3,449,481)
Other changes in unreserved deficit:				
Decrease in reserve for continuing appropriations	-	674,440	143,224	(531,216)
Decrease in reserve for related assets	-	-	(691,354)	(691,354)
Unreserved deficit at the beginning of the year	(2,155,188)	(2,155,188)	(2,155,188)	-
Unreserved deficit at the end of the year	\$ (2,155,188)	\$ (2,155,188)	\$ (6,827,239)	\$ (4,672,051)

*The Republic is a member of the United Nations by which annual membership dues are assessed and there are contributions required for conventions and treaties. The Republic is also member of other international and regional organizations. The 2007 Budget Act did not provide sufficient budget to cover the required dues at September 30, 2007.

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

Notes to Required Supplementary Information - Budgetary Reporting September 30, 2007

(1) 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 the ensuing fiscal year.

Budgetary control is maintained at the departmental level. Budget revisions during the year, reflecting program changes, may be effected through OEK approval.

The Republic 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 projects.

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is utilized in the governmental funds. Encumbrances outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

(2) Reconciliation – GAAP and Budgetary Bases of Accounting

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

Net change in fund balance (deficit)	\$ (4,070,341)
Increase in reserve for encumbrances	<u>(53,580)</u>
Net change in unreserved fund balance	\$ <u>(4,123,921)</u>

REPUBLIC OF PALAU

OTHER SUPPLEMENTARY INFORMATION

YEAR ENDED SEPTEMBER 30, 2007

REPUBLIC OF PALAU

Combining Schedule of Expenditures by Account
Governmental Funds
Year Ended September 30, 2007

	Major Governmental Funds			Nonmajor Governmental Funds			Total
	General	Grants Fund	Permanent Compact Section 211(f)	Special Revenue	Capital Projects	Debt Service	
Salaries and wages	\$ 29,842,026	\$ 4,411,403	\$ -	\$ 52,214	\$ 3,903	\$ -	\$ 34,309,546
Construction	22,312	20,037,095	-	-	144,698	-	20,204,105
Payments of allotments/benefits	11,613,828	3,828,368	-	-	-	-	15,442,196
Professional and contractual services	266,614	1,910,198	-	8,507	194,465	-	2,379,784
Supplies and materials	1,378,220	1,144,179	-	35,220	5	-	2,557,624
Travel	909,983	1,234,243	-	57,370	241	-	2,201,837
Utilities	3,488,819	162,664	-	1,770	-	-	3,653,253
Equipment	243,175	3,146,980	-	43,373	-	-	3,433,528
Medical supplies	294,574	321,034	-	1,579,013	-	-	2,194,621
Scholarships and student loans	-	32,500	-	1,260,865	-	-	1,293,365
Investment management fees	1,529	-	1,001,508	18,095	181	-	1,021,313
Repairs and maintenance	472,897	143,901	-	4,893	-	-	621,691
Vehicles	168,928	110,889	-	-	-	-	279,817
Medical referrals	579,008	-	-	182,000	-	-	761,008
Rentals	635,915	224,807	-	666	-	-	861,388
Foodstuffs	737,329	116,040	-	121	-	-	853,490
Petroleum products	722,849	200,055	-	25,563	70,111	-	1,018,578
Communications and postage	402,661	297,633	-	2,478	-	-	702,772
Dues, fees and registrations	1,224,025	72,752	-	4,041	-	-	1,300,818
Purchased Property	259,614	-	-	-	-	-	259,614
Machinery	15,747	-	-	-	-	-	15,747
Building	-	35,605	-	-	-	-	35,605
Indirect costs	-	222,689	-	-	-	-	222,689
Administrative costs	-	32,477	-	-	-	-	32,477
Books and library materials	127,130	196,049	-	-	-	-	323,179
Allowances	17,692	-	-	-	-	-	17,692
Compensation and stipends	212,963	179,717	-	6,030	-	-	398,710
Training	2,560	71,369	-	-	-	-	73,929
Donations	322,847	3,845	-	-	-	-	326,692
Advertising	23,530	102,942	-	1,851	51	-	128,374
Freight	16,829	9,833	-	2,262	18	-	28,942
Employee incentive awards	7,300	19,569	-	-	-	-	26,869
Representation and entertainment	5,072	-	-	-	-	-	5,072
Insurance	13,513	3,444	-	-	-	-	16,957
Computer software	16,923	-	-	-	-	-	16,923
Furniture and fixtures	749	157,925	-	-	-	-	158,674
Questioned costs	230,283	-	-	-	-	-	230,283
Official Expenses	25	6,000	-	-	-	-	6,025
Other/Miscellaneous	482,026	16,165	-	22	-	1,777,285	2,275,498
	<u>\$ 54,759,495</u>	<u>\$ 38,452,370</u>	<u>\$ 1,001,508</u>	<u>\$ 3,286,354</u>	<u>\$ 413,673</u>	<u>\$ 1,777,285</u>	<u>\$ 99,690,685</u>

See Accompanying Independent Auditors' Report.

**REPUBLIC OF PALAU
GENERAL FUND**

September 30, 2007

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.

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU
GENERAL FUND

Schedule of Revenues
Year Ended September 30, 2007
(With comparative totals for the year ended September 30, 2006)

	<u>2007</u>	<u>2006</u>
Compact funding:		
Section 211(a)	\$ 6,000,000	\$ 6,000,000
Section 215 inflation adjustment	<u>3,840,000</u>	<u>3,840,000</u>
Total compact funding	<u>9,840,000</u>	<u>9,840,000</u>
Taxes:		
Gross receipts	9,572,148	9,540,725
Salary and wage	6,911,830	6,978,019
Alcohol and tobacco	4,551,844	4,490,225
General import	2,046,284	2,153,759
Travelers head	1,864,269	1,733,670
Hotel occupancy	1,736,206	1,255,396
Fuel Excise	772,374	842,423
Road Use	453,300	482,664
Fish export	1,002,441	1,471,030
Penalties, interest and delinquencies	774,854	333,341
Vessel cabin and foreign water vessel	77,521	93,916
Other	<u>500</u>	<u>360</u>
Total taxes	<u>29,763,571</u>	<u>29,375,528</u>
Licenses and permits:		
Foreign labor permits	974,591	1,082,095
Business licenses	225,386	366,391
Foreign investment permits and fees	200,889	204,620
Fishing rights fees	153,412	157,888
Corporate filing fees	28,522	27,347
Other licenses and permits	<u>301,722</u>	<u>506,323</u>
Total licenses and fees	<u>1,884,522</u>	<u>2,344,664</u>
Fees and charges:		
Airport fees and rentals	1,615,508	1,746,666
Water utility charges	697,197	710,244
Postal service	371,837	380,994
Court fines and fees	191,878	209,356
Seaport fees	110,500	145,850
Palau passport fees	122,346	-
Banking fees	10,000	-
Other	<u>27,995</u>	<u>161,753</u>
Total fees and charges	<u>3,147,261</u>	<u>3,354,863</u>
Net (decrease) increase in the fair value of investments	<u>490,573</u>	<u>28,831</u>
Other:		
Indirect cost recoveries	199,778	189,555
Serv Mart sales	40	29,285
Belau Mariculture Demonstration Center sales	7,425	11,329
Other	<u>173,191</u>	<u>435,341</u>
Total other	<u>380,434</u>	<u>665,510</u>
Total revenues	<u>\$ 45,506,361</u>	<u>\$ 45,609,396</u>

REPUBLIC OF PALAU
GENERAL FUND

Schedule of Revenues, Expenditures, and Changes in
Deficit - Budget and Actual - General Fund
Year Ended September 30, 2007

	Budget	Actual	Variance
Revenues:			
Local revenue	\$ 39,552,704	\$ 34,976,010	\$ (4,576,694)
Compact funding - Section 211(a)	6,000,000	6,000,000	-
Compact funding - Section 215 inflation adjustment	3,840,000	3,840,000	-
Indirect cost recoveries	266,662	199,778	(66,884)
Net increase in the fair value of investments	1,529	490,573	489,044
Total revenues	<u>49,660,895</u>	<u>45,506,361</u>	<u>(4,154,534)</u>
Expenditures - budgetary basis:			
Office of the President:			
President's Office	723,000	709,102	13,898
Presidential Stipend	25,000	25,000	-
Official representation	38,000	34,593	3,407
Indirect cost collection	199,778	198,378	1,400
Grants Coordinator Office	71,000	68,934	2,066
Total Office of the President	<u>1,056,778</u>	<u>1,036,007</u>	<u>20,771</u>
Office of the Vice-President:			
Vice-President's Office	324,000	318,665	5,335
National Emergency Management Office	98,000	96,562	1,438
Total Office of the Vice-President	<u>422,000</u>	<u>415,227</u>	<u>6,773</u>
Ministry of Finance:			
Office of the Minister	40,000	38,818	1,182
Administrative Overhead	34,407	32,179	2,228
Information Systems Support Services	200,000	199,244	756
Bureau of National Treasury	627,000	624,540	2,460
Bureau of Budget and Planning	183,000	179,980	3,020
Bureau of Public Service System	123,000	122,682	318
Workmen's Compensation	41,000	39,584	1,416
Bureau of Revenue, Customs and Taxation	1,092,000	1,083,622	8,378
Investment management fees	1,530	1,530	-
Total Ministry of Finance	<u>2,341,937</u>	<u>2,322,179</u>	<u>19,758</u>
Ministry of State:			
Office of the Minister	40,000	39,527	473
United Nations Rep Office	230,000	213,923	16,077
Consulate Office in Guam	100,000	95,780	4,220
Washington D.C. Embassy	320,000	355,485	(35,485)
Tokyo Embassy	330,000	328,338	1,662
Consulate Office in Saipan	47,000	44,395	2,605
Taipei Embassy	100,000	99,727	273
Manila Embassy	128,000	123,039	4,961
International Organizations Obligations	218,000	329,897	(111,897)
Office of the Public Defender	180,000	174,641	5,359
Passport Office	89,000	86,371	2,629
Bureau of Foreign Affairs Admin	265,000	263,132	1,868
Bureau of Domestic Affairs Admin	360,000	356,735	3,265
Bureau International Trade and Technical Assistance	75,000	72,570	2,430
Total Ministry of State	<u>2,482,000</u>	<u>2,583,560</u>	<u>(101,560)</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU
GENERAL FUND

Schedule of Revenues, Expenditures, and Changes in
Deficit - Budget and Actual - General Fund, Continued
Year Ended September 30, 2007

	Budget	Actual	Variance
Ministry of Community and Cultural Affairs:			
Office of the Minister	40,000	38,184	1,816
Office on Aging	240,000	238,161	1,839
Sports Facilities Maintenance and Utilities	125,000	124,479	521
Palau National Archive	40,000	39,802	198
Palau Severely Disabled Assistance Fund	180,000	168,808	11,192
Bureau of Community Services	223,732	220,546	3,186
Bureau of Arts and Culture	143,000	139,289	3,711
Total Ministry of Community and Cultural Affairs	<u>991,732</u>	<u>969,269</u>	<u>22,463</u>
Ministry of Education:			
Office of the Minister	40,000	38,692	1,308
School Books, Supplies and Instructional Equipment	270,000	204,683	65,317
Food Services Program	649,000	602,431	46,569
Bureau of Curriculum and Instruction	900,000	891,125	8,875
Classroom Fixtures	250,000	99,445	150,555
Little League and Senior Little League Project	-	(149)	149
School Baseball Program	15,000	15,000	-
Bureau of School Administration	4,699,940	4,669,889	30,051
Total Ministry of Education	<u>6,823,940</u>	<u>6,521,116</u>	<u>302,824</u>
Ministry of Commerce and Trade:			
Office of the Minister	40,000	39,389	611
Palau Small Business Development Center	30,000	30,000	-
Pacific Business Center Program	20,000	20,000	-
Airport Operations	788,000	773,608	14,392
Bureau of Commercial Development	262,000	255,569	6,431
Bureau of Human Resource Development	308,000	303,843	4,157
Total Ministry of Commerce and Trade	<u>1,448,000</u>	<u>1,422,409</u>	<u>25,591</u>
Ministry of Justice:			
Office of the Attorney General	522,000	514,256	7,744
Bureau of Immigration	294,000	291,325	2,675
Matching Fund Minister of Justice	90,000	2,760	87,240
Bureau of Public Safety	2,528,000	2,522,621	5,379
Patrol Boat Operations	754,000	742,236	11,764
Total Ministry of Justice	<u>4,188,000</u>	<u>4,073,198</u>	<u>114,802</u>
Ministry of Health:			
Office of the Minister	40,000	38,520	1,480
Office of Health Services Administration	1,878,000	1,852,873	25,127
Medical Supplies and Drugs	482,477	333,368	149,109
Medical Referrals	630,000	604,486	25,514
Manila Medical Referral Office	87,000	76,111	10,889
Hawaii Medical Referral Office	123,000	119,392	3,608
Bureau of Public Health	1,100,000	1,089,268	10,732
Bureau of Hospital and Clinical Services	2,872,000	2,867,139	4,861
Total Ministry of Health	<u>7,212,477</u>	<u>6,981,157</u>	<u>231,320</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU
GENERAL FUND

Schedule of Revenues, Expenditures, and Changes in
Deficit - Budget and Actual - General Fund, Continued
Year Ended September 30, 2007

	Budget	Actual	Variance
Ministry of Resources and Development:			
Office of the Minister	40,000	39,111	889
OMIP and Other Grants Match	149,000	38,504	110,496
PALARIS Office	141,000	131,500	9,500
Bridge and Road Maintenance	-	(48)	48
Pothole Repair	68,000	22,985	45,015
National Capitol Electric Bills	500,000	499,253	747
Protected Area Network	50,000	45,179	4,821
Field Trip Nat'l Gov Program	20,000	9,328	10,672
Bureau of Marine Resources	523,000	520,654	2,346
Bureau of Lands and Survey	908,000	894,528	13,472
Bureau of Agriculture	405,000	400,319	4,681
Bureau of Public Works	1,674,000	1,667,228	6,772
Water and Sewer Operations	2,384,000	2,378,996	5,004
CIP Office Operations	160,000	157,542	2,458
Rural Sanitation Projects	165,000	158,256	6,744
Total Ministry of Resources and Development	7,187,000	6,963,335	223,665
Total Executive Branch	34,153,864	33,287,457	866,407
Boards, Commissions and Authorities:			
Foreign Investment Board	92,000	90,772	1,228
Palau Election Commission	108,000	101,463	6,537
COFA Board of Trustees	8,100	7,011	1,089
Palau Public Lands Authority	153,000	142,526	10,474
Parole Board	28,900	28,085	815
Palau Housing Authority	67,000	64,497	2,503
Financial Institutions Commission	122,000	114,476	7,524
Ethics Commission	51,000	50,252	748
Ngardmau FTZ Commission	50,000	50,000	-
Palau National Code Commission	40,000	10,640	29,360
Total Boards, Commissions and Authorities	720,000	659,722	60,278
Judicial Branch:			
Judiciary	1,650,328	1,649,206	1,122
Land Court	626,000	624,947	1,053
Total Judicial Branch	2,276,328	2,274,153	2,175
Legislative Branch:			
Senate	1,333,000	1,295,862	37,138
Senate Legal Counsel	180,000	161,432	18,568
House of Delegates	1,884,500	1,842,389	42,111
House Legal Counsel	206,000	184,738	21,262
Joint Staff	300,000	288,205	11,795
Association of Pacific Island Legislatures Conference	10,000	10,000	-
Inter-Parliamentary Union	20,000	19,254	746
Total Legislative Branch	3,933,500	3,801,880	131,620
State Block Grants	4,811,000	4,810,970	30
Independent Agencies:			
Office of the Public Auditor	382,262	352,346	29,916
Office of the Special Prosecutor	281,297	240,885	40,412
Palau Environmental Quality Protection Board	400,000	366,089	33,911
National Postal Service	285,000	277,197	7,803
Palau Visitors Authority	925,000	925,000	-
National Aviation Administration	150,000	139,271	10,729
Total Independent Agencies	2,423,559	2,300,788	122,771

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU
GENERAL FUND

Schedule of Revenues, Expenditures, and Changes in
Deficit - Budget and Actual - General Fund, Continued
Year Ended September 30, 2007

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Other Agencies and Activities:			
Palau National Museum	185,000	183,103	1,897
Micronesian Legal Services	130,000	130,000	-
Palau Community Action Agency	248,458	248,458	-
Headstart Program	115,000	115,000	-
Palau Workforce Investment Act	100,000	98,991	1,009
Civic Action Team Share	250,000	250,000	-
Pension Plan Contribution	400,000	400,000	-
Peace Corps Contribution	25,000	22,821	2,179
Palau International Coral Reef Center	450,000	450,000	-
PSB Investigation	200,000	60,868	139,132
Palau National Olympic Committee and Sports Organization	150,000	149,600	400
2007 Pacific Games	250,000	250,000	-
Red Cross	5,000	5,000	-
Second Constitutional Convention Post Con Comm	20,000	20,000	-
PSS Reclassification	620,440	619,749	691
ICRI/USCRTF Earmarked	25,000	12,131	12,869
Land lease payment	111,000	-	111,000
Adjudicated Claims	667,328	665,224	2,104
VHF Equipment	42,000	-	42,000
COFA Review Commission	466,420	392,827	73,593
Questioned Costs	-	230,283	(230,283)
Bad debt	-	356,663	(356,663)
Others	207,961	(232)	208,193
Total Other Agencies and Activities	<u>4,668,607</u>	<u>4,660,486</u>	<u>8,121</u>
Education Assistance:			
Palau Community College	2,300,000	2,300,000	-
PCC Board of Trustees	45,000	45,000	-
COM Board of Regents	25,000	25,000	-
Aid to Non-Public Schools	607,619	607,619	-
PCC CRE Program	40,000	40,000	-
Total Education Assistance	<u>3,017,619</u>	<u>3,017,619</u>	<u>-</u>
Total expenditures	<u>56,004,477</u>	<u>54,813,075</u>	<u>1,191,402</u>
Deficiency of revenues under expenditures	<u>(6,343,582)</u>	<u>(9,306,714)</u>	<u>(2,963,132)</u>
Other financing sources (uses):			
Operating transfers in:			
U.S. Federal Grants CIP	-	168,481	168,481
Compact Section 211(f) Trust	5,000,000	5,000,000	-
Compact Section 213 Defense	913,000	650,993	(262,007)
Compact Section 211(c) Communications	246,000	246,000	-
Compact Section 211(d) Maritime, Health and Scholarship	631,000	631,000	-
Compact Section 221(b) Special Block Grants	2,000,000	2,000,000	-
Total other financing sources	<u>8,790,000</u>	<u>8,696,474</u>	<u>(93,526)</u>
Operating transfers out:			
Debt Service	(1,850,858)	(1,763,299)	87,559
US Federal Grants Fund	-	(154,738)	(154,738)
Compact Section 211(b)	-	(325,644)	(325,644)
National Scholarship Fund	(1,270,000)	(1,270,000)	-
Total other financing uses	<u>(3,120,858)</u>	<u>(3,513,681)</u>	<u>(392,823)</u>
Total other financing sources (uses), net	<u>5,669,142</u>	<u>5,182,793</u>	<u>(486,349)</u>
Deficiency of revenues and other financing sources under expenditures and other financing uses	<u>(674,440)</u>	<u>(4,123,921)</u>	<u>(3,449,481)</u>
Other changes in deficit:			
Decrease in reserve for continuing appropriations	674,440	143,224	(531,216)
Decrease in reserve for related assets	-	(691,354)	(691,354)
Unreserved deficit at the beginning of the year	<u>(2,155,188)</u>	<u>(2,155,188)</u>	<u>-</u>
Unreserved deficit at the end of the year	<u>\$ (2,155,188)</u>	<u>\$ (6,827,239)</u>	<u>\$ (4,672,051)</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU
NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS

September 30, 2007

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

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

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

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

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

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

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

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

AgriFund – This fund accounts for sales and purchase of agriculture items.

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

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

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

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

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

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

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

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU
 Combined Balance Sheet
 Nonmajor Governmental Funds
 September 30, 2007

	<u>Other Special Revenue</u>	<u>Other Capital Projects</u>	<u>Other Debt Service</u>	<u>Total</u>
<u>ASSETS</u>				
Investments	\$ 3,546,357	\$ 391,275	\$ -	\$ 3,937,632
Investments - restricted	3,000,000	-	-	3,000,000
Receivables, net:				
General	-	9,581	-	9,581
Accrued interest	18,769	-	-	18,769
Due from other funds	1,713,819	9,192,947	353,927	11,260,693
Advances	/69	-	-	/69
Total assets	<u>\$ 8,279,714</u>	<u>\$ 9,593,803</u>	<u>\$ 353,927</u>	<u>\$ 18,227,444</u>
<u>LIABILITIES AND FUND BALANCES</u>				
Liabilities:				
Accounts payable	\$ 460,679	\$ 2,018	\$ 179,486	\$ 642,183
Contract payable	-	2,212,022	-	2,212,022
Due to component units	145,372	-	-	145,372
Deferred revenue	-	180,454	-	180,454
Other liabilities and accruals	1,944	1,628	-	3,572
Due to other funds	1,891,402	288,504	-	2,179,906
Total liabilities	<u>2,499,397</u>	<u>2,684,626</u>	<u>179,486</u>	<u>5,363,509</u>
Fund balances:				
Reserved for:				
Continuing appropriations	23,461	-	-	23,461
Related assets	3,000,000	-	-	3,000,000
Encumbrances	58,460	215,032	-	273,492
Debt service	-	-	174,441	174,441
Unreserved:				
Special revenue funds	2,698,396	-	-	2,698,396
Capital projects funds	-	6,694,145	-	6,694,145
Total fund balances	<u>5,780,317</u>	<u>6,909,177</u>	<u>174,441</u>	<u>12,863,935</u>
Total liabilities and fund balances	<u>\$ 8,279,714</u>	<u>\$ 9,593,803</u>	<u>\$ 353,927</u>	<u>\$ 18,227,444</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

Combined Statement of Revenues, Expenditures, and
Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended September 30, 2007

	Other Special Revenue	Other Capital Projects	Other Debt Service	Total
Revenues:				
Compact funding	\$ 2,877,000	\$ -	\$ -	\$ 2,877,000
Fees and charges	2,042,095	-	-	2,042,095
Net increase in the fair value of investments	550,634	39,526	-	590,160
Other	51,731	-	-	51,731
Total revenues	<u>5,521,460</u>	<u>39,526</u>	<u>-</u>	<u>5,560,986</u>
Expenditures:				
Current:				
Ministry of Health	1,900,084	-	-	1,900,084
Ministry of Resources and Development	3,145	-	-	3,145
Ministry of Community and Cultural Affairs	6,653	-	-	6,653
Ministry of Justice	25,758	-	-	25,758
Investment management fees	18,094	-	-	18,094
Other	1,332,620	-	-	1,332,620
Capital projects	-	413,673	-	413,673
Debt service:				
Principal retirement	-	-	1,142,858	1,142,858
Interest	-	-	634,427	634,427
Total expenditures	<u>3,286,354</u>	<u>413,673</u>	<u>1,777,285</u>	<u>5,477,312</u>
Excess (deficiency) of revenues over (under) expenditures	<u>2,235,106</u>	<u>(374,147)</u>	<u>(1,777,285)</u>	<u>83,674</u>
Other financing sources (uses), net:				
Loan proceeds	-	6,500,000	-	6,500,000
Operating transfers in	1,595,644	-	1,763,299	3,358,943
Operating transfers out	(3,527,993)	-	-	(3,527,993)
Total other financing sources (uses), net	<u>(1,932,349)</u>	<u>6,500,000</u>	<u>1,763,299</u>	<u>6,330,950</u>
Net change in fund balances	302,757	6,125,853	(13,986)	6,414,624
Fund balances at the beginning of the year	<u>5,477,560</u>	<u>783,324</u>	<u>188,427</u>	<u>6,449,311</u>
Fund balances at the end of the year	<u>\$ 5,780,317</u>	<u>\$ 6,909,177</u>	<u>\$ 174,441</u>	<u>\$ 12,863,935</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU
NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS

Combining Balance Sheet
September 30, 2007

	Palauan Ed Textbook Development and Sales	Public and Law Access Unit	Drug Fine Collection	Sports Facilities Trust	Scholarship	Hospital Trust	EQPB Trust	Agrifund
ASSETS								
Investments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Investments - restricted	-	-	-	-	-	-	-	-
Receivables, net:								
Accrued interest	-	-	-	-	-	-	-	-
Due from other funds	17,864	74,081	893	3,038	250,880	1,171,328	66,434	-
Advances	-	-	-	-	-	769	-	-
Total assets	<u>\$ 17,864</u>	<u>\$ 74,081</u>	<u>\$ 893</u>	<u>\$ 3,038</u>	<u>\$ 250,880</u>	<u>\$ 1,172,097</u>	<u>\$ 66,434</u>	<u>\$ -</u>
LIABILITIES AND FUND BALANCES								
(DEFICITS)								
Liabilities:								
Accounts payable	\$ -	\$ -	\$ -	\$ 1,359	\$ 10,841	\$ 437,051	\$ -	\$ -
Due to component units	-	-	-	-	145,372	-	-	-
Other liabilities and accruals	-	-	-	-	1,944	-	-	-
Due to other funds	-	-	-	-	-	-	-	4,666
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,359</u>	<u>158,157</u>	<u>437,051</u>	<u>-</u>	<u>4,666</u>
Fund balances (deficit):								
Reserved for:								
Continuing appropriations	-	-	-	-	-	23,461	-	-
Related assets	-	-	-	-	-	-	-	-
Encumbrances	-	-	-	1,011	416	28,401	120	-
Unreserved (deficit)	<u>17,864</u>	<u>74,081</u>	<u>893</u>	<u>668</u>	<u>92,307</u>	<u>683,184</u>	<u>66,314</u>	<u>(4,666)</u>
Total fund balances (deficit)	<u>17,864</u>	<u>74,081</u>	<u>893</u>	<u>1,679</u>	<u>92,723</u>	<u>735,046</u>	<u>66,434</u>	<u>(4,666)</u>
Total liabilities and fund balances	<u>\$ 17,864</u>	<u>\$ 74,081</u>	<u>\$ 893</u>	<u>\$ 3,038</u>	<u>\$ 250,880</u>	<u>\$ 1,172,097</u>	<u>\$ 66,434</u>	<u>\$ -</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU
NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS

Combining Balance Sheet, Continued
September 30, 2007

	Operator License	Compact Section 211(b) Energy	Compact Section 211(c) Communications	Compact Section 211(d) Maritime, Health and Scholarship	Compact Section 211(e) Maritime	Compact Section 213 Defense	Compact Section 221(b) Special Block Grants	Total
ASSETS								
Investments	\$ -	\$ 395,150	\$ 65,297	\$ 44,343	\$ 431,853	\$ 2,410,331	\$ 199,383	\$ 3,546,357
Investments - restricted	-	3,000,000	-	-	-	-	-	3,000,000
Receivables, net:								
Accrued interest	-	-	-	-	-	18,769	-	18,769
Due from other funds	114,301	-	15,000	-	-	-	-	1,713,819
Advances	-	-	-	-	-	-	-	769
Total assets	<u>\$ 114,301</u>	<u>\$ 3,395,150</u>	<u>\$ 80,297</u>	<u>\$ 44,343</u>	<u>\$ 431,853</u>	<u>\$ 2,429,100</u>	<u>\$ 199,383</u>	<u>\$ 8,279,714</u>
LIABILITIES AND FUND BALANCES (DEFICITS)								
Liabilities:								
Accounts payable	\$ 11,428	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 460,679
Due to component units	-	-	-	-	-	-	-	145,372
Other liabilities and accruals	-	-	-	-	-	-	-	1,944
Due to other funds	-	385,298	-	-	-	1,501,438	-	1,891,402
Total liabilities	<u>11,428</u>	<u>385,298</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,501,438</u>	<u>-</u>	<u>2,499,397</u>
Fund balances (deficit):								
Reserved for:								
Continuing appropriations	-	-	-	-	-	-	-	23,461
Related assets	-	3,000,000	-	-	-	-	-	3,000,000
Encumbrances	3,906	24,606	-	-	-	-	-	58,460
Unreserved (deficit)	<u>98,967</u>	<u>(14,754)</u>	<u>80,297</u>	<u>44,343</u>	<u>431,853</u>	<u>927,662</u>	<u>199,383</u>	<u>2,698,396</u>
Total fund balances (deficit)	<u>102,873</u>	<u>3,009,852</u>	<u>80,297</u>	<u>44,343</u>	<u>431,853</u>	<u>927,662</u>	<u>199,383</u>	<u>5,780,317</u>
Total liabilities and fund balances	<u>\$ 114,301</u>	<u>\$ 3,395,150</u>	<u>\$ 80,297</u>	<u>\$ 44,343</u>	<u>\$ 431,853</u>	<u>\$ 2,429,100</u>	<u>\$ 199,383</u>	<u>\$ 8,279,714</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU
NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficits)
Year Ended September 30, 2007

	Palauan Ed Textbook Development and Sales	Public and Law Access Unit	Drug Fine Collection	Sports Facilities Trust	Scholarship	Hospital Trust	EQPB Trust	Agrifund
Revenues:								
Compact funding	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Fees and charges	-	15,879	2,092	7,058	-	1,923,544	11,760	7,480
Net increase in the fair value of investments	-	-	-	-	-	-	-	-
Other	-	-	-	-	51,731	-	-	-
Total revenues	-	15,879	2,092	7,058	51,731	1,923,544	11,760	7,480
Expenditures:								
Ministry of Health	-	-	-	-	-	1,900,084	-	-
Ministry of Resources and Development	-	-	-	-	-	-	-	3,145
Ministry of Community and Cultural Affairs	-	-	-	6,653	-	-	-	-
Ministry of Justice	-	-	200	-	-	-	-	-
Investment management fees	-	-	-	-	-	-	-	-
Other	-	-	-	-	1,331,850	-	770	-
Total expenditures	-	-	200	6,653	1,331,850	1,900,084	770	3,145
Excess (deficiency) of revenues over (under) expenditures	-	15,879	1,892	405	(1,280,119)	23,460	10,990	4,335
Other financing sources (uses):								
Operating transfers in	-	-	-	-	1,270,000	-	-	-
Operating transfers out	-	-	-	-	-	-	-	-
Total other financing sources (uses), net	-	-	-	-	1,270,000	-	-	-
Net change in fund balances (deficits)	-	15,879	1,892	405	(10,119)	23,460	10,990	4,335
Fund balances (deficits) at the beginning of the year	17,864	58,202	(999)	1,274	102,842	711,586	55,444	(9,001)
Fund balances (deficits) at the end of the year	\$ 17,864	\$ 74,081	\$ 893	\$ 1,679	\$ 92,723	\$ 735,046	\$ 66,434	\$ (4,666)

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU
NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficits), Continued
Year Ended September 30, 2007

	Operator License Fund	Compact Section 211(b) Energy	Compact Section 211(c) Communications	Compact Section 211(d) Maritime, Health and Scholarship	Compact Section 211(e) Maritime	Compact Section 213 Defense	Compact Section 221(b) Special Block Grants	Total
Revenues:								
Compact funding	\$ -	\$ -	\$ 246,000	\$ 631,000	\$ -	\$ -	\$ 2,000,000	\$ 2,877,000
Fees and charges	74,282	-	-	-	-	-	-	2,042,095
Net increase in the fair value of investments	-	157,678	10,063	7,096	20,051	337,675	18,071	550,634
Other	-	-	-	-	-	-	-	51,731
Total revenues	74,282	157,678	256,063	638,096	20,051	337,675	2,018,071	5,521,460
Expenditures:								
Ministry of Health	-	-	-	-	-	-	-	1,900,084
Ministry of Resources and Development	-	-	-	-	-	-	-	3,145
Ministry of Community and Cultural Affairs	-	-	-	-	-	-	-	6,653
Ministry of Justice	25,558	-	-	-	-	-	-	25,758
Investment management fees	-	1,573	92	61	200	16,007	161	18,094
Other	-	-	-	-	-	-	-	1,332,620
Total expenditures	25,558	1,573	92	61	200	16,007	161	3,286,354
Excess (deficiency) of revenues over (under) expenditures	48,724	156,105	255,971	638,035	19,851	321,668	2,017,910	2,235,106
Other financing sources (uses):								
Operating transfers in	-	325,644	-	-	-	-	-	1,595,644
Operating transfers out	-	-	(246,000)	(631,000)	-	(650,993)	(2,000,000)	(3,527,993)
Total other financing sources (uses), net	-	325,644	(246,000)	(631,000)	-	(650,993)	(2,000,000)	(1,932,349)
Net change in fund balances (deficits)	48,724	481,749	9,971	7,035	19,851	(329,325)	17,910	302,757
Fund balances (deficits) at the beginning of the year	54,149	2,528,103	70,326	37,308	412,002	1,256,987	181,473	5,477,560
Fund balances (deficits) at the end of the year	\$ 102,873	\$ 3,009,852	\$ 80,297	\$ 44,343	\$ 431,853	\$ 927,662	\$ 199,383	\$ 5,780,317

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU
NONMAJOR GOVERNMENTAL FUNDS - CAPITAL PROJECTS FUNDS

September 30, 2007

Capital projects funds are used to account for the acquisition and construction of major capital facilities other than those financed by proprietary funds and trust funds. The general purpose financial statements reflect the balances and activity of the four capital projects funds of the Republic as described below:

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

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

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

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU
NONMAJOR GOVERNMENTAL FUNDS
CAPITAL PROJECTS FUNDS

Combining Balance Sheet
September 30, 2007

	<u>DOI Capital Projects</u>	<u>Local Capital Projects</u>	<u>Compact Section 212(b) Capital Account</u>	<u>Total</u>
<u>ASSETS</u>				
Investments	\$ -	\$ -	\$ 391,275	\$ 391,275
Receivables, net:				
General	-	9,581	-	9,581
Due from other funds	<u>263,593</u>	<u>8,929,354</u>	<u>-</u>	<u>9,192,947</u>
Total assets	<u>\$ 263,593</u>	<u>\$ 8,938,935</u>	<u>\$ 391,275</u>	<u>\$ 9,593,803</u>
<u>LIABILITIES AND FUND BALANCES</u>				
Liabilities:				
Accounts payable	\$ -	\$ 2,018	\$ -	\$ 2,018
Contract payable	-	2,212,022	-	2,212,022
Deferred revenue	180,454	-	-	180,454
Other liabilities and accruals	-	1,628	-	1,628
Due to other funds	<u>-</u>	<u>-</u>	<u>288,504</u>	<u>288,504</u>
Total liabilities	<u>180,454</u>	<u>2,215,668</u>	<u>288,504</u>	<u>2,684,626</u>
Fund balances:				
Reserved for:				
Encumbrances	-	215,032	-	215,032
Unreserved	<u>83,139</u>	<u>6,508,235</u>	<u>102,771</u>	<u>6,694,145</u>
Total fund balances	<u>83,139</u>	<u>6,723,267</u>	<u>102,771</u>	<u>6,909,177</u>
Total liabilities and fund balances	<u>\$ 263,593</u>	<u>\$ 8,938,935</u>	<u>\$ 391,275</u>	<u>\$ 9,593,803</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU
NONMAJOR GOVERNMENTAL FUNDS
CAPITAL PROJECTS FUNDS

Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances
Year Ended September 30, 2007

	<u>DOI Capital Projects</u>	<u>Local Capital Projects</u>	<u>Compact Section 212(b) Capital Account</u>	<u>Total</u>
Revenues:				
Net increase in the fair value of investments	\$ -	\$ 11,257	\$ 28,269	\$ 39,526
Total revenues	<u>-</u>	<u>11,257</u>	<u>28,269</u>	<u>39,526</u>
Expenditures:				
Capital projects	<u>-</u>	<u>413,492</u>	<u>181</u>	<u>413,673</u>
Total expenditures	<u>-</u>	<u>413,492</u>	<u>181</u>	<u>413,673</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>(402,235)</u>	<u>28,088</u>	<u>(374,147)</u>
Other financing sources:				
Loan proceeds	<u>-</u>	<u>6,500,000</u>	<u>-</u>	<u>6,500,000</u>
Total other financing sources	<u>-</u>	<u>6,500,000</u>	<u>-</u>	<u>6,500,000</u>
Net change in fund balances	-	6,097,765	28,088	6,125,853
Fund balances at the beginning of the year	<u>83,139</u>	<u>625,502</u>	<u>74,683</u>	<u>783,324</u>
Fund balances at the end of the year	<u>\$ 83,139</u>	<u>\$ 6,723,267</u>	<u>\$ 102,771</u>	<u>\$ 6,909,177</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU
NONMAJOR GOVERNMENTAL FUNDS - DEBT SERVICE FUND

September 30, 2007

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.

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

Combined Balance Sheet
Grants Fund
September 30, 2007

	U.S. Federal Grants	Other Country Grants	Non-DOI Capital Projects	Other Grants	OTIA Direct Grants	Total
ASSETS						
Receivables, net:						
General	\$ 1,015	\$ 1,174,125	\$ -	\$ -	\$ -	\$ 1,175,140
Federal agencies	876,623	-	2,739,459	-	135,911	3,751,993
Due from other funds	-	2,455,570	-	268,537	-	2,724,107
Advances	60,431	-	-	15,684	-	76,115
Prepaid items	295,068	16,500	-	84,126	32,029	427,723
Total assets	<u>\$ 1,233,137</u>	<u>\$ 3,646,195</u>	<u>\$ 2,739,459</u>	<u>\$ 368,347</u>	<u>\$ 167,940</u>	<u>\$ 8,155,078</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 628,228	\$ 211,353	\$ 432	\$ 221,886	\$ 97,298	\$ 1,159,197
Contract payable	-	3,417,349	910,384	-	-	4,327,733
Deferred revenues	-	-	-	133,648	2,349	135,997
Other liabilities and accruals	137,631	17,493	3,187	12,813	-	171,124
Due to other funds	467,278	-	1,823,835	-	50,489	2,341,602
Total liabilities	<u>1,233,137</u>	<u>3,646,195</u>	<u>2,737,838</u>	<u>368,347</u>	<u>150,136</u>	<u>8,135,653</u>
Fund balances:						
Reserved for:						
Related assets	93,511	-	-	8,450	30	101,991
Encumbrances	922,759	1,194,904	618,574	178,568	135,101	3,049,906
Unreserved (deficits):						
Special revenue funds	(1,016,270)	(1,194,904)	(616,953)	(187,018)	(117,327)	(3,132,472)
Total fund balances	<u>-</u>	<u>-</u>	<u>1,621</u>	<u>-</u>	<u>17,804</u>	<u>19,425</u>
Total liabilities and fund balances	<u>\$ 1,233,137</u>	<u>\$ 3,646,195</u>	<u>\$ 2,739,459</u>	<u>\$ 368,347</u>	<u>\$ 167,940</u>	<u>\$ 8,155,078</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

Combined Statement of Revenues, Expenditures, and
Changes in Fund Balances
Grants Fund
Year Ended September 30, 2007

	U.S. Federal Grants	Other Country Grants	Non-DOI Capital Projects	Other Grants	OTIA Direct Grants	Total
Revenues:						
Federal contributions	\$ 8,152,092	\$ -	\$ 8,261,484	\$ -	\$ 739,449	\$ 17,153,025
Other grants	-	16,670,597	-	4,469,586	-	21,140,183
Total revenues	<u>8,152,092</u>	<u>16,670,597</u>	<u>8,261,484</u>	<u>4,469,586</u>	<u>739,449</u>	<u>38,293,208</u>
Expenditures:						
Ministry of Health	5,025,585	-	-	122,454	125,089	5,273,128
Ministry of Education	2,366,874	-	-	41,115	-	2,407,989
Ministry of Finance	-	-	-	3,600,506	93,541	3,694,047
Ministry of Resources and Development	149,988	-	-	91,598	93,245	334,831
Ministry of Commerce and Trade	325,203	-	-	-	-	325,203
Ministry of Community and Cultural Affairs	-	-	-	4,850	-	4,850
Ministry of State	-	-	-	55,829	-	55,829
Ministry of Justice	-	-	-	34,865	987	35,852
Office of the President	229,196	-	-	180,878	46,783	456,857
Office of the Vice-President	130,246	-	-	-	-	130,246
Office of the Public Auditor	-	-	-	-	331,000	331,000
Other	-	-	-	399,491	66,542	466,033
Capital projects	-	16,997,566	7,766,034	-	-	24,763,600
Total expenditures	<u>8,227,092</u>	<u>16,997,566</u>	<u>7,766,034</u>	<u>4,531,586</u>	<u>757,187</u>	<u>38,279,465</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(75,000)</u>	<u>(326,969)</u>	<u>495,450</u>	<u>(62,000)</u>	<u>(17,738)</u>	<u>13,743</u>
Other financing sources (uses):						
Operating transfers out	-	-	(495,450)	-	-	(495,450)
Operating transfers in	75,000	326,969	-	62,000	17,738	481,707
Total other financing sources	<u>75,000</u>	<u>326,969</u>	<u>(495,450)</u>	<u>62,000</u>	<u>17,738</u>	<u>(13,743)</u>
Net change in fund balances	-	-	-	-	-	-
Fund balances at the beginning of the year	-	-	1,621	-	17,804	19,425
Fund balances at the end of the year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,621</u>	<u>\$ -</u>	<u>\$ 17,804</u>	<u>\$ 19,425</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU
SPECIAL REVENUE FUNDS

Statement of Revenues, Expenditures and Changes in
Deficit - Budget and Actual - Compact Section 211(b) - Energy Fund
Year Ended September 30, 2007

	Fiscal Year 2007 Budget	Continuing Appropriation	Total Available Budget	Actual	Variance
Revenues:					
Net increase in the fair value of investments	\$ 1,573	\$ -	\$ 1,573	\$ 157,678	\$ 156,105
Total revenues	<u>1,573</u>	<u>-</u>	<u>1,573</u>	<u>157,678</u>	<u>156,105</u>
Expenditures:					
Investment management fees	<u>1,573</u>	<u>-</u>	<u>1,573</u>	<u>1,573</u>	<u>-</u>
Total expenditures	<u>1,573</u>	<u>-</u>	<u>1,573</u>	<u>1,573</u>	<u>-</u>
Excess of revenues over expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>156,105</u>	<u>156,105</u>
Other financing sources(uses), net:					
Transfer from General Fund	<u>-</u>	<u>-</u>	<u>-</u>	<u>325,644</u>	<u>(325,644)</u>
Unreserved deficit at the beginning of the year	<u>(333,550)</u>	<u>(4,415,607)</u>	<u>(4,749,157)</u>	<u>(496,503)</u>	<u>4,252,654</u>
Unreserved deficit at the end of the year	<u>\$ (333,550)</u>	<u>\$ (4,415,607)</u>	<u>\$ (4,749,157)</u>	<u>\$ (14,754)</u>	<u>\$ 4,083,115</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU
SPECIAL REVENUE FUNDS

Statement of Revenues, Expenditures and Changes in
Fund Balance - Budget and Actual - Compact Section 211(c) - Communications Fund
Year Ended September 30, 2007

	Fiscal Year 2007 Budget	Continuing Appropriation	Total Available Budget	Actual	Variance
Revenues:					
Compact funding	\$ 246,000	\$ -	\$ 246,000	\$ 246,000	\$ -
Net increase in the fair value of investments	92	-	92	10,063	9,971
Total revenues	<u>246,092</u>	<u>-</u>	<u>246,092</u>	<u>256,063</u>	<u>9,971</u>
Expenditures:					
Investment management fees	92	-	92	92	-
Total expenditures	<u>92</u>	<u>-</u>	<u>92</u>	<u>92</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	<u>246,000</u>	<u>-</u>	<u>246,000</u>	<u>255,971</u>	<u>9,971</u>
Other financing sources (uses):					
Transfers to General Fund	(246,000)	-	(246,000)	(246,000)	-
Total other financing sources (uses), net	<u>(246,000)</u>	<u>-</u>	<u>(246,000)</u>	<u>(246,000)</u>	<u>-</u>
Excess of revenues over expenditures	-	-	-	9,971	9,971
Unreserved fund balance at the beginning of the year	75,262	(50,000)	25,262	70,326	45,064
Unreserved fund balance at the end of the year	<u>\$ 75,262</u>	<u>\$ (50,000)</u>	<u>\$ 25,262</u>	<u>\$ 80,297</u>	<u>\$ 55,035</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU
SPECIAL REVENUE FUNDS

Statement of Revenues, Expenditures, and Changes in
Fund Balance - Budget and Actual - Compact Section 211(d) -
Maritime, Health and Scholarship Fund
Year Ended September 30, 2007

	Fiscal Year 2007 Budget	Continuing Appropriation	Total Available Budget	Actual	Variance
Revenues:					
Compact funding	\$ 631,000	\$ -	\$ 631,000	\$ 631,000	\$ -
Net increase in the fair value of investments	61	-	61	7,096	7,035
Total revenues	<u>631,061</u>	<u>-</u>	<u>631,061</u>	<u>638,096</u>	<u>7,035</u>
Expenditures:					
Investment management fees	61	-	61	61	-
Total expenditures	<u>61</u>	<u>-</u>	<u>61</u>	<u>61</u>	<u>-</u>
Excess of revenue over expenditures	<u>631,000</u>	<u>-</u>	<u>631,000</u>	<u>638,035</u>	<u>7,035</u>
Other financing sources (uses), net:					
Transfers to General Fund	(631,000)	-	(631,000)	(631,000)	-
Net change in fund balance	-	-	-	7,035	7,035
Unreserved fund balance at the beginning of the year	58,176	-	58,176	37,308	(20,868)
Unreserved fund balance at the end of the year	<u>\$ 58,176</u>	<u>\$ -</u>	<u>\$ 58,176</u>	<u>\$ 44,343</u>	<u>\$ (13,833)</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU
SPECIAL REVENUE FUNDS

Statement of Revenues, Expenditures and Changes in
Fund Balance - Budget and Actual - Compact Section 211(e) - Maritime Fund
Year Ended September 30, 2007

	Fiscal Year 2007 Budget	Continuing Appropriation	Total Available Budget	Actual	Variance
Revenues:					
Net increase in the fair value of investments	\$ 200	\$ -	\$ 200	\$ 20,051	\$ 19,851
Total revenues	<u>200</u>	<u>-</u>	<u>200</u>	<u>20,051</u>	<u>19,851</u>
Expenditures:					
Investment management fees	200	-	200	200	-
Total expenditures	<u>200</u>	<u>-</u>	<u>200</u>	<u>200</u>	<u>-</u>
Excess of revenues over expenditures	-	-	-	19,851	19,851
Unreserved fund balance at the beginning of the year	<u>273,670</u>	<u>-</u>	<u>273,670</u>	<u>412,002</u>	<u>138,332</u>
Unreserved fund balance at the end of the year	<u>\$ 273,670</u>	<u>\$ -</u>	<u>\$ 273,670</u>	<u>\$ 431,853</u>	<u>\$ 158,183</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU
SPECIAL REVENUE FUNDS

Statement of Revenues, Expenditures and Changes in
Fund Balance - Budget and Actual - Compact Section 213 - Defense
Year Ended September 30, 2007

	Fiscal Year 2007 Budget	Continuing Appropriation	Total Available Budget	Actual	Variance
Revenues:					
Net increase in the fair value of investments	\$ 16,007	\$ -	\$ 16,007	\$ 337,675	\$ 321,668
Total revenues	<u>16,007</u>	<u>-</u>	<u>16,007</u>	<u>337,675</u>	<u>321,668</u>
Expenditures:					
Investment management fees	16,007	-	16,007	16,007	-
Total expenditures	<u>16,007</u>	<u>-</u>	<u>16,007</u>	<u>16,007</u>	<u>-</u>
Excess of revenues over expenditures	-	-	-	321,668	321,668
Other financing sources (uses):					
Transfers to General Fund	<u>(914,000)</u>	<u>-</u>	<u>(914,000)</u>	<u>(650,993)</u>	<u>263,007</u>
Net change in fund balance	(914,000)	-	(914,000)	(329,325)	584,675
Unreserved fund balance at the beginning of the year	<u>5,653,601</u>	<u>-</u>	<u>5,653,601</u>	<u>1,256,987</u>	<u>(4,396,614)</u>
Unreserved fund balance at the end of the year	<u>\$ 4,739,601</u>	<u>\$ -</u>	<u>\$ 4,739,601</u>	<u>\$ 927,662</u>	<u>\$ (3,811,939)</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU
SPECIAL REVENUE FUNDS

Statement of Revenues, Expenditures and Changes in
Fund Balance - Budget and Actual - Compact Section 221(b) - Special Block Grants
Year Ended September 30, 2007

	Fiscal Year 2007 Budget	Continuing Appropriation	Total Available Budget	Actual	Variance
Revenues:					
Compact funding	\$ 2,000,000	\$ -	\$ 2,000,000	\$ 2,000,000	\$ -
Net increase in the fair value of investments	161	-	161	18,071	17,910
Total revenues	<u>2,000,161</u>	<u>-</u>	<u>2,000,161</u>	<u>2,018,071</u>	<u>17,910</u>
Expenditures:					
Investment management fees	161	-	161	161	-
Total expenditures	<u>161</u>	<u>-</u>	<u>161</u>	<u>161</u>	<u>-</u>
Excess of revenues over expenditures	2,000,000	-	2,000,000	2,017,910	17,910
Other financing sources (uses):					
Transfers to Palau Community College	(2,000,000)	-	(2,000,000)	(2,000,000)	-
Net change in fund balance	-	-	-	17,910	17,910
Unreserved fund balance at the beginning of the year	(619,112)	2,277,000	1,657,888	181,473	(1,476,415)
Unreserved fund balance at the end of the year	<u>\$ (619,112)</u>	<u>\$ 2,277,000</u>	<u>\$ 1,657,888</u>	<u>\$ 199,383</u>	<u>\$ (1,458,505)</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU
CAPITAL PROJECTS FUNDS

Statement of Revenues, Expenditures, and Changes in
Fund Balance - Budget and Actual - Compact Section 212(b) - Capital Account
Year Ended September 30, 2007

	Fiscal Year 2007 Budget	Continuing Appropriation	Total Available Budget	Actual	Variance
Revenues:					
Net increase in the fair value of investments	\$ 181	\$ -	\$ 181	\$ 28,269	\$ 28,088
Total revenues	<u>181</u>	<u>-</u>	<u>181</u>	<u>28,269</u>	<u>28,088</u>
Expenditures:					
Investment management fees	181	-	181	181	-
New public health building	-	-	-	-	-
Elementary school repairs	-	-	-	-	-
State capital improvement projects	-	-	-	-	-
Total expenditures	<u>181</u>	<u>-</u>	<u>181</u>	<u>181</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	-	-	-	28,088	28,088
Unreserved fund balance at beginning of year	<u>(1,046,934)</u>	<u>(24,339,101)</u>	<u>(25,386,035)</u>	<u>74,683</u>	<u>25,460,718</u>
Unreserved fund balance at end of year	<u>\$ (1,046,934)</u>	<u>\$ (24,339,101)</u>	<u>\$ (25,386,035)</u>	<u>\$ 102,771</u>	<u>\$ 25,488,806</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU
OTHER GRANTS FUND

Schedule of Expenditures of Other Grants
Year Ended September 30, 2007

Fund 360100 Grantor Account Title	Cost Center	Authorization	Receivable from Grantor (Deferred Revenue) at 10/01/06	(revenues) Cash Receipts FY 2007	Expenditures FY 2007	Receivable from Grantor (Deferred Revenue) at 9/30/07
<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		<u>75,415</u>	<u>(10,927)</u>	<u>-</u>	<u>-</u>	<u>(10,927)</u>
<u>UNCCD Grant Committee</u>						
UNCCD (SLM-PDF A)	A53923	25,000	(6,812)	-	3,648	(3,164)
UNCCD Gran Committee	S03923	22,950	(4,851)	-	-	(4,851)
Total UNCCD		<u>47,950</u>	<u>(11,663)</u>	<u>-</u>	<u>3,648</u>	<u>(8,015)</u>
<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	(8,105)	-	2,617	(5,488)
Total WHO APW health Career Trng		<u>47,450</u>	<u>(9,063)</u>	<u>-</u>	<u>2,617</u>	<u>(6,446)</u>
<u>UNDP Public Sector Program</u>						
UNDP Public Sector Program	A73929	447,642	9,961	-	-	9,961
UN DEVEL PROGRAMME (UNDP)	F53929	161,000	56,146	53,479	72,370	75,037
Total UNDP		<u>608,642</u>	<u>66,107</u>	<u>53,479</u>	<u>72,370</u>	<u>84,998</u>
<u>Climate Change (UN) GET</u>						
National Biodiversity Plan	A23930	330,000	11,100	22,970	-	(11,870)
Climate Change Interim	A43930	15,000	(607)	-	294	(313)
2ND National Comm. UNFCCC	A63930	405,000	(5,314)	96,902	97,137	(5,079)
Total Climate Change (UN) GET		<u>750,000</u>	<u>5,179</u>	<u>119,872</u>	<u>97,431</u>	<u>(17,262)</u>
<u>National Biosafety Framework</u>						
National Biosafety Framework	A23931	131,000	74,350	-	-	74,350
<u>GEF Operational Focal Point</u>						
GEF Operational Plan	A23932	8,500	10,070	8,000	-	2,070
<u>SPREP (International Water IWP)</u>						
Int'l Water of the Pac	A23933	97,875	(568)	-	-	(568)
Int'l Water of the Pacific FY04	F43933	102,200	(40,900)	-	44,600	3,700
Total SPREP		<u>200,075</u>	<u>(41,468)</u>	<u>-</u>	<u>44,600</u>	<u>3,132</u>
<u>UNDP (WSSD Grants)</u>						
UNDP (WSSD) Projects	A23934	5,965	(50)	-	-	(50)
<u>SPREP</u>						
Ozone Depleting Substance	A33936	50,000	4,436	-	3,127	7,563
Ozone Depleting Substance	A73936	3,400	-	3,400	-	(3,400)
		<u>53,400</u>	<u>4,436</u>	<u>3,400</u>	<u>3,127</u>	<u>4,163</u>

REPUBLIC OF PALAU
OTHER GRANTS FUND

Schedule of Expenditures of Other Grants
Year Ended September 30, 2007

Fund 360100 Grantor Account Title	Cost Center	Authorization	Receivable from Grantor (Deferred Revenue) at 10/01/06	(revenues) Cash Receipts FY 2007	Expenditures FY 2007	Receivable from Grantor (Deferred Revenue) at 9/30/07
<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	(81,894)	-	80,713	(1,181)
<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	98,078	37,135	79,318	140,261
<u>National Capacity Self Assessment</u>						
National Capacity Self Assessment	F43944	25,000	(602)	-	-	(602)
<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	(7,622)	-	-	(7,622)
<u>3RD REPORT ON BIODIVERSITY</u>						
3rd Report on Biodiversity	A63947	16,500	(16,273)	-	14,220	(2,053)
<u>2ND FRANCE-OCEANIA SUMMIT</u>						
2nd France-Oceania Summit	A63954	34,410	(1,652)	-	-	(1,652)
<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	(13,704)	39,643	29,773	(23,574)
Total Japan Grant		151,197	(13,751)	39,643	29,773	(23,621)
<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)
<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	(6,318)	-	4,850	(1,468)
<u>Secretariat Pacific Comm</u>						
Secretariat Pacific Comm	R13961	6,000	2,837	-	-	2,837

REPUBLIC OF PALAU
OTHER GRANTS FUND

Schedule of Expenditures of Other Grants
Year Ended September 30, 2007

Fund 360100 Grantor Account Title	Cost Center	Authorization	Receivable from Grantor (Deferred Revenue) at 10/01/06	(revenues) Cash Receipts FY 2007	Expenditures FY 2007	Receivable from Grantor (Deferred Revenue) at 9/30/07
<u>Vanuatu Grants</u>						
Vanuatu Grants (NEMO)	A13962	8,269	(863)	-	-	(863)
Total Vanuatu Grants		11,269	(863)	-	-	(863)
<u>SPF Org. Comm - China Grants</u>						
SPF Org. Comm - China Grants	A93963	231,000	(2,781)	-	1,942	(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	55,761	-	-	55,761
National Youth Policies Development	C43966	6,000	(2,296)	-	-	(2,296)
PM & SP Capacity Building	F63966	200,000	31,237	125,000	89,352	(4,411)
ROC-PAC Summit Security	J63966	30,000	(9,476)	-	4,651	(4,825)
Total Republic of China Grants		526,000	75,226	125,000	94,003	44,229
<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
Education Awareness Week	E73967	95,040	-	95,040	95,040	-
Total Forum Sect. Drought Relief		107,520	(128)	95,040	95,040	(128)
<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	(1,922)	-	-	(1,922)
FAA - President's Office	A13969	39,000	(2,074)	-	-	(2,074)
FAA - President's Office	A23969	61,195	(1,503)	-	-	(1,503)
FAA - President's Office	A33969	71,194	(11,110)	-	-	(11,110)
FAA - Conferences	A93969	4,975	(727)	-	-	(727)
PALM 2000 (Tokyo Japan)	S03969	16,656	(495)	-	-	(495)
36TH PACIFIC ISLS FORUM	A53969	68,360	(4,435)	-	1,904	(2,531)
FAA - President's Office	A73969	19,985	(192)	86,100	5,630	(80,662)
FAA - President's Office	A83969	14,980	(14,980)	-	-	(14,980)
TRAVEL - FOC/FORUM Meeting	P63969	65,000	(61,151)	-	54,166	(6,985)
Annual Meeting of IWC	P73969	18,600	-	18,600	13,408	(5,192)
Total FFA - Grants		399,886	(98,589)	104,700	75,108	(128,181)
<u>PMA Office Building/Infrastructure</u>						
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	(3,124)	-	732	(2,392)
Total PMA Office Building/Infrastructure		115,679	(7,948)	-	732	(7,216)
<u>Fisheries Forum Agency</u>						
FAA Recrit Quality PERS	A13971	30,000	(1,154)	-	-	(1,154)
Fisheries & Maritime Cons.	R23971	30,000	25	-	-	25
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)
FFC59 MEETING IN MAJURO	R53971	4,348	(27)	-	-	(27)
55th Tuna Conference	R43971	16,203	(190)	-	-	(190)
Total Fisheries Forum Agency		217,491	(5,204)	-	-	(5,204)

REPUBLIC OF PALAU
OTHER GRANTS FUND

Schedule of Expenditures of Other Grants
Year Ended September 30, 2007

Fund 360100 Grantor Account Title	Cost Center	Authorization	Receivable from Grantor (Deferred Revenue) at 10/01/06	(revenues) Cash Receipts FY 2007	Expenditures FY 2007	Receivable from Grantor (Deferred Revenue) at 9/30/07
<u>Foreign Grants State</u>						
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)
<u>SPREP (Ngermeduu Conservation)</u>						
Marine Project / Area Project	B23972	13,252	(5,303)	-	-	(5,303)
Ngermeduu Conservation Area	R23972	27,500	(4,927)	-	267	(4,660)
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	(16,510)	-	267	(16,243)
<u>GIS/GPS Training (SPREP)</u>						
GIS/GPS Training	R23973	32,296	(21,112)	-	-	(21,112)
<u>Tax Equipment Furniture & Supplies</u>						
Tax Equipment Furniture & Supplies	A83973	25,000	(260)	-	-	(260)
<u>Palau Youth Empowerment Fund</u>						
Palau Youth Empowerment Fund 1998	C83974	53,551	(14,680)	-	-	(14,680)
PMA Port Samplers (SPC)	R63974	14,790	(392)	-	-	(392)
Total Palau Youth Empowerment Fund		68,341	(15,072)	-	-	(15,072)
<u>Australian Grants</u>						
Project 5/99	A93975	1,572	(19)	-	-	(19)
Coral Reef Aware Program	A43975	2,000	(2,000)	-	-	(2,000)
Pur Microfilm Read/Printer	C65001	8,600	(298)	-	-	(298)
Inventory Bar Code System	H43975	13,800	(4,143)	-	-	(4,143)
AUSAID	H73975	4,800	-	4,800	4,800	-
Ramsar Wetl'ds Cons Fund	S70201	6,796	(5,721)	-	-	(5,721)
Total Australian Grants		37,568	(12,181)	4,800	4,800	(12,181)
<u>Japan Rotary Club Donation</u>						
Japan Rotary Club Donation	R63976	24,725	(250)	-	144	(106)
Pal/Jpn Fisheries Constl.	R13976	18,013	(1,208)	-	-	(1,208)
Total Rotary Club Donation		42,738	(1,458)	-	144	(1,314)
<u>FFA - Kayangel Fishing Project</u>						
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)
<u>SPREP Grants</u>						
SPREP (Coral Reef Comm)1997	R73979	12,050	(287)	-	-	(287)
Pilot Project (Solid Waste)1999	R93979	39,998	(200)	-	198	(2)
Total SPREP Grants		52,048	(487)	-	198	(289)
<u>WildAid-Packard Foundation</u>						
WildAid-Packard Foundation	J33980	72,867	(5,672)	-	(25)	(5,697)
Packard EBM Project-EQPB	A63980	107,755	(107,350)	22,425	37,248	(92,527)
		180,622	(113,022)	22,425	37,223	(98,224)
<u>Marine Res Conservation</u>						
Marine Res Conservation	R53980	38,900	(4,764)	-	-	(4,764)

REPUBLIC OF PALAU
OTHER GRANTS FUND

Schedule of Expenditures of Other Grants
Year Ended September 30, 2007

Fund 360100 Grantor Account Title	Cost Center	Authorization	Receivable from Grantor (Deferred Revenue) at 10/01/06	(revenues) Cash Receipts FY 2007	Expenditures FY 2007	Receivable from Grantor (Deferred Revenue) at 9/30/07
<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>						
DNA Project (University of Utah)	H93987	16,700	(39)	-	-	(39)
Palau Youth Project 2007	H73987	22,000	-	22,000	19,732	(2,268)
		38,700	(39)	22,000	19,732	(2,307)
<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>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	E43992	68,499	-	-	-	-
LSTA State Grants FY05	E63992	43,687	39,782	39,782	-	-
LSTA State Grants FY07	E73992	54,349	-	-	41,115	41,115
Total LSTA State Grants		200,550	37,946	39,782	41,115	39,279
<u>Genetic Study (MOH)</u>						
Genetic Study	H13993	405,000	(10,698)	-	6,882	(3,816)
Total Genetic Study (MOH)		405,000	(10,698)	-	6,882	(3,816)
<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	(5,060)	-	-	(5,060)
<u>Protected Areas Network</u>						
Protected Areas Network	R43997	39,700	(51,754)	-	49,870	(1,884)
<u>National Assessment Report-BPOA</u>						
National Assessment Report	R48920	5,000	(2,102)	-	-	(2,102)
<u>UNDP (SEDREA) ENERGY</u>						
UNDP (SEDREA) ENERGY	A58922	25,000	(11,289)	-	10,567	(722)

REPUBLIC OF PALAU
OTHER GRANTS FUND

Schedule of Expenditures of Other Grants
Year Ended September 30, 2007

Fund 360100 Grantor Account Title	Cost Center	Authorization	Receivable from Grantor (Deferred Revenue) at 10/01/06	(revenues) Cash Receipts FY 2007	Expenditures FY 2007	Receivable from Grantor (Deferred Revenue) at 9/30/07
<u>UNDP/UNCCD/GEF</u>						
UNDP (SEDREA) Energy	A63923	12,000	(8,455)	-	-	(8,455)
<u>10th International Coral Reef Sympo</u>						
International Coral Reef Sympo	F48961	1,400	1,400	-	-	1,400
<u>Giant Clam Farming Project</u>						
Giant Clam Farming Project	T48962	15,000	(1,168)	-	-	(1,168)
<u>TUNA DATA COORDINATOR</u>						
Tuan Data Coordinator	R68963	11,575	(11,575)	-	10,705	(870)
<u>HOUSEHOLD INCOME/EXP SURVEY</u>						
Househol Income/Expenditures Survey	F68964	26,684	(21,248)	-	16,369	(4,879)
<u>Fisheries Forum Association</u>						
HOSTING CONSULT NEGOTIATI	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)
<u>Cnesus of Population & House Survey</u>						
Census of Pop & House Survey	F48966	185,000	111,283	30,774	15,757	96,266
<u>HOSPITAL EQUIP - IINDIA GRT</u>						
HOSPITAL EQUIP - INDIA GRT	H58968	149,841	(141,537)	-	93,792	(47,745)
<u>PALAU DIGITAL ARCHIVING</u>						
DIGITAL ARCHIVING	S58969	240,000	49,231	101,839	52,182	(426)
<u>DRUG DETECTOR DOG UNIT</u>						
DRUG DETECTOR DOG UNIT	F58970	175,000	(11,100)	-	1,639	(9,461)
<u>INDEPENDENCE DAY (ROC)</u>						
12th Independence Day	P6R0C1	100,000	69,162	100,000	29,764	(1,074)
President's Expenses	P6R0C1	200,000	157,081	200,000	40,165	(2,754)
13th Independence Day	P7ROC1	50,000	-	-	35,841	35,841
Total Independence day		350,000	226,243	300,000	105,770	32,013
<u>CZECH REPUBLIC GRANT</u>						
Czech Dentist Dr. Palek	H78973	23,953	-	18,545	19,163	618
<u>HUMANITARIAN ASSISTANCE TO PSB</u>						
Humanitarian Assistance to PSB	F78974	3,355,000	-	3,355,000	3,303,384	(51,616)
<u>IWRM Project (SOPAC)</u>						
IWRM Project (SOPAC)	A78975	6,120	-	6,120	6,120	-
<u>PROTECT MARINE BIODIVERSITY</u>						
Protect Marine Biodiversity	A78976	43,000	-	43,000	1,122	(41,878)

REPUBLIC OF PALAU
OTHER GRANTS FUND

Schedule of Expenditures of Other Grants
Year Ended September 30, 2007

Fund 360100 Grantor Account Title	Cost Center	Authorization	Receivable from Grantor (Deferred Revenue) at 10/01/06	(revenues) Cash Receipts FY 2007	Expenditures FY 2007	Receivable from Grantor (Deferred Revenue) at 9/30/07
<u>PRIDE GRANTS</u>						
Curriculum Frameworks	E7PRI1	150,000	-	-	143	143
Palau Achievement Tests	E7PRI2	150,000	-	-	143	143
Palauan Textbook	E7PRI3	88,899	-	-	143	143
Total PRIDE		<u>388,899</u>	<u>-</u>	<u>-</u>	<u>429</u>	<u>429</u>
<u>MICRONESIAN CHALANGE DONATION</u>						
Micronesian Chalange Donation	A78978	-	-	75,000	-	(75,000)
<u>NEMO PEACESAT ASSISTANCE</u>						
Nemo PEACESAT Assistance	J68980	1,938	(1,304)	-	664	(640)
<u>NATIONAL FISH & WILDLIFE FOUNDATION</u>						
Coral Reef Conservation	J68981	41,152	2,637	29,153	34,200	7,684
<u>UN Grants</u>						
Biodiversity Cons Program	9935-PR0001	111,449	(975)	-	-	(975)
Total Other Grants		<u>12,274,734</u>	<u>(30,527)</u>	<u>4,634,707</u>	<u>4,531,586</u>	<u>(133,648)</u>