

REPUBLIC OF PALAU
NATIONAL GOVERNMENT

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

YEAR ENDED SEPTEMBER 30, 2006

REPUBLIC OF PALAU
FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2006

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REPUBLIC OF PALAU
NATIONAL GOVERNMENT

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
YEAR ENDED SEPTEMBER 30, 2006

INDEPENDENT AUDITORS' REPORT

Honorable 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, 2006, 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, 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 respective 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 respective 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 opinion.

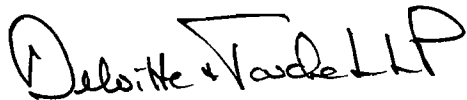
In our opinion, based on our audit and the reports of other auditors, such financial statements, as set forth in Section II of the foregoing table of contents, present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Republic of Palau as of September 30, 2006, 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.

As disclosed in note 12 to the financial statements, at September 30, 2006, the Republic had approximately \$1 million of uninsured and uncollateralized deposits with a bank that went into receivership on November 7, 2006. We are unable to assess the recoverability of such deposits. No provision has been recorded in the financial statements for this uncertainty.

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 supplementary information. However, we did not audit such information and we do not express an opinion on it.

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 19, 2007, on our consideration of the Republic of Palau's (primary government only) 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 & Touche LLP". The signature is stylized, with the "D" being large and the "LLP" being written in a more compact, cursive style.

June 19, 2007

REPUBLIC OF PALAU

Management's Discussion and Analysis Year Ended September 30, 2006

This report presents a discussion and analysis of the Republic of Palau (ROP) financial performance during the fiscal year ended September 30, 2006.

FINANCIAL HIGHLIGHTS

- The total government-wide assets of the ROP exceeded the liabilities at September 30 2006 by \$366,145,904 and are reported as total net assets of the primary government. Of this amount, (\$4,659,273) was (unrestricted net assets), \$161,863,410 was restricted for specific purposes (restricted net assets) and \$208,941,767 was invested in capital assets, net of related debt.
- The ROP's expenses for governmental activities were \$79,693,118 and were funded in part by program revenues of \$64,247,802 and tax and other revenues of \$39,654,185 resulting in changes in net assets of \$24,208,869, or a 2.5% increase from last year.
- At the end of the fiscal year, unreserved fund balance deficit for General Fund Budget to Actual was \$2,155,188 or 4.2% of total general fund expenditures. The general fund unreserved fund deficit was reduced by \$618,041 or 22.3% from last year.

OVERVIEW OF THE FINANCIAL STATEMENT

This discussion and analysis is intended to introduce the reader to the ROP's basic financial statements. These statements are comprised of 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 the ROP is improving or deteriorating.

The statement of activities presents information showing how the ROP's net assets changed during the most recent fiscal year. All changes in the 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 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 government activities reflect the ROP's basic services including Public Safety, Health Care, Education, 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.

REPUBLIC OF PALAU

Management's Discussion and Analysis, Continued Year Ended September 30, 2006

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. The ROP, uses fund accounting to ensure and demonstrate finance-related legal compliances.

Government funds are used to account for essentially the same functions report as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental funds financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the ROP's near-term financing requirements.

Because the focus of governmental funds is narrower than of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities as explained on page 15 of this report.

Fiduciary Funds are used to account for resources held by the ROP in a trustee capacity or as an agent for others. These funds are restricted in purpose and do not represent discretionary assets of the 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 the 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 47 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Republic of Palau assets exceeded its liabilities by \$366,145,904 at the close of the most recent fiscal year as compared to \$348,186,949 at the close of the last fiscal year. This represents a 5.2% increase. A comparative analysis of the changes is presented below:

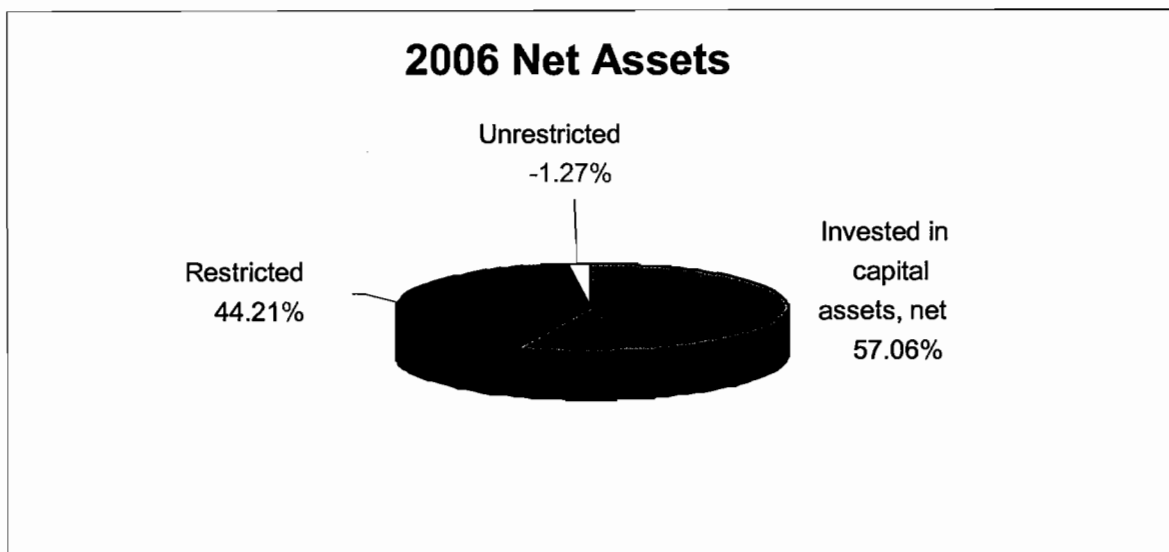
STATEMENT OF NET ASSETS

	Governmental Activities	
	2006	2005
Assets:		
Current assets	\$ 18,505,746	\$ 18,938,483
Noncurrent assets	388,522,681	361,969,672
Total assets	407,028,427	380,908,155
Liabilities:		
Current liabilities	19,605,162	17,040,956
Noncurrent liabilities	21,277,361	21,930,164
Total liabilities	40,882,523	38,971,120

REPUBLIC OF PALAU

Management's Discussion and Analysis, Continued Year Ended September 30, 2006

	Governmental Activities	
	2006	2005
Net assets:		
Invested in capital assets, net of related debt	208,941,767	187,539,888
Restricted	161,863,410	158,623,181
Unrestricted	(4,659,273)	(4,226,034)
Total net assets	<u>\$366,145,904</u>	<u>\$341,937,035</u>



Below is the summary of the changes in net assets for the year ended September 30, 2006 in comparison to fiscal year 2005:

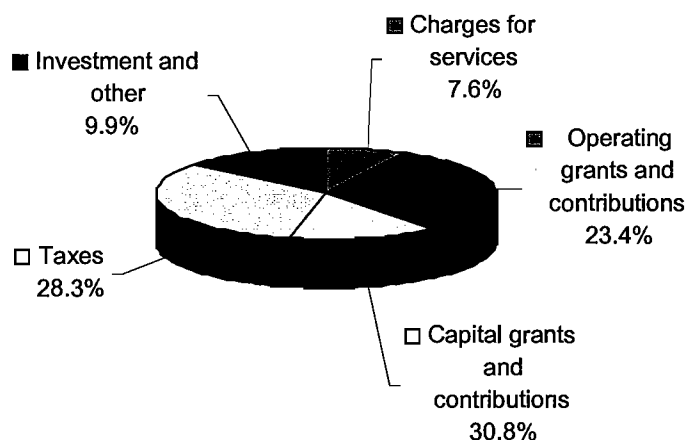
	Governmental Activities	
	2006	2005
Revenues:		
Program revenues		
Charges for services	\$ 7,956,221	\$ 7,319,747
Operating grants and contributions	24,306,375	29,157,905
Capital grants and contributions	31,985,206	13,104,437
General revenues		
Taxes	29,375,528	30,085,362
Investment and other	<u>10,278,657</u>	<u>13,231,358</u>
Total revenues	<u>103,901,987</u>	<u>92,898,809</u>

REPUBLIC OF PALAU

Management's Discussion and Analysis, Continued Year Ended September 30, 2006

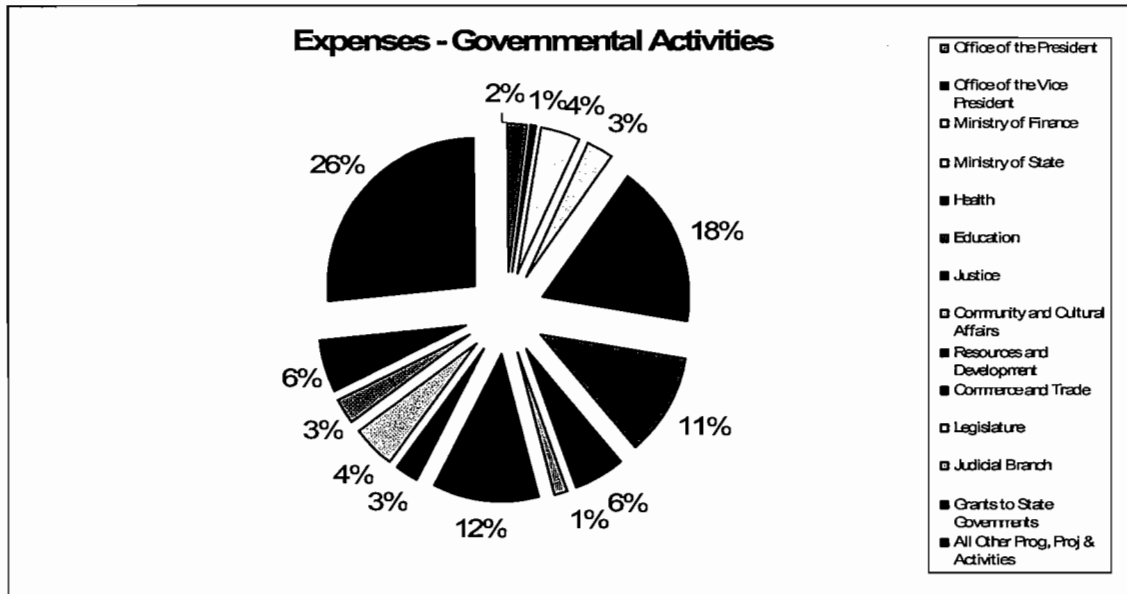
	Governmental Activities	
	2006	2005
Expenses:		
Office of the President	1,681,974	1,240,931
Office of the Vice President	563,249	552,761
Ministry of Finance	3,276,929	3,939,547
Ministry of State	2,375,113	2,158,052
Ministry of Health	14,244,594	13,064,743
Ministry of Education	8,822,840	8,168,884
Ministry of Justice	4,443,301	3,898,680
Ministry of Community and Cultural Affairs	1,170,975	1,921,715
Ministry of Resources and Development	9,261,544	9,721,165
Ministry of Commerce and Trade	2,072,928	2,095,809
Boards, Commissions, and Authorities	598,723	589,481
Independent Agencies	3,146,707	2,212,152
Legislature Branch	3,575,293	3,422,808
Judicial Branch	2,278,066	2,208,560
Grants to State Governments	4,711,000	4,490,999
Capital Projects	8,527,768	514,806
Other Agencies and Activities	2,190,491	1,863,462
Education Assistance	3,031,179	2,996,179
Other	3,720,444	3,944,577
Total expenses	79,693,118	69,005,311
Change in net assets	24,208,869	23,893,498
Net assets at the beginning of the year	341,937,035	324,293,451
Net assets at the end of the year	\$366,145,904	\$348,186,949

Revenues - Governmental Activities



REPUBLIC OF PALAU

Management's Discussion and Analysis, Continued Year Ended September 30, 2006



Investment in capital assets, net of related debt represents 57.1% of the 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. The 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.

The 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 the 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 terms of the grants.

Unrestricted net assets had a negative balance \$4,659,273 at the end of the current fiscal year.

FINANCIAL ANALYSIS OF FUNDS

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

At September 30, 2006, the ROP's governmental funds reported combined fund balances of \$164,541,829 and at September 30, 2005 the ROP reported \$160,693,174, an increase of \$3,848,655 or 2.4%.

Approximately \$11,280,962 of the combined fund balances constitutes unreserved fund deficit at the end of the fiscal year. The majority of the deficit was a result of CIP grants expended, but not drawn down at the end of the fiscal year. The remainder of the fund balance is reserved and not available for new spending because it has been committed for (1) Related assets such as Compact Trust Fund reserved for future use, receivables, etc., \$162,432,470 (2) Encumbrances that are contracts and purchase orders, \$12,362,881, (3) Continuing appropriations - non lapsing programs \$839,013 and 4) Debt Service \$188,427.

REPUBLIC OF PALAU

Management's Discussion and Analysis, Continued Year Ended September 30, 2006

The General Fund is the chief operating fund of the ROP. At September 30, 2006, the General Fund reported revenues at \$45,609,396, a decrease of \$2,296,962 below the previous year (4.8%), while reported expenditures at \$51,162,429. Total other financing sources (uses), net of \$5,667,097 combined with revenues of \$45,609,396 resulted in a net change in fund balance of \$114,064. The cumulative fund balance at end of year was \$1,106,830.

Grants Fund included \$7,442,661 of US Federal Grants most of which was spent for Health and Education. The majority of the fund is made up of \$12,824,465 expenditures from the ROC (Taiwan) grants for various CIP projects.

Permanent Fund is the Compact Trust Fund. COFA Trust Fund investment fair market value at the end of the year was \$157,114,101, an increase of \$3,774,279 or 2.5%. Five (5) million dollars is appropriated from this fund on an annual basis.

Other Governmental Funds includes all funds that do not meet the definition of a major fund. This fund includes Other Country grants as well as General Fund Special Revenues.

General Fund Budgetary Highlights

General fund revenues recorded a \$2.3 million or approximately 5 percent decrease, from \$47.9 million down to \$45.6 million in fiscal year 2006. However, excluding the one-time capital revenue receipt from the sale of the Republic's investment holdings of \$2 million, actual general fund revenues declined by less than 1 percent. The slight decline is attributed to expanded economic activity in fiscal year 2005 associated with the hosting of the 2005 Mini-South Pacific Games.

General fund expenditures recorded an increase from \$50.1 million to \$51.2 million, a \$1.1 million or about 2 percent growth. The small increase is attributed to the Public Service System reclassification and a one-time appropriation for the Compact Review Commission. Excluding these expenditure outlays totaling \$.7 million, the growth in expenditures would be less than 1 percent consistent with continuing cost containment measures identified in the Cost Reduction Plan and fiscal policy of keeping expenditure growth lower or equal to the rate of revenue growth under the government's medium term economic development strategy framework (EDSF).

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The ROP investment in capital assets for its governmental activities as of September 30, 2006, amounted to \$225,571,673 (net of accumulated depreciation of \$36,618,853), as compared to \$212,432,660 (net of accumulated depreciation of \$31,867,936) for the year ended September 30, 2005.

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

	<u>Governmental Activities</u>	
	<u>2006</u>	<u>2005</u>
Land	\$ 3,588,626	\$ 3,588,626
Buildings and improvements, net	38,408,904	40,553,414
Machinery and equipment, net	3,612,801	4,144,962
Vehicles	802,909	921,388
Infrastructure	16,982,152	12,062,154
Construction in progress	162,176,281	151,162,116
Totals	\$ <u>225,571,673</u>	\$ <u>212,432,660</u>

REPUBLIC OF PALAU

Management's Discussion and Analysis, Continued Year Ended September 30, 2006

Long-Term Debt

At September 30, 2006, the ROP had total long-term obligations of \$23,967,598 as compared to \$24,938,885 in the prior year.

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

	Governmental Activities	
	2006	2005
Accrued Vacation Leave	\$ 3,467,601	\$ 3,296,030
Loans Payable	17,499,997	18,642,855
Due to U.S. Government	<u>3,000,000</u>	<u>3,000,000</u>
Totals	\$ <u>23,967,598</u>	\$ <u>24,938,885</u>

Economic Factors and Next Year's Budget

The construction and tourism industries are expected to continue to be major contributors to growth in fiscal year 2007. Expanded agriculture production is also anticipated to contribute to economic activity led by increased demand for noni and taro value-added products.

A number of major public sector construction projects are expected to be in full construction phase including the Airport-Ngerikiil Compact Road Connection, Koror-Airai metropolitan road system, State CIP's through the State Economic Stimulus Package Grant, and various capital improvements to the Palau International Airport facilities. In the private sector, actual construction for several projects including the former Nikko Hotel site development will further support continued growth and expansion in the construction industry.

Ongoing efforts aimed at diversifying Palau's tourism markets and products and its value-added should result in sustained increase in domestic income and consumer spending. Audio-visual equipments improvements planned for the Ngarachamayong Cultural Center would greatly enhance the hosting capacity of the Center as well as expanded hotel rooms will further strengthen and expose Palau's tourism market to the world.

After some delays, the completion of the ongoing deployment of replacement and additional Fishing Aggregate Devices (FADS) to support the Sports Fishing Industry this year should further enhance the attractiveness of Palau as a visitor destination area.

In addition, a positive outlook for the U.S. and the Asian economies remains despite the significant rise in energy prices, which is anticipated to result in continued growth for our tourism industry in 2007. The high price of oil continues to be a major concern that could lead to slower economic growth although industry experts are still fairly optimistic of overall growth prospects.

SARS and the Asian Bird Flu poses continuing threats to our Tourism Industry but increased monitoring and preventive measures established by the affected countries and the World Health Organization as well as our own capacity to respond has greatly improved and new cases should be effectively contained.

REPUBLIC OF PALAU

Management's Discussion and Analysis, Continued Year Ended September 30, 2006

Terrorism remains a serious threat to our Tourism Industry and security measures are continuously being refined and undertaken by our major visitor markets. Ongoing improvements at the Palau International Airport addresses immediate and long-term security concerns. Security and safety measures relating to terrorism are becoming more institutionalized and the travel market is expected to continue to grow.

Continued fiscal discipline and sound structural policies should facilitate continued growth in fiscal year 2007 albeit at a slower rate compared to the last several fiscal periods.

The fiscal year 2007 budget will continue to prioritize available resources toward key areas where the Republic will realize the greatest long-term rewards – Health and Education. Available resources would further be aimed at eliminating the general fund unreserved fund balance deficit and reducing long-term costs of the governmental services as well as facilitating expanded opportunities for sustainable revenue growth.

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, 2006

	Primary Government	Component Units
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,733,818	\$ 6,551,075
Time certificates of deposit	-	2,158,863
Investments	5,247,858	8,107,680
Receivables, net of allowance for uncollectibles	9,621,570	9,146,025
Inventories	-	4,322,834
Other current assets	396,242	439,716
Restricted assets:		
Cash and cash equivalents	506,258	5,177,187
Time certificates of deposit	-	521,348
Investments held for Endowment Foundation	-	1,309,670
Total current assets	<u>18,505,746</u>	<u>37,734,398</u>
Noncurrent assets:		
Restricted assets:		
Investments	159,587,989	-
Cash and cash equivalents and time certificates of deposit	1,212,977	-
Investments	1,739,500	1,000,000
Receivables, net of allowance for uncollectibles	-	14,031,146
Capital assets, net of accumulated depreciation	225,571,673	60,687,330
Foreclosed real estate	-	216,000
Other noncurrent assets	410,542	2,362,863
Total noncurrent assets	<u>388,522,681</u>	<u>78,297,339</u>
Total assets	<u>\$ 407,028,427</u>	<u>\$ 116,031,737</u>
LIABILITIES		
Current liabilities:		
Bank overdraft	\$ 2,492,046	\$ -
Note payable	160,000	4,842,351
Current portion of long-term obligations	1,142,858	1,306,862
Accounts payable	11,491,416	2,306,054
Current portion of compensated absences payable	1,547,379	-
Other liabilities and accruals	1,950,139	1,542,957
Income tax refunds	610,342	-
Deferred revenue	210,982	706,056
Total current liabilities	<u>19,605,162</u>	<u>10,704,280</u>
Noncurrent liabilities:		
Noncurrent portion of long-term obligations	16,357,139	37,311,136
Compensated absences payable, net of current portion	1,920,222	-
Due to U.S. Government	3,000,000	-
Deposits	-	435,352
Deferred credit	-	16,172
Total noncurrent liabilities	<u>21,277,361</u>	<u>37,762,660</u>
Total liabilities	<u>40,882,523</u>	<u>48,466,940</u>
Commitments and contingencies		
NET ASSETS		
Invested in capital assets, net of related debt	208,941,767	28,569,332
Restricted for:		
Nonexpendable:		
Future operations	157,114,101	-
Expendable:		
Compact related	4,560,882	-
Retirement of indebtedness	188,427	-
Other purposes	-	21,336,456
Unrestricted	<u>(4,659,273)</u>	<u>17,659,009</u>
Total net assets	<u>366,145,904</u>	<u>67,564,797</u>
Total liabilities and net assets	<u>\$ 407,028,427</u>	<u>\$ 116,031,737</u>

See accompanying notes to basic financial statements.

REPUBLIC OF PALAU

Statement of Activities For the Year Ended September 30, 2006

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	\$ 14,244,594	\$ 1,851,072	\$ 4,666,872	\$ -	\$ (7,726,650)	\$ -
Ministry of Education	8,822,840	-	2,419,746	-	(6,403,094)	-
Ministry of Resources and Development	9,261,544	879,461	681,678	-	(7,700,405)	-
State Block Grants	4,711,000	-	-	-	(4,711,000)	-
Education assistance	3,031,179	-	2,000,000	-	(1,031,179)	-
Ministry of Finance	3,276,929	237,502	1,047,347	-	(1,992,080)	-
Ministry of Justice	4,443,301	1,204,079	649,370	-	(2,589,852)	-
Legislative Branch	3,575,293	-	-	-	(3,575,293)	-
Investment management fees	-	-	398,340	-	398,340	-
Ministry of State	2,375,113	-	345,626	-	(2,029,487)	-
Judicial Branch	2,278,066	265,244	-	-	(2,012,822)	-
Ministry of Commerce and Trade	2,072,928	2,259,137	349,161	-	535,370	-
Office of the President	1,681,974	-	686,959	-	(995,015)	-
Ministry of Community and Cultural Affairs	1,170,975	6,036	30,181	-	(1,134,758)	-
Office of the Vice-President	563,249	-	125,164	-	(438,085)	-
Boards, Commissions & Authorities	598,723	204,620	-	-	(394,103)	-
Independent Agencies	3,146,707	380,994	432,000	-	(2,333,713)	-
Other Agencies and Activities	2,190,491	-	-	-	(2,190,491)	-
Capital projects	8,527,768	-	-	31,985,206	23,457,438	-
Unallocated interest - long-term debt	656,594	-	-	-	(656,594)	-
Future operations	952,334	-	10,390,567	-	9,438,233	-
Other	2,111,516	668,076	83,364	-	(1,360,076)	-
Total primary government	\$ 79,693,118	\$ 7,956,221	\$ 24,306,375	\$ 31,985,206	(15,445,316)	-
Component units:						
National Development Bank of Palau	\$ 712,279	\$ 704,984	\$ -	\$ -	-	(7,295)
Palau Community College	8,913,122	2,521,267	3,595,841	390,678	-	(2,405,336)
Palau National Communications Corporation	8,988,526	8,745,789	-	-	-	(242,737)
Palau International Coral Reef Center	1,705,453	320,946	444,650	-	-	(939,857)
Palau Visitors Authority	857,810	46,913	-	-	-	(810,897)
Public Utilities Corporation	22,531,611	17,798,451	-	-	-	(4,733,160)
Palau District Housing Authority	120,225	60,922	13,812	-	-	(45,491)
Total component units	\$ 43,829,026	\$ 30,199,272	\$ 4,054,303	\$ 390,678	-	(9,184,773)
General revenues:						
Taxes:						
Business gross receipts					9,540,725	-
Salary and wage					6,978,019	-
Alcohol and tobacco					4,490,225	-
General import					2,153,759	-
Travelers head					1,733,670	-
Hotel occupancy					1,255,396	-
Other					3,223,734	-
Grants and contributions not restricted for specific programs					9,840,000	-
Unrestricted investment earnings					28,831	1,455,689
Contributions from Primary Government					-	3,716,565
Other					409,826	-
Total general revenues and transfers					39,654,185	5,172,254
Change in net assets					24,208,869	(4,012,519)
Net assets at the beginning of the year, as restated					341,937,035	71,577,316
Net assets at the end of the year					\$ 366,145,904	\$ 67,564,797

See accompanying notes to basic financial statements.

REPUBLIC OF PALAU

Balance Sheet Governmental Funds September 30, 2006

	General	Special Revenue	Permanent	Other Governmental Funds	Total
		Grants	Compact Section 211(f)		
ASSETS					
Cash and cash equivalents	\$ 3,352,991	\$ -	\$ -	\$ -	\$ 3,352,991
Time certificates of deposit	593,804	-	-	-	593,804
Investments	2,559,361	-	-	4,427,997	6,987,358
Receivables, net:					
Taxes	3,512,349	-	-	-	3,512,349
General	889,519	2,799,972	-	9,581	3,699,072
Federal agencies	-	1,184,601	-	676,341	1,860,942
Accrued interest	4,326	-	526,112	18,769	549,207
Due from other funds	4,119,364	549,999	-	2,940,219	7,609,582
Advances	139,099	94,074	-	14,555	247,728
Inventory	46,467	-	-	-	46,467
Prepaid items	21,067	372,346	-	119,176	512,589
Restricted assets:					
Cash and cash equivalents	506,258	-	-	-	506,258
Investments	-	-	156,587,989	3,000,000	159,587,989
	<u>\$ 15,744,605</u>	<u>\$ 5,000,992</u>	<u>\$ 157,114,101</u>	<u>\$ 11,206,638</u>	<u>\$ 189,066,336</u>

LIABILITIES AND FUND

BALANCES

Liabilities:					
Bank overdraft	\$ 2,492,046	\$ -	\$ -	\$ -	\$ 2,492,046
Note payable	160,000	-	-	-	160,000
Accounts payable	6,086,822	4,300,829	-	1,103,765	11,491,416
Other liabilities and accruals	1,798,347	3,954	147,838	-	1,950,139
Deferred revenue	-	-	-	210,982	210,982
Due to other funds	3,490,218	694,588	-	3,424,776	7,609,582
Income tax refunds	610,342	-	-	-	610,342
Total liabilities	<u>14,637,775</u>	<u>4,999,371</u>	<u>147,838</u>	<u>4,739,523</u>	<u>24,524,507</u>
Fund balances:					
Reserved for:					
Continuing appropriations	562,659	-	-	276,354	839,013
Related assets	2,277,606	179,474	156,966,263	3,009,127	162,432,470
Encumbrances	421,753	6,865,529	-	5,075,599	12,362,881
Debt service	-	-	-	188,427	188,427
Unreserved (deficits):					
General fund	(2,155,188)	-	-	-	(2,155,188)
Special revenue funds	-	(7,043,382)	-	1,746,194	(5,297,188)
Capital projects funds	-	-	-	(3,828,586)	(3,828,586)
Total fund balances	<u>1,106,830</u>	<u>1,621</u>	<u>156,966,263</u>	<u>6,467,115</u>	<u>164,541,829</u>
	<u>\$ 15,744,605</u>	<u>\$ 5,000,992</u>	<u>\$ 157,114,101</u>	<u>\$ 11,206,638</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 225,571,673

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 (17,499,997)
Compensated absences (3,467,601)
Due to U.S. Government (3,000,000)

(23,967,598)

Net assets of governmental activities

\$ 366,145,904

See accompanying notes to basic financial statements.

REPUBLIC OF PALAU

Statement of Revenues, Expenditures, and Changes in Fund Balances Governmental Funds Year Ended September 30, 2006

	General	Special Revenue Grants Fund	Permanent Compact Section 211(f)	Other Governmental Funds	Total
Revenues:					
Taxes	\$ 29,375,528	\$ -	\$ -	\$ -	\$ 29,375,528
Federal and other grants	-	29,723,650	-	1,908,562	31,632,212
Compact funding	9,840,000	-	-	2,877,000	12,717,000
Net increase in the fair value of investments	28,831	-	10,390,567	398,340	10,817,738
Fees and charges	3,354,863	-	-	2,032,806	5,387,669
Licenses and permits	2,344,664	-	-	-	2,344,664
Other	665,510	-	-	1,201,950	1,867,460
Total revenues	45,609,396	29,723,650	10,390,567	8,418,658	94,142,271
Expenditures:					
Current:					
Ministry of Health	7,013,399	4,220,532	-	2,021,083	13,255,014
Ministry of Education	6,264,092	2,276,592	-	69,605	8,610,289
Ministry of Resources and Development	6,432,923	242,799	-	404,096	7,079,818
State Block Grants	4,711,000	-	-	-	4,711,000
Education assistance	3,031,179	-	-	-	3,031,179
Ministry of Finance	2,141,016	-	-	1,122,347	3,263,363
Ministry of Justice	3,952,400	-	-	54,479	4,006,879
Legislative Branch	3,571,966	-	-	-	3,571,966
Investment management fees	-	-	933,261	19,073	952,334
Ministry of State	2,226,334	-	-	139,626	2,365,960
Judicial Branch	2,239,506	-	-	-	2,239,506
Ministry of Commerce and Trade	1,304,469	349,161	-	-	1,653,630
Office of the President	968,253	228,413	-	458,546	1,655,212
Ministry of Community and Cultural Affairs	936,194	-	-	32,923	969,117
Office of the Vice-President	433,066	125,164	-	-	558,230
Boards, Commissions and Authorities	598,723	-	-	-	598,723
Office of the Public Auditor	326,111	-	-	432,000	758,111
Office of the Special Prosecutor	219,287	-	-	-	219,287
Environmental Quality Protection Board	346,244	-	-	-	346,244
National Postal Service	266,468	-	-	-	266,468
Palau Visitors Authority	850,000	-	-	-	850,000
International Monetary Fund	546,507	-	-	-	546,507
National Aviation Administration	156,591	-	-	-	156,591
Other agencies and activities	2,088,355	-	-	-	2,088,355
Other	538,346	-	-	1,474,179	2,012,525
Capital outlay:					
Capital projects	-	22,224,940	-	502,916	22,727,856
Debt service:					
Principal retirement	-	-	-	1,142,858	1,142,858
Interest	-	-	-	656,594	656,594
Total expenditures	51,162,429	29,667,601	933,261	8,530,325	90,293,616
Excess (deficiency) of revenues over (under) expenditures	(5,553,033)	56,049	9,457,306	(111,667)	3,848,655
Other financing sources (uses):					
Operating transfers in	8,863,549	17,500	-	3,196,452	12,077,501
Operating transfers out	(3,196,452)	(73,549)	(5,000,000)	(3,807,500)	(12,077,501)
Total other financing sources (uses), net	5,667,097	(56,049)	(5,000,000)	(611,048)	-
Net change in fund balances	114,064	-	4,457,306	(722,715)	3,848,655
Fund balances at beginning of year	992,766	1,621	152,508,957	7,189,830	160,693,174
Fund balances at end of year	\$ 1,106,830	\$ 1,621	\$ 156,966,263	\$ 6,467,115	\$ 164,541,829

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, 2006

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	\$ 3,848,655
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 \$3,703,523.	19,388,927
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.	<u>(171,571)</u>
Change in net assets of governmental activities as presented on page 12.	\$ <u>24,208,869</u>

See accompanying notes to basic financial statements.

REPUBLIC OF PALAU

Statement of Fiduciary Net Assets Fiduciary Funds September 30, 2006

	Private Purpose Trust	Pension (and Other Employee Benefit) Trust	Total
<u>ASSETS</u>			
Cash and cash equivalents	\$ 684,157	\$ 158,737	\$ 842,894
Time certificate of deposit	-	50,000	50,000
Receivables, net:			
Contributions	1,561,514	412,254	1,973,768
Loan	1,500,000	-	1,500,000
Accrued interest and dividends	246,106	-	246,106
Other	125,774	-	125,774
Prepays	34,456	-	34,456
Investments:			
Common stock	33,434,446	27,742,523	61,176,969
U.S. Government obligations	14,565,349	9,799,575	24,364,924
Corporate notes and bonds	4,514,728	2,559,264	7,073,992
Sabre investment	3,464,824	-	3,464,824
Money market funds	2,887,619	666,961	3,554,580
Fixed Income	-	116,064	116,064
Limited partnership trusts	-	-	-
Time certificate of deposit with an uninsured bank	-	1,452,609	1,452,609
Capital assets, net	340,831	20,207	361,038
Total assets	63,359,804	42,978,194	106,337,998
<u>LIABILITIES</u>			
Benefits payable	326,901	-	326,901
Other liabilities and accruals	75,623	38,462	114,085
Total liabilities	402,524	38,462	440,986
<u>NET ASSETS</u>			
Held in trust for:			
Social security benefits	62,957,280	-	62,957,280
Pension benefits	-	42,939,732	42,939,732
Total net assets	\$ 62,957,280	\$ 42,939,732	\$ 105,897,012

See accompanying notes to basic financial statements.

REPUBLIC OF PALAU

Statement of Changes in Fiduciary Net Assets Fiduciary Funds Year Ended September 30, 2006

	Private Purpose Trust	Pension (and Other Employee Benefit) Trust	Total
Additions:			
Contributions:			
Employer	\$ -	\$ 2,312,491	\$ 2,312,491
Employee	8,216,542	2,402,340	10,618,882
Other	292,990	-	292,990
Total contributions	<u>8,509,532</u>	<u>4,714,831</u>	<u>13,224,363</u>
Investment earnings:			
Net increase in the fair value of investments	2,240,411	1,669,225	3,909,636
Interest and dividends	<u>1,528,299</u>	<u>997,223</u>	<u>2,525,522</u>
Total investment earnings	3,768,710	2,666,448	6,435,158
Less investment expense	<u>335,623</u>	<u>228,788</u>	<u>564,411</u>
Net investment earnings	<u>3,433,087</u>	<u>2,437,660</u>	<u>5,870,747</u>
Other	<u>208,142</u>	<u>39,199</u>	<u>247,341</u>
Total additions	<u>12,150,761</u>	<u>7,191,690</u>	<u>19,342,451</u>
Deductions:			
Benefits	5,629,410	5,949,949	11,579,359
General and administrative	<u>608,697</u>	<u>266,728</u>	<u>875,425</u>
Total deductions	<u>6,238,107</u>	<u>6,216,677</u>	<u>12,454,784</u>
Change in net assets	5,912,654	975,013	6,887,667
Net assets at the beginning of the year	<u>57,044,626</u>	<u>41,964,719</u>	<u>99,009,345</u>
Net assets at the end of the year	<u>\$ 62,957,280</u>	<u>\$ 42,939,732</u>	<u>\$ 105,897,012</u>

See accompanying notes to basic financial statements.

REPUBLIC OF PALAU

Combining Statement of Net Assets Component Units September 30, 2006

	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	\$ 2,994,289	\$ 881,473	\$ 479,507	\$ 214,750	\$ 150,371	\$ 949,100	\$ 881,585	\$ 6,551,075
Time certificates of deposit	203,521	-	-	-	-	1,955,342	-	2,158,863
Investments	-	-	-	-	-	8,107,680	-	8,107,680
General receivables, net	66,888	2,799,275	969,603	89,705	93	2,675,838	39,162	6,640,564
Receivable from grantor agency	-	-	-	26,654	-	48,140	-	74,794
Loans receivable, net	2,152,294	-	-	-	-	-	160,071	2,312,365
Accrued interest	107,926	-	-	-	-	-	10,376	118,302
Inventories	7,533	190,951	443,350	116,365	-	3,564,635	-	4,322,834
Prepaid items	36,552	-	88,264	16,791	942	297,167	-	439,716
Total current assets	5,569,003	3,871,699	1,980,724	464,265	151,406	17,597,902	1,091,194	30,726,193
Other assets, restricted:								
Cash and cash equivalents	733,725	538,273	3,905,189	-	-	-	-	5,177,187
Time certificates of deposit	521,348	-	-	-	-	-	-	521,348
Investments held for Endowment Foundation	-	1,309,670	-	-	-	-	-	1,309,670
Other	-	-	40,110	-	-	-	-	40,110
Total other assets, restricted	1,255,073	1,847,943	3,945,299	-	-	-	-	7,048,315
Noncurrent assets:								
Loans receivable	12,650,069	-	-	-	-	-	1,381,077	14,031,146
Investments	1,000,000	-	-	-	-	-	-	1,000,000
Capital assets, net of accumulated depreciation	34,813	1,545,818	26,908,178	3,381,048	129,927	28,652,065	35,481	60,687,330
Foreclosed real estate	216,000	-	-	-	-	-	-	216,000
Other	-	-	-	-	-	2,269,849	52,904	2,322,753
Total noncurrent assets	13,900,882	1,545,818	26,908,178	3,381,048	129,927	30,921,914	1,469,462	78,257,229
Total assets	\$ 20,724,958	\$ 7,265,460	\$ 32,834,201	\$ 3,845,313	\$ 281,333	\$ 48,519,816	\$ 2,560,656	\$ 116,031,737
<u>Liabilities and Net Assets</u>								
Current liabilities:								
Bank overdraft	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Current portion of long-term debt	457,175	-	849,687	-	-	-	-	1,306,862
Short-term loan payable	300,000	-	-	-	-	4,542,351	-	4,842,351
Accounts payable	16,612	788,920	5,317	39,990	26,715	1,428,500	-	2,306,054
Accrued payroll and others	75,725	261,924	266,213	80,720	31,993	270,894	17,614	1,005,083
Deferred revenue	-	458,422	43,000	204,634	-	-	-	706,056
Other liabilities	-	-	-	-	-	537,874	-	537,874
Total current liabilities	849,512	1,509,266	1,164,217	325,344	58,708	6,779,619	17,614	10,704,280
Noncurrent liabilities:								
Notes payable, net of current portion	6,042,825	-	31,268,311	-	-	-	-	37,311,136
Deposits	-	-	435,352	-	-	-	-	435,352
Deferred credit	-	-	-	-	-	16,172	-	16,172
Total noncurrent liabilities	6,042,825	-	31,703,663	-	-	16,172	-	37,762,660
Total liabilities	6,892,337	1,509,266	32,867,880	325,344	58,708	6,795,791	17,614	48,466,940
Net assets:								
Invested in capital assets, net of related debt	34,813	1,545,818	(5,209,820)	3,381,048	129,927	28,652,065	35,481	28,569,332
Restricted	13,797,808	1,268,727	3,905,189	52,646	-	-	2,312,086	21,336,456
Unrestricted	-	2,941,649	1,270,952	86,275	92,698	13,071,960	195,475	17,659,009
Total net assets	13,832,621	5,756,194	(33,679)	3,519,969	222,625	41,724,025	2,543,042	67,564,797
	\$ 20,724,958	\$ 7,265,460	\$ 32,834,201	\$ 3,845,313	\$ 281,333	\$ 48,519,816	\$ 2,560,656	\$ 116,031,737

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, 2006

	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	\$ 1,189,396	\$ 2,447,464	\$ 8,232,675	\$ 209,467	\$ 46,913	\$ 17,396,338	\$ 53,341	\$ 29,575,594
Grants and contributions	-	3,595,841	-	444,650	-	-	13,812	4,054,303
Other	(484,412)	73,803	513,114	51,571	-	321,351	7,581	483,008
Total operating revenues	704,984	6,117,108	8,745,789	705,688	46,913	17,717,689	74,734	34,112,905
Operating expenses:								
Cost of services	273,044	7,280,747	3,647,009	842,126	791,841	18,838,599	79,478	31,752,844
Depreciation	36,134	583,634	2,824,740	512,256	23,555	2,506,465	10,198	6,496,982
Administration costs	169,095	1,048,741	1,410,639	351,071	42,414	1,059,226	27,515	4,108,701
Total operating expenses	478,273	8,913,122	7,882,388	1,705,453	857,810	22,404,290	117,191	42,358,527
Operating income (loss)	226,711	(2,796,014)	863,401	(999,765)	(810,897)	(4,686,601)	(42,457)	(8,245,622)
Nonoperating revenues (expenses):								
Contributions from primary government	-	2,385,000	-	450,000	814,565	-	67,000	3,716,565
Net increase in the fair value of investments	-	371,967	-	-	-	535,366	-	907,333
Interest income	180,924	-	160,584	-	-	184,569	22,279	548,356
Interest expense	(279,389)	-	(1,449,246)	-	-	(120,796)	-	(1,849,431)
Gain(loss) on retirement of fixed assets	-	-	(39,381)	-	-	(6,525)	-	(45,906)
Other, net	45,383	-	382,489	59,908	-	80,762	(3,034)	565,508
Total nonoperating revenues (expenses), net	(53,082)	2,756,967	(945,554)	509,908	814,565	673,376	86,245	3,842,425
Capital contributions	-	390,678	-	-	-	-	-	390,678
Change in net assets	173,629	351,631	(82,153)	(489,857)	3,668	(4,013,225)	43,788	(4,012,519)
Net assets at the beginning of the year	13,658,992	5,404,563	48,474	4,009,826	218,957	45,737,250	2,499,254	71,577,316
Net assets at the end 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

See accompanying notes to basic financial statements.

REPUBLIC OF PALAU

Notes to Financial Statements September 30, 2006

(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, 2006

(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 and RPPL No. 5-30. 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. 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.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2006

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

2. Discretely Presented Component Units, Continued

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. 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.

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.

REPUBLIC OF PALAU

Notes to Financial Statements September 30, 2006

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

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:

- *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 State 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.

REPUBLIC OF PALAU

Notes to Financial Statements September 30, 2006

(1) Summary of Significant Accounting Policies, Continued

B. Government-Wide Financial Statements, Continued

- *Unrestricted net assets* consist of net assets, which do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, 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 \$161,863,410 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.

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 proprietary fund and 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.

REPUBLIC OF PALAU

Notes to Financial Statements September 30, 2006

(1) Summary of Significant Accounting Policies, Continued

D. Measurement Focus and Basis of Accounting, Continued

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.

Proprietary funds 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.

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.

REPUBLIC OF PALAU

Notes to Financial Statements September 30, 2006

(1) Summary of Significant Accounting Policies, Continued

D. Measurement Focus and Basis of Accounting, Continued

a. Governmental Fund Types, Continued

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.

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 - 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.

REPUBLIC OF PALAU

Notes to Financial Statements September 30, 2006

(1) Summary of Significant Accounting Policies, Continued

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 proprietary funds 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 |
| 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.

REPUBLIC OF PALAU

Notes to Financial Statements September 30, 2006

(1) Summary of Significant Accounting Policies, Continued

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

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, 2006, the carrying amount of the primary government's total cash and cash equivalents and time certificates of deposit were \$4,453,053 and the corresponding bank balances were \$4,583,594. Of the bank balance amounts, \$3,245,970 are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2006, bank deposits in the amount of \$200,000 were FDIC insured.

As of September 30, 2006, the carrying amount of the fiduciary funds total cash and cash equivalents and time certificates of deposit were \$2,345,503 and the corresponding bank balances were \$2,485,698. Of the bank balance amounts, \$1,040,116 is maintained in financial institutions subject to FDIC insurance. As of September 30, 2006, bank deposits in the amount of \$250,000 were FDIC insured.

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

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

At September 30, 2006 the Republic has cash deposits and investments in bank accounts that exceed federal depository insurance limits. The Republic has not experienced any losses in such accounts; however, refer to note 12 for discussion on potential exposure.

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.

REPUBLIC OF PALAU

Notes to Financial Statements September 30, 2006

(1) Summary of Significant Accounting Policies, Continued

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 \$506,258, which is maintained by the primary government and administered on behalf of designated beneficiaries. Furthermore, investments of \$156,587,989, recorded in the Compact Section 211(f) Trust Fund are restricted in that they are not available to be used in current operations; and investments of \$3,000,000 recorded in the Compact Section 211(b) Energy Fund are restricted to fund a liability to the United States government pursuant to the Compact of Free Association subsidiary agreement.

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.

REPUBLIC OF PALAU

Notes to Financial Statements September 30, 2006

(1) Summary of Significant Accounting Policies, Continued

M. Fixed Assets, Continued

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 will retroactively report all major general infrastructure assets by September 30, 2007. Infrastructure assets that have been reported relate to 2006 additions and the construction of the new Compact road, which is recorded within construction in progress. All other infrastructure assets have been excluded.

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.

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.

REPUBLIC OF PALAU

Notes to Financial Statements September 30, 2006

(1) Summary of Significant Accounting Policies, Continued

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. Designations of fund balance represent tentative management plans that are subject to change.

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, 2006, 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>Totals</u>
Investments	\$ 1,739,500	\$ -	\$ -	\$ -	\$ 1,739,500
Accounts receivable	349,227	-	-	-	349,227
Advances	66,972	41,254	-	8,315	116,541
Inventory	46,467	-	-	-	46,467
Prepaid items	21,065	138,220	-	812	160,097
Restricted assets:					
Cash and cash equivalents	54,375	-	-	-	54,375
Investments	-	-	156,966,263	3,000,000	159,966,263
	<u>\$ 2,277,606</u>	<u>\$179,474</u>	<u>\$156,966,263</u>	<u>\$ 3,009,127</u>	<u>\$162,432,470</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 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, 2006, 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, 2006

(1) Summary of Significant Accounting Policies, Continued

T. New Accounting Standards

In fiscal year 2006, 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, 2007. 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, 2008. 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, 2006

(1) Summary of Significant Accounting Policies, Continued

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.

(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;
- 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.

REPUBLIC OF PALAU

Notes to Financial Statements September 30, 2006

(2) Investments, Continued

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.
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 the investment or collateral securities that are in the possession of an outside party. The Republic's investments are held and administered by trustees. Based on negotiated trust and custody contracts, all of these investments were held in the Republic's name by the Republic's custodial financial institutions at September 30, 2006.

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, 2006, 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.

REPUBLIC OF PALAU

Notes to Financial Statements September 30, 2006

(2) Investments, Continued

As of September 30, 2006, 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	\$ 1,739,578
Mutual funds	41,298
Money market funds	<u>778,485</u>
	<u>\$ 2,559,361</u>
Compact Section 211(f) Trust Fund:	
Fixed income securities	\$ 50,118,002
Equities	100,242,448
Money market funds	<u>6,227,539</u>
	<u>\$ 156,587,989</u>
Nonmajor Governmental Funds:	
Common stock	\$ 3,068,829
Money market funds	<u>4,359,168</u>
	<u>\$ 7,427,997</u>

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of debt instruments. The following is a listing of the Compact Trust Fund fixed income securities at September 30, 2006:

Investment Type	Fair Market Value	Less than 1 year	1 - 5 years	6 - 10 years	more than 10 years	Ratings
US Treasury Obligations	\$ 8,950,340	\$ 1,728,743	\$ 1,194,866	\$ 1,109,541	\$ 4,917,190	AAA
US Government Agencies	18,473,527	217,305	3,228,228	1,298,317	13,729,677	AAA
Municipal Obligations	1,377,597	255,936	276,132	707,390	138,139	AAA
Preferred Stock	14,816	14,816	-	-	-	AAA
Corporate Bonds	577,956	-	280,120	278,701	19,135	A1
Corporate Bonds	2,810,815	694,178	284,847	1,025,823	805,967	A2
Corporate Bonds	340,151	-	117,854	122,298	99,999	A3
Corporate Bonds	1,148,129	403,600	457,099	-	287,430	AA1
Corporate Bonds	541,768	-	-	301,977	239,791	AA2
Corporate Bonds	822,806	-	209,424	-	613,382	AA3
Corporate Bonds	87,525	-	-	-	87,525	A-
Corporate Bonds	10,517,736	222,754	863,582	-	9,431,400	AAA
Corporate Bonds	44,144	-	-	44,144	-	BA1
Corporate Bonds	123,660	-	-	-	123,660	BA2
Corporate Bonds	1,270,979	-	350,034	355,488	565,457	BAA1
Corporate Bonds	1,813,238	-	339,014	516,918	957,306	BAA2
Corporate Bonds	1,156,894	-	-	722,099	434,795	BAA3
Corporate Bonds	<u>45,921</u>	<u>-</u>	<u>-</u>	<u>45,921</u>	<u>-</u>	BAA4
	<u>\$ 50,118,002</u>	<u>\$ 3,537,332</u>	<u>\$ 7,601,200</u>	<u>\$ 6,528,617</u>	<u>\$ 32,450,853</u>	

REPUBLIC OF PALAU

Notes to Financial Statements September 30, 2006

(2) Investments, Continued

Fiduciary Funds

Republic of Palau Social Security Retirement Fund:

	<u>Fair Value</u>
Common stock	\$ 33,434,446
U.S. Government obligations	14,565,349
Corporate notes and bonds	4,514,728
Sabre investment	3,464,824
Money market funds	<u>2,887,619</u>
	<u>\$ 58,866,966</u>

The following is a listing of the Fund's fixed income securities at September 30, 2006:

<u>Investment Type</u>	<u>Fair Value</u>	2006 <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	\$ 202,320	\$ -	\$ 202,320	\$ -	\$ -	AAA
Other U.S. government obligations	14,220,181	39,510	4,512,427	1,251,232	8,417,012	AAA
Municipal obligations	142,848	142,848	-	-	-	AAA
Corporate bonds	746,970	-	169,981	997	576,012	AAA
Corporate bonds	647,338	-	597,144	50,194	-	AA-
Corporate bonds	507,046	75,125	96,938	120,954	214,029	A+
Corporate bonds	1,011,659	-	120,289	473,062	418,308	A
Corporate bonds	199,940	-	-	199,940	-	A-
Corporate bonds	189,211	-	-	189,211	-	BBB+
Corporate bonds	150,197	-	150,197	-	-	BBB
Corporate bonds	<u>1,062,367</u>	<u>234,833</u>	<u>754,209</u>	<u>73,325</u>	<u>-</u>	no rating
	<u>\$ 19,080,077</u>	<u>\$ 492,316</u>	<u>\$ 6,603,505</u>	<u>\$ 2,358,895</u>	<u>\$ 9,625,361</u>	

Republic of Palau Civil Service Pension Trust Fund:

	<u>Fair Value</u>
Common stock	\$ 27,742,523
U.S. Government obligations	9,799,575
Corporate notes and bonds	2,559,264
Fixed income	116,064
Money market funds	<u>666,961</u>
	<u>\$ 40,884,387</u>

The following is a listing of the Fund's fixed income securities at September 30, 2006:

<u>Investment Type</u>	<u>Fair Value</u>	2006 <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	\$ 3,126,540	\$ -	\$ 1,536,616	\$ 1,589,924	\$ -	AAA
U.S. government and agencies	6,648,746	19,981	1,349,011	367,760	4,911,994	AAA
U.S. government and agencies	24,289	-	-	24,289	-	AA+
Municipal obligations	116,064	116,064	-	-	-	AAA
Corporate bonds	668,335	-	236,038	-	432,297	AAA
Corporate bonds	327,011	-	186,730	-	140,281	AA-
Corporate bonds	231,658	-	231,658	-	-	AA

REPUBLIC OF PALAU

Notes to Financial Statements September 30, 2006

(2) Investments, Continued

Investment Type	Fair Value	2006 Investment Maturities (In Years)				Rating
		Less Than 1	1 - 5	6 - 10	More Than 10	
Corporate bonds	274,174	-	-	70,557	203,617	A+
Corporate bonds	240,430	-	144,867	-	102,232	A-
Corporate bonds	277,179	-	-	174,947	97,217	A
Corporate bonds	188,284	-	96,236	92,048	-	BBB+
Corporate bonds	224,322	-	-	224,322	-	A/Watch Neg
Corporate bonds	352,193	-	70,092	37,702	244,399	BBB
	<u>\$ 12,474,903</u>	<u>\$ 136,045</u>	<u>\$ 3,851,248</u>	<u>\$ 2,357,227</u>	<u>\$ 6,130,383</u>	

Discretely Presented Component Units

	Fair Value
National Development Bank of Palau: Common stock	\$ <u>1,000,000</u>
Palau Community College: Mutual funds	\$ 388,312
Domestic equities	725,660
International equities	<u>195,698</u>
	<u>\$ 1,309,670</u>
Public Utilities Corporation: Domestic fixed income	\$ 3,639,980
Domestic equities	4,146,711
Others	<u>320,989</u>
	<u>\$ 8,107,680</u>

The following is a listing of the Discretely Presented Component Units fixed income securities at September 30, 2006:

Investment Type	Fair Value	2006 Investment Maturities (In Years)				Rating
		Less Than 1	1 - 5	6 - 10	More Than 10	
U.S. Treasury Notes	\$ 1,735,105	\$ 106,092	\$ 1,270,209	\$ 358,804	\$ -	AAA
U.S. Government and Agencies	1,256,246	-	197,715	151,143	907,388	AAA
Corporate Bonds	51,412	-	-	51,412	-	AAA
Corporate Bonds	36,717	-	-	36,717	-	AA-
Corporate Bonds	64,419	-	32,468	31,951	-	A+
Corporate Bonds	137,240	-	-	137,240	-	A
Corporate Bonds	71,941	-	36,000	35,941	-	A-
Corporate Bonds	74,037	-	-	74,037	-	BBB+
Corporate Bonds	175,421	-	-	105,429	69,992	BBB
Corporate Bonds	37,442	-	-	37,442	-	BBB-
	<u>\$ 3,639,980</u>	<u>\$ 106,092</u>	<u>\$ 1,536,392</u>	<u>\$ 1,020,116</u>	<u>\$ 997,380</u>	

(3) Receivables

Receivables as of September 30, 2006, 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:

	General	Grants Fund	Compact Section 211(f)	Nonmajor Governmental Funds	Fiduciary Funds	Totals
Receivables:						
Taxes	\$ 3,512,349	\$ -	\$ -	\$ -	\$ -	\$ 3,512,349
General	1,261,856	2,799,972	-	9,858,737	2,416,729	16,337,294
Federal agencies	-	1,184,601	-	676,341	-	1,860,942
Loan	-	-	-	-	1,500,000	1,500,000
Accrued interest	<u>4,326</u>	<u>-</u>	<u>526,112</u>	<u>18,769</u>	<u>246,106</u>	<u>795,313</u>
	4,778,531	3,984,573	526,112	11,037,838	4,162,835	24,005,898

REPUBLIC OF PALAU

Notes to Financial Statements September 30, 2006

(3) Receivables, Continued

	General	Grants Fund	Compact Section 211(f)	Nonmajor Governmental Funds	Fiduciary Funds	Totals
Less: allowance for uncollectibles	<u>(372,337)</u>	<u>-</u>	<u>-</u>	<u>(9,849,156)</u>	<u>(317,187)</u>	<u>(10,538,680)</u>
Net receivables	<u>\$ 4,406,194</u>	<u>\$ 3,984,573</u>	<u>\$ 526,112</u>	<u>\$ 704,691</u>	<u>\$ 3,845,648</u>	<u>\$ 13,467,218</u>

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, 2006, are as follows:

Governmental Activities

	Balance at October 1, 2005	Additions	Deletions and Transfers	Balance at September 30, 2006
Historical cost:				
Assets not being depreciated:				
Land	\$ 3,588,626	\$ -	\$ -	\$ 3,588,626
Construction in progress	<u>151,162,116</u>	<u>20,967,602</u>	<u>(9,953,437)</u>	<u>162,176,281</u>
Total capital assets not being depreciated	<u>154,750,742</u>	<u>20,967,602</u>	<u>(9,953,437)</u>	<u>165,764,907</u>
Capital assets being depreciated:				
Buildings and other improvements	59,688,231	-	-	59,688,231
Machinery and equipment	11,865,453	119,130	-	11,984,583
Vehicles	4,018,258	287,847	(108,357)	4,197,748
Infrastructure	<u>13,977,912</u>	<u>6,577,144</u>	<u>-</u>	<u>20,555,057</u>
Total capital assets being depreciated	<u>89,549,854</u>	<u>6,984,121</u>	<u>(108,357)</u>	<u>96,425,619</u>
Total capital assets at cost	<u>244,300,596</u>	<u>27,951,724</u>	<u>(10,061,794)</u>	<u>262,190,526</u>
Accumulated depreciation:				
Buildings and other improvements	(19,134,817)	(2,144,510)	-	(21,279,327)
Machinery and equipment	(7,720,491)	(651,291)	-	(8,371,782)
Vehicles	(3,096,870)	(406,326)	108,357	(3,394,839)
Infrastructure	<u>(1,915,758)</u>	<u>(1,657,147)</u>	<u>-</u>	<u>(3,572,905)</u>
Total accumulated depreciation	<u>(31,867,936)</u>	<u>(4,859,274)</u>	<u>108,357</u>	<u>(36,618,853)</u>
Capital assets, net	<u>\$ 212,432,660</u>	<u>\$ 23,092,450</u>	<u>\$ (9,953,437)</u>	<u>\$ 225,571,673</u>

Depreciation expense was charged to governmental functions as follows:

Ministry of Health	\$ 1,012,975
Ministry of Education	227,341
Ministry of Resources and Development	2,229,283
Ministry of Finance	64,006
Ministry of Justice	459,967
Legislative Branch	30,722

REPUBLIC OF PALAU

Notes to Financial Statements September 30, 2006

(4) Fixed Assets, Continued

Governmental Activities, Continued

Ministry of State	9,153
Judicial Branch	38,560
Ministry of Commerce and Trade	447,993
Office of the President	26,762
Ministry of Community and Cultural Affairs	201,858
Office of the Vice-President	5,019
Independent Agencies	3,499
Other Agencies and Activities	<u>102,136</u>
Total depreciation expense	\$ <u>4,859,274</u>

Fiduciary Funds

Fixed assets of the Fiduciary Funds as of September 30, 2006, are as follows:

	Balance at October <u>1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	Balance at September <u>30, 2006</u>
Office equipment and furniture	\$ 181,875	\$ 27,023	\$ (11,750)	\$ 197,148
Land	-	207,018	-	207,018
Building and improvement	132,315	-	-	132,315
Vehicles	<u>79,980</u>	<u>-</u>	<u>-</u>	<u>79,980</u>
	394,170	234,041	(11,750)	616,461
Less accumulated depreciation	<u>(227,284)</u>	<u>(39,889)</u>	<u>11,750</u>	<u>(255,423)</u>
	\$ <u>166,886</u>	\$ <u>194,152</u>	\$ <u>-</u>	\$ <u>361,038</u>

(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. The loan was due on May 20, 2004, including interest at 7% per annum. 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, 2006, are as follows:

	Balance October <u>1, 2005</u>	<u>Additions</u>	<u>Reductions</u>	Balance September <u>30, 2006</u>
Short-term loans payable	\$ <u>300,000</u>	\$ <u>300,000</u>	(\$ <u>300,000</u>)	\$ <u>300,000</u>

REPUBLIC OF PALAU

Notes to Financial Statements September 30, 2006

(5) Note Payable, Continued

Discretely Presented Component Units, Continued

Palau 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.

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. The loan is due on June 23, 2006 including interest at a rate of 2.75% per annum. The loan is collateralized by time certificates of deposit totaling \$1,947,490 as of September 30, 2006.

The revolving credit line and term loan are collateralized by time certificates of deposit totaling \$2,152,714.

PUC entered into a portfolio credit line agreement on May 30, 2006 under which a commercial bank will extend credit to PUC in the form of drawing from time to time in such sums as PUC may request for the purpose of financing short-term working capital. Interest rate is at 7.25% as of September 30, 2006.

Movements in short-term borrowings for the year ended September 30, 2006 are as follows:

	Balance at October 1, 2005	Additions	Repayments	Balance at September 30, 2006
Term loan	\$ 1,199,485	\$ 850,000	\$ (302,943)	\$ 1,746,542
Portfolio credit line	-	2,396,522	(100,000)	2,296,522
Credit line	<u>501,347</u>	<u>269,797</u>	<u>(271,857)</u>	<u>499,287</u>
	<u>\$ 1,700,832</u>	<u>\$ 3,516,319</u>	<u>\$ (674,800)</u>	<u>\$ 4,542,351</u>

(6) Long-Term Obligations

Primary Government

As of September 30, 2006, the primary government had the following long-term debt outstanding:

Loan payable to the International Commercial Bank of China (ICBC) 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. \$ 15,999,997

Loan payable to the ICBC in the amount of \$15,000,000, 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. 1,500,000

\$ 17,499,997

REPUBLIC OF PALAU

Notes to Financial Statements September 30, 2006

(6) Long-Term Obligations, Continued

Primary Government, Continued

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

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 1,142,858	\$ 596,851	\$ 1,739,709
2008	1,142,858	591,943	1,734,801
2009	2,000,058	466,561	2,466,619
2010	1,785,658	539,507	2,325,165
2011	1,142,858	388,931	1,531,789
2012 through 2016	5,714,290	1,326,464	7,040,754
2017 through 2020	<u>4,571,417</u>	<u>338,628</u>	<u>4,910,045</u>
	\$ <u>17,499,997</u>	\$ <u>4,248,885</u>	\$ <u>21,748,882</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 2006. The Republic has restricted assets of \$3 million in the Compact Section 211(b) Energy special reserve fund to fund this repayment. However, management of the Republic is of the opinion that it will not be required to repay the debt in the near term and accordingly, has continued to classify this balance as a long-term obligation.

Changes in long-term liabilities of the primary government for the year ended September 30, 2005, are as follows:

	<u>Balance October 1, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance September 30, 2006</u>	<u>Due Within One Year</u>
Loans payable:					
ICBC loans	\$ 18,642,855	\$ -	\$ (1,142,858)	\$ 17,499,997	\$ 1,142,858
Other:					
Compensated absences	3,296,030	3,170,893	(2,999,322)	3,467,601	1,547,379
Due to U.S. Government	<u>3,000,000</u>	<u>-</u>	<u>-</u>	<u>3,000,000</u>	<u>-</u>
	\$ <u>24,938,885</u>	\$ <u>3,170,893</u>	\$ <u>(4,142,180)</u>	\$ <u>23,967,598</u>	\$ <u>2,690,237</u>

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.	\$ 32,117,998
Less current portion	<u>849,687</u>
	\$ <u>31,268,311</u>

REPUBLIC OF PALAU

Notes to Financial Statements September 30, 2006

(6) Long-Term Obligations, 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>
2007	\$ 849,687	\$ 1,456,197	\$ 2,306,175
2008	889,519	1,416,351	2,306,175
2009	931,217	1,374,958	2,306,175
2010	974,871	1,331,304	2,306,175
2011	1,020,571	1,285,604	2,306,175
2012 through 2016	5,866,953	5,663,924	11,530,877
2017 through 2021	7,377,225	4,153,652	11,530,877
2022 through 2026	9,276,272	2,254,605	11,530,877
2027 through 2029	<u>4,931,683</u>	<u>268,810</u>	<u>5,200,493</u>
	\$ <u>32,117,998</u>	\$ <u>19,206,001</u>	\$ <u>51,323,999</u>

National Development Bank of Palau

Loan payable to the ICBC in the amount of \$5,000,000, interest at 3.5% per annum, principal payable in semi-annual installments of \$142,858 commencing June 30, 2007, 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.

\$ 5,000,000

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%. 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.

1,500,000

\$ 6,500,000

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>
2007	\$ 457,175	\$ 173,750	\$ 630,925
2008	495,261	165,000	660,261
2009	495,261	155,000	650,261
2010	495,261	145,000	640,261
2011	495,261	170,000	665,261
2012 through 2016	1,776,085	449,999	2,226,084
2017 through 2021	1,428,580	337,497	1,766,077
2022 through 2024	<u>857,116</u>	<u>89,996</u>	<u>947,112</u>
	\$ <u>6,500,000</u>	\$ <u>1,686,242</u>	\$ <u>8,186,242</u>

REPUBLIC OF PALAU

Notes to Financial Statements September 30, 2006

(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, 2006, the Republic made no payments under this agreement.

(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, 2006, are summarized as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor governmental funds	\$ 3,424,776
General	Grants Fund	694,588
Grants Fund	General	67,187
Nonmajor governmental funds	General	<u>3,423,031</u>
		\$ <u>7,609,582</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, 2006, are as follows:

<u>Source</u>	<u>Recipient</u>	<u>Transfer Out</u>	<u>Transfer In</u>
<u>Major Governmental Funds</u>			
General	Nonmajor governmental funds	\$ 3,196,452	\$ -
Compact Section 211(f)	General	5,000,000	5,000,000
Nonmajor governmental funds	General	-	3,790,000
Grants Fund	General	-	73,549
Nonmajor governmental funds	Grants Fund	-	<u>17,500</u>
		<u>8,196,452</u>	<u>8,881,049</u>
<u>Nonmajor Governmental Funds</u>			
General	Nonmajor governmental funds	-	3,196,452
Nonmajor governmental funds	General	3,863,549	-
Nonmajor governmental funds	Grants Fund	<u>17,500</u>	-
		<u>3,881,049</u>	<u>3,196,452</u>
		\$ <u>12,077,501</u>	\$ <u>12,077,501</u>

REPUBLIC OF PALAU

Notes to Financial Statements September 30, 2006

(9) Transfers In/Out, Continued

Operating transfers out were provided for under appropriation by the OEK. Transfers are used to (1) move revenues from the fund that statute requires to collect them to the fund that statute requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. There were no one-time transfers of funds during the year ended September 30, 2006.

(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, 2006, amounted to \$6,506,675.

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, 2006, 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.

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 \$993,651 have been set forth in the Republic's Single Audit Report for the year ended September 30, 2006. 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.

REPUBLIC OF PALAU

Notes to Financial Statements September 30, 2006

(10) Commitments and Contingencies, Continued

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 \$13,653,000 as of October 1, 2003. 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, 2006 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 the 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 established by RPPL No. 2-26 at six percent (6%) of total payroll and matched dollar for dollar by the employer. The Republic contributed \$2,086,856, \$2,402,208 and \$2,312,491 to the Pension Fund during fiscal years 2004, 2005 and 2006, 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 2006 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.

REPUBLIC OF PALAU

Notes to Financial Statements September 30, 2006

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

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, 2006.

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, 2006.

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) Subsequent Event

The Republic has TCDs and savings account amounting to \$1,213,877 in an uninsured bank at September 30, 2006 which went into receivership on November 7, 2006. It is uncertain if the Republic will realize the abovementioned deposits.

REPUBLIC OF PALAU

Notes to Financial Statements September 30, 2006

(13) Restatement

Capital assets at September 30, 2005 was restated by \$6,249,914 due to an error of reporting on the status of the Compact road project. The value of the road at September 30, 2005 was \$110,682,977 and \$104,433,063 at September 30, 2006. No explanation has been provided to the Republic relative to the nature of the difference.

Various 2005 financial statement balances have been restated for Palau National Communications Corporation, a component unit, due to completion of a reconciliation of accounts receivable, fixed asset, and customer deposits. The 2005 restated balances are as follows:

	As Previously Reported	As Restated
Receivable - trade	\$ 4,254,220	\$ 2,574,391
Property and equipment, net	\$ 25,622,905	\$ 28,048,425
Customer deposits	\$ 524,073	\$ 411,664
Operating revenue - long distance	\$ 2,601,718	\$ 1,805,667
Operating expense - depreciation	\$ 3,314,371	\$ 2,592,489
Nonoperating expense - loss on retirement of asset	\$ 1,703,638	\$ -

REPUBLIC OF PALAU

REQUIRED SUPPLEMENTARY INFORMATION
- BUDGETARY REPORTING

YEAR ENDED SEPTEMBER 30, 2006

REPUBLIC OF PALAU

Schedule of Revenues, Expenditures, and Changes in Deficit - Budget and Actual - General Fund Year Ended September 30, 2006

	Original Budget	Final Budget	Actual - Budgetary Basis (see note 1)	Variance
Revenues:				
Local revenue	\$ 36,419,179	\$ 37,170,179	\$ 35,740,565	\$ (1,429,614)
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	-	215,821	-	(215,821)
Net increase in the fair value of investments	-	1,771	28,831	27,060
Total revenues	46,259,179	47,227,771	45,609,396	(1,618,375)
Expenditures - budgetary basis:				
Office of the President	857,000	1,000,754	967,394	33,360
Office of the Vice-President	402,000	440,000	437,901	2,099
Ministry of Finance	2,177,000	2,231,176	2,127,109	104,067
Ministry of State	2,308,500	2,327,500	2,233,004	94,496
Ministry of Community and Cultural Affairs	976,000	1,018,000	934,954	83,046
Ministry of Education	6,387,000	6,387,000	6,309,799	77,201
Ministry of Commerce and Trade	1,408,000	1,348,000	1,314,157	33,843
Ministry of Justice	3,748,000	3,981,000	3,923,965	57,035
Ministry of Health	7,190,000	7,205,662	7,008,123	197,539
Ministry of Resources and Development	6,056,000	6,746,546	6,344,098	402,448
Boards, Commissions and Authorities	651,000	701,000	599,444	101,556
Judicial Branch	2,276,000	2,276,000	2,239,506	36,494
Legislative Branch	3,572,500	3,697,500	3,592,714	104,786
State Block Grants	4,711,000	4,711,000	4,711,000	-
Independent Agencies	2,345,000	2,969,684	2,709,112	260,572
Other Agencies and Activities	2,879,000	3,376,854	2,691,673	685,181
Education Assistance	3,031,179	3,031,179	3,031,179	-
Total expenditures	50,975,179	53,448,855	51,175,132	2,273,723
Deficiency of revenues under expenditures	(4,716,000)	(6,221,084)	(5,565,736)	655,348
Other financing sources (uses):				
Operating transfers in	7,877,000	8,790,000	8,863,549	73,549
Operating transfers out	(3,161,000)	(3,161,000)	(3,196,452)	(35,452)
Total other financing sources (uses), net	4,716,000	5,629,000	5,667,097	38,097
Excess of revenues and other financing sources over expenditures and other financing uses	-	(592,084)	101,361	693,445
Other changes in unreserved deficit:				
Decrease in reserve for continuing appropriations	-	592,084	247,750	(344,334)
Decrease in reserve for related assets	-	-	268,930	268,930
Unreserved deficit at the beginning of the year	(2,773,229)	(2,773,229)	(2,773,229)	-
Unreserved deficit at the end of the year	\$ (2,773,229)	\$ (2,773,229)	\$ (2,155,188)	\$ 618,041

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

Notes to Required Supplementary Information - Budgetary Reporting September 30, 2006

(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.

REPUBLIC OF PALAU
OTHER SUPPLEMENTARY INFORMATION
YEAR ENDED SEPTEMBER 30, 2006

REPUBLIC OF PALAU

Combining Schedule of Expenditures by Account Governmental Funds Year Ended September 30, 2006

	Major Governmental Funds			Nonmajor Governmental Funds			
	General	Grants Fund	Permanent Compact Section 211(f)	Special Revenue	Capital Projects	Debt Service	Total
Salaries and wages	\$ 28,984,006	\$ 3,537,744	\$ -	\$ 671,089	\$ 48,699	\$ -	\$ 33,241,538
Construction	26,405	6,359,574	-	-	9,458,444	-	15,844,423
Payments of allotments/benefits	11,418,476	401,077	-	77,308	-	-	11,896,861
Professional and contractual services	205,781	382,003	-	1,066,664	395,247	-	2,049,695
Supplies and materials	1,567,058	1,304,169	-	174,901	-	-	3,046,128
Travel	805,080	868,340	-	326,182	-	-	1,999,602
Utilities	2,689,383	419,832	-	36,756	-	-	3,145,971
Equipment	117,960	1,079,128	-	733,839	-	-	1,930,927
Medical supplies	433,257	252,315	-	1,506,127	-	-	2,191,699
Scholarships and student loans	-	9,000	-	1,308,153	-	-	1,317,153
Investment management fees	1,771	-	933,261	19,074	317	-	954,423
Repairs and maintenance	283,325	429,316	-	51,912	-	-	764,553
Vehicles	143,509	190,135	-	43,790	-	-	377,434
Medical referrals	689,000	-	-	-	-	-	689,000
Rentals	499,106	195,118	-	31,563	(2,680)	-	723,107
Foodstuffs	665,852	89,047	-	52,845	-	-	807,744
Petroleum products	632,261	190,233	-	42,877	-	-	865,371
Communications and postage	471,654	1,834,880	-	54,800	-	-	2,361,334
Dues, fees and registrations	738,574	51,475	-	(23,007)	1,128	-	768,170
Boats	5,450	-	-	-	-	-	5,450
Machinery	8,408	29,772	-	-	-	-	38,180
Building	-	127,516	-	-	-	-	127,516
Indirect costs	-	172,945	-	-	-	-	172,945
Administrative costs	-	15,662	-	-	-	-	15,662
Books and library materials	135,761	45,299	-	-	-	-	181,060
Allowances	20,923	-	-	-	-	-	20,923
Compensation and stipends	153,268	143,262	-	13,425	-	-	309,955
Training	4,293	164,011	-	10,340	-	-	178,644
Donations	325,183	5,400	-	16,000	-	-	346,583
Advertising	23,775	51,160	-	7,771	2,236	-	84,942
Freight	19,793	7,421	-	5,523	-	-	32,737
Employee incentive awards	6,300	8,275	-	-	-	-	14,575
Representation and entertainment	5,872	-	-	-	-	-	5,872
Insurance	14,966	1,949	-	-	-	-	16,915
Questioned cost	46,003	-	-	-	-	-	46,003
Furniture and fixtures	560	1,904,180	-	-	-	-	1,904,740
Other/Miscellaneous	19,416	(3,112)	-	25	-	1,799,452	1,815,781
	<u>\$ 51,162,429</u>	<u>\$ 20,267,126</u>	<u>\$ 933,261</u>	<u>\$ 6,227,957</u>	<u>\$ 9,903,391</u>	<u>\$ 1,799,452</u>	<u>\$ 90,293,616</u>

See Accompanying Independent Auditors' Report.

**REPUBLIC OF PALAU
GENERAL FUND**

September 30, 2006

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, 2006
(With comparative totals for the year ended September 30, 2005)

	<u>2006</u>	<u>2005</u>
Compact funding:		
Section 211(a)	\$ 6,000,000	\$ 6,000,000
Section 215 inflation adjustment	3,840,000	3,600,000
Total compact funding	<u>9,840,000</u>	<u>9,600,000</u>
Taxes:		
Gross receipts	9,540,725	9,014,504
Salary and wage	6,978,019	6,898,906
Alcohol and tobacco	4,490,225	5,767,545
General import	2,153,759	2,587,178
Travelers head	1,733,670	1,749,268
Hotel occupancy	1,255,396	1,486,911
Fuel Excise	842,423	900,256
Road Use	482,664	510,725
Fish export	1,471,030	881,888
Penalties, interest and delinquencies	333,341	220,528
Vessel cabin and foreign water vessel	93,916	67,453
Other	360	200
Total taxes	<u>29,375,528</u>	<u>30,085,362</u>
Licenses and permits:		
Foreign labor permits	1,082,095	1,106,344
Business licenses	366,391	168,545
Foreign investment permits and fees	204,620	234,156
Fishing rights fees	157,888	158,326
Corporate filing fees	27,347	33,564
Other licenses and permits	506,323	413,156
Total licenses and fees	<u>2,344,664</u>	<u>2,114,091</u>
Fees and charges:		
Airport fees and rentals	1,746,666	1,874,788
Water utility charges	710,244	667,157
Postal service	380,994	452,504
Court fines and fees	209,356	225,042
Seaport fees	145,850	140,967
Other	161,753	120,527
Total fees and charges	<u>3,354,863</u>	<u>3,480,985</u>
Net increase in the fair value of investments	<u>28,831</u>	<u>2,125,157</u>
Other:		
Indirect cost recoveries	189,555	110,595
Serv Mart sales	29,285	38,165
Belau Mariculture Demonstration Center sales	11,329	32,640
Other	435,341	319,363
Total other	<u>665,510</u>	<u>500,763</u>
Total revenues	<u>\$ 45,609,396</u>	<u>\$ 47,906,358</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU
GENERAL FUND

Schedule of Revenues, Expenditures, and Changes in
Deficit - Budget and Actual - General Fund
Year Ended September 30, 2006

	Budget	Actual	Variance
Revenues:			
Local revenue	\$ 37,170,179	\$ 35,740,565	\$ (1,429,614)
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	215,821	-	(215,821)
Net increase in the fair value of investments	1,771	28,831	27,060
Total revenues	<u>47,227,771</u>	<u>45,609,396</u>	<u>(1,618,375)</u>
Expenditures - budgetary basis:			
Office of the President:			
President's Office	723,000	707,107	15,893
Presidential Stipend	25,000	25,000	-
Official representation	38,000	30,141	7,859
Indirect cost collection	143,754	136,157	7,597
Grants Coordinator Office	71,000	68,989	2,011
Total Office of the President	<u>1,000,754</u>	<u>967,394</u>	<u>33,360</u>
Office of the Vice-President:			
Vice-President's Office	342,000	340,898	1,102
National Emergency Management Office	98,000	97,003	997
Total Office of the Vice-President	<u>440,000</u>	<u>437,901</u>	<u>2,099</u>
Ministry of Finance:			
Office of the Minister	40,000	39,265	735
Administrative Overhead	56,405	55,558	847
Information Systems Support Services	160,000	158,461	1,539
Bureau of National Treasury	627,000	608,941	18,059
Bureau of Budget and Planning	183,000	178,376	4,624
Bureau of Public Service System	110,000	109,154	846
Workmen's Compensation	37,000	132	36,868
Bureau of Revenue, Customs and Taxation	1,016,000	975,451	40,549
Investment management fees	1,771	1,771	-
Total Ministry of Finance	<u>2,231,176</u>	<u>2,127,109</u>	<u>104,067</u>
Ministry of State:			
Office of the Minister	40,000	39,810	190
United Nations Rep Office	207,000	196,852	10,148
Consulate Office in Guam	75,000	68,885	6,115
Washington D.C. Embassy	298,000	293,937	4,063
Tokyo Embassy	315,000	311,133	3,867
Consulate Office in Saipan	37,500	33,894	3,606
Taipei Embassy	108,000	106,089	1,911
Manila Embassy	113,000	104,837	8,163
Passport - Readable Machine	-	(620)	620
International Organizations Obligations	136,000	121,694	14,306
Office of the Public Defender	200,000	173,198	26,802
Passport Office	60,000	58,417	1,583
Bureau of Foreign Affairs Admin	284,000	281,912	2,088
Bureau of Domestic Affairs Admin	379,000	372,544	6,456
Bureau International Trade and Technical Assistance	75,000	70,422	4,578
Total Ministry of State	<u>2,327,500</u>	<u>2,233,004</u>	<u>94,496</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, 2006

	Budget	Actual	Variance
Ministry of Community and Cultural Affairs:			
Office of the Minister	40,000	38,579	1,421
Office on Aging	203,000	201,868	1,132
Sports Facilities Maintenance and Utilities	125,000	124,982	18
Palau National Archive	46,000	44,132	1,868
Palau National Archive Facility	10,000	-	10,000
Aging Program (States)	30,000	28,704	1,296
Palau Severely Disabled Assistance Fund	180,000	120,860	59,140
Bureau of Community Services	244,000	243,803	197
Bureau of Arts and Culture	140,000	132,026	7,974
Total Ministry of Community and Cultural Affairs	1,018,000	934,954	83,046
Ministry of Education:			
Office of the Minister	40,000	39,225	775
School Books, Supplies and Instructional Equipment	270,000	227,467	42,533
Food Services Program	649,000	645,823	3,177
Bureau of Curriculum and Instruction	900,000	899,267	733
Little League and Senior Little League Project	5,000	5,000	-
Bureau of School Administration	4,523,000	4,493,017	29,983
Total Ministry of Education	6,387,000	6,309,799	77,201
Ministry of Commerce and Trade:			
Office of the Minister	40,000	37,689	2,311
Palau Small Business Development Center	30,000	30,000	-
Pacific Business Center Program	20,000	20,000	-
Airport Operations	710,000	688,671	21,329
Bureau of Commercial Development	262,000	254,473	7,527
Bureau of Human Resource Development	286,000	283,324	2,676
Total Ministry of Commerce and Trade	1,348,000	1,314,157	33,843
Ministry of Justice:			
Office of the Minister	-	(256)	256
Office of the Attorney General	537,000	498,264	38,736
Bureau of Immigration	292,000	291,798	202
Bureau of Public Safety	2,418,000	2,409,026	8,974
Patrol Boat Operations	734,000	725,133	8,867
Total Ministry of Justice	3,981,000	3,923,965	57,035
Ministry of Health:			
Office of the Minister	40,000	31,021	8,979
NCPA Admin Cost	15,662	31,280	(15,618)
Office of Health Services Administration	1,670,000	1,659,693	10,307
Medical Supplies and Drugs	500,000	462,682	37,318
Medical Referrals	700,000	699,356	644
Manila Medical Referral Office	90,000	81,802	8,198
Hawaii Medical Referral Office	120,000	113,334	6,666
Bureau of Public Health	1,210,000	1,115,525	94,475
Bureau of Hospital and Clinical Services	2,860,000	2,813,430	46,570
Total Ministry of Health	7,205,662	7,008,123	197,539

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, 2006

	Budget	Actual	Variance
Ministry of Resources and Development:			
Office of the Minister	40,000	38,502	1,498
OMIP and Other Grants Match	149,000	-	149,000
PALARIS Office	145,000	129,644	15,356
Bridge and Road Maintenance	150,000	148,046	1,954
Pothole Repair	150,000	137,677	12,323
National Capitol Electric Bills	100,000	100,000	-
Bureau of Oceanic Fisheries Management	-	-	-
Bureau of Marine Resources	538,000	530,881	7,119
Bureau of Lands and Survey	923,000	898,045	24,955
Bureau of Agriculture	370,000	369,449	551
Bureau of Public Works	1,539,000	1,474,482	64,518
Water and Sewer Operations	2,319,546	2,213,115	106,431
CIP Office Operations	160,000	146,261	13,739
Asphalt Plant Operations	-	(40)	40
Rural Sanitation Projects	163,000	158,036	4,964
Total Ministry of Resources and Development	6,746,546	6,344,098	402,448
Total Executive Branch	32,685,638	31,600,504	1,085,134
Boards, Commissions and Authorities:			
Foreign Investment Board	90,000	81,499	8,501
Palau Election Commission	140,000	118,492	21,508
COFA Board of Trustees	9,000	4,480	4,520
Palau Public Lands Authority	150,000	99,395	50,605
Parole Board	35,000	30,072	4,928
Palau Housing Authority	67,000	67,000	-
Financial Institutions Commission	115,000	112,953	2,047
Ethics Commission	45,000	35,553	9,447
Ngardmau FTZ Commission	50,000	50,000	-
Total Boards, Commissions and Authorities	701,000	599,444	101,556
Judicial Branch:			
Judiciary	1,585,000	1,586,345	(1,345)
Land Court	691,000	653,161	37,839
Total Judicial Branch	2,276,000	2,239,506	36,494
Legislative Branch:			
Senate	1,261,000	1,210,179	50,821
Senate Legal Counsel	203,000	211,477	(8,477)
House of Delegates	1,820,500	1,756,761	63,739
House Legal Counsel	178,000	177,147	853
Joint Staff	225,000	227,150	(2,150)
Association of Pacific Island Legislatures Conference	10,000	10,000	-
Total Legislative Branch	3,697,500	3,592,714	104,786
State Block Grants	4,711,000	4,711,000	-
Independent Agencies:			
Office of the Public Auditor	361,113	329,263	31,850
Office of the Special Prosecutor	237,216	214,376	22,840
International Monetary Fund	601,355	546,508	54,847
Palau Environmental Quality Protection Board	400,000	346,063	53,937
National Postal Service	350,000	266,164	83,836
Palau Visitors Authority	850,000	850,000	-
National Aviation Administration	170,000	156,738	13,262
Total Independent Agencies	2,969,684	2,709,112	260,572

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, 2006

	Budget	Actual	Variance
Other Agencies and Activities:			
Palau National Museum	185,000	184,201	799
Micronesian Legal Services	130,000	130,000	-
Palau Community Action Agency	250,000	250,000	-
Headstart Program	120,000	120,000	-
Palau Workforce Investment Act	100,000	99,923	77
Civic Action Team Share	250,000	250,000	-
Pacific Islands Community Conference	70,000	62,840	7,160
Peace Corps Contribution	25,000	16,757	8,243
Palau International Coral Reef Center	500,000	500,000	-
Palau Little League	5,000	28	4,972
Palau National Olympic Committee and Sports Organization	365,000	364,844	156
Hurricane Katrina Relief	75,000	75,000	-
Red Cross	5,000	5,000	-
Second Constitutional Convention Post Con Comm	34,000	34,000	-
PSS Reclassification	450,000	450,000	-
Prior Year Accounts Payable	500,000	-	500,000
COFA Review Commission	250,000	92,016	157,984
Others	62,854	57,064	5,790
Total Other Agencies and Activities	3,376,854	2,691,673	685,181
Education Assistance:			
Palau Community College	2,345,000	2,345,000	-
COM Board of Regents	25,000	25,000	-
Aid to Non-Public Schools	621,179	621,179	-
Prior Year Employer Contribution to CSPP	40,000	40,000	-
Total Education Assistance	3,031,179	3,031,179	-
Total expenditures	53,448,855	51,175,132	2,273,723
Deficiency of revenues under expenditures	(6,221,084)	(5,565,736)	655,348
Other financing sources (uses):			
Operating transfers in:			
U.S. Federal Grants	-	73,549	73,549
Compact Section 211(f) Trust	5,000,000	5,000,000	-
Compact Section 213 Defense	913,000	913,000	-
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	8,790,000	8,863,549	73,549
Operating transfers out:			
Debt Service	(1,891,000)	(1,799,452)	91,548
Other Grants Fund	-	(127,000)	(127,000)
National Scholarship Fund	(1,270,000)	(1,270,000)	-
Total other financing uses	(3,161,000)	(3,196,452)	(35,452)
Total other financing sources (uses), net	5,629,000	5,667,097	38,097
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(592,084)	101,361	693,445
Other changes in deficit:			
Decrease in reserve for continuing appropriations	592,084	247,750	(344,334)
Decrease in reserve for related assets	-	268,930	268,930
Unreserved deficit at the beginning of the year	(2,773,229)	(2,773,229)	-
Unreserved deficit at the end of the year	\$ (2,773,229)	\$ (2,155,188)	\$ 618,041

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

Combined Balance Sheet Nonmajor Governmental Funds September 30, 2006

	Other Special Revenue	Other Capital Projects	Other Debt Service	Total
<u>ASSETS</u>				
Investments	\$ 4,064,810	\$ 363,187	\$ -	\$ 4,427,997
Investments - restricted	3,000,000	-	-	3,000,000
Receivables, net:				
General	-	9,581	-	9,581
Federal agencies	676,341	-	-	676,341
Accrued interest	18,769	-	-	18,769
Due from other funds	1,599,793	986,499	353,927	2,940,219
Advances	14,555	-	-	14,555
Prepaid items	10,746	108,430	-	119,176
Total assets	<u>\$ 9,385,014</u>	<u>\$ 1,467,697</u>	<u>\$ 353,927</u>	<u>\$ 11,206,638</u>
<u>LIABILITIES AND FUND BALANCES</u>				
Liabilities:				
Accounts payable	\$ 722,851	\$ 215,414	\$ 165,500	\$ 1,103,765
Deferred revenue	30,527	180,455	-	210,982
Due to other funds	3,136,272	288,504	-	3,424,776
Total liabilities	<u>3,889,650</u>	<u>684,373</u>	<u>165,500</u>	<u>4,739,523</u>
Fund balances:				
Reserved for:				
Continuing appropriations	276,354	-	-	276,354
Related assets	3,009,127	-	-	3,009,127
Encumbrances	463,689	4,611,910	-	5,075,599
Debt service	-	-	188,427	188,427
Unreserved (deficits):				
Special revenue funds	1,746,194	-	-	1,746,194
Capital projects funds	-	(3,828,586)	-	(3,828,586)
Total fund balances	<u>5,495,364</u>	<u>783,324</u>	<u>188,427</u>	<u>6,467,115</u>
Total liabilities and fund balances	<u>\$ 9,385,014</u>	<u>\$ 1,467,697</u>	<u>\$ 353,927</u>	<u>\$ 11,206,638</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, 2006

	Other Special Revenue	Other Capital Projects	Other Debt Service	Total
Revenues:				
Federal contributions	\$ 1,908,562	\$ -	\$ -	\$ 1,908,562
Compact funding	2,877,000	-	-	2,877,000
Fees and charges	2,032,806	-	-	2,032,806
Net increase in the fair value of investments	381,501	16,839	-	398,340
Other	1,201,950	-	-	1,201,950
Total revenues	<u>8,401,819</u>	<u>16,839</u>	<u>-</u>	<u>8,418,658</u>
Expenditures:				
Current:				
Ministry of Health	2,021,083	-	-	2,021,083
Ministry of Education	69,605	-	-	69,605
Ministry of Resources and Development	404,096	-	-	404,096
Ministry of Finance	1,122,347	-	-	1,122,347
Ministry of Community and Cultural Affairs	32,923	-	-	32,923
Ministry of State	139,626	-	-	139,626
Ministry of Justice	54,479	-	-	54,479
Office of the President	458,546	-	-	458,546
Office of the Public Auditor	432,000	-	-	432,000
Investment management fees	19,073	-	-	19,073
Other	1,474,179	-	-	1,474,179
Capital projects	-	502,916	-	502,916
Debt service:				
Principal retirement	-	-	1,142,858	1,142,858
Interest	-	-	656,594	656,594
Total expenditures	<u>6,227,957</u>	<u>502,916</u>	<u>1,799,452</u>	<u>8,530,325</u>
Excess (deficiency) of revenues over (under) expenditures	<u>2,173,862</u>	<u>(486,077)</u>	<u>(1,799,452)</u>	<u>(111,667)</u>
Other financing sources (uses), net:				
Operating transfers in	1,397,000	-	1,799,452	3,196,452
Operating transfers out	(3,807,500)	-	-	(3,807,500)
Total other financing sources (uses), net	<u>(2,410,500)</u>	<u>-</u>	<u>1,799,452</u>	<u>(611,048)</u>
Net change in fund balances	(236,638)	(486,077)	-	(722,715)
Fund balances at the beginning of the year	<u>5,732,002</u>	<u>1,269,401</u>	<u>188,427</u>	<u>7,189,830</u>
Fund balances at the end of the year	<u>\$ 5,495,364</u>	<u>\$ 783,324</u>	<u>\$ 188,427</u>	<u>\$ 6,467,115</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU
NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS

September 30, 2006

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 for general hospital operations.

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.

Other Grants Fund - Grants from non-U.S. government sources are accounted for within this fund.

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.

DOI Direct Grants Fund - This Fund has been established to account for grants received by the Republic of Palau directly from the Office of Territorial and International Affairs (OTIA), U.S. Department of the Interior.

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
NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS

Combining Balance Sheet
September 30, 2006

	Palau Ed Textbook Development and Sales	Public and Law Access Unit	Drug Fine Collection	Sports Facilities Trust	Scholarship	Hospital Trust	EQPB Trust	Agrifund	Other Grants
ASSETS									
Investments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Investments - restricted	-	-	-	-	-	-	-	-	-
Receivables, net:									
Federal agencies	-	-	-	-	-	-	-	-	-
Accrued interest	-	-	-	-	-	-	-	-	-
Due from other funds	17,864	58,202	-	2,034	109,261	1,179,337	55,444	-	99,925
Advances	-	-	-	-	-	-	-	-	13,715
Prepaid items	-	-	-	-	-	600	-	-	10,116
Total assets	\$ 17,864	\$ 58,202	\$ -	\$ 2,034	\$ 109,261	\$ 1,179,937	\$ 55,444	\$ -	\$ 123,756
LIABILITIES AND FUND BALANCES									
(DEFICITS)									
Liabilities:									
Accounts payable	\$ -	\$ -	\$ -	\$ 760	\$ 6,419	\$ 468,351	\$ -	\$ 279	\$ 93,229
Deferred revenue	-	-	-	-	-	-	-	-	30,527
Due to other funds	-	-	999	-	-	-	-	8,722	-
Total liabilities	-	-	999	760	6,419	468,351	-	9,001	123,756
Fund balances (deficit):									
Reserved for:									
Continuing appropriations	-	-	-	-	-	276,354	-	-	-
Related assets	-	-	-	-	-	812	-	-	7,474
Encumbrances	-	-	-	1,011	210	57,209	-	-	177,044
Unreserved (deficit)	17,864	58,202	(999)	263	102,632	377,211	55,444	(9,001)	(184,518)
Total fund balances (deficit)	17,864	58,202	(999)	1,274	102,842	711,586	55,444	(9,001)	-
Total liabilities and fund balances	\$ 17,864	\$ 58,202	\$ -	\$ 2,034	\$ 109,261	\$ 1,179,937	\$ 55,444	\$ -	\$ 123,756

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU
NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS

Combining Balance Sheet, Continued
September 30, 2006

Operator License Fund	OTIA Direct Grants	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
\$	\$	\$	\$	\$	\$	\$	\$	\$
-	-	239,045	55,326	37,308	412,002	3,139,656	181,473	4,064,810
-	-	3,000,000	-	-	-	-	-	3,000,000
-	676,341	-	-	-	-	-	-	676,341
-	-	-	-	-	-	18,769	-	18,769
62,726	-	-	15,000	-	-	-	-	1,599,793
-	840	-	-	-	-	-	-	14,555
-	30	-	-	-	-	-	-	10,746
\$ 62,726	\$ 677,211	\$ 3,239,045	\$ 70,326	\$ 37,308	\$ 412,002	\$ 3,158,425	\$ 181,473	\$ 9,385,014
ASSETS								
Investments								
Investments - restricted								
Receivables, net:								
Federal agencies								
Accrued interest								
Due from other funds								
Advances								
Prepaid items								
Total assets								
LIABILITIES AND FUND BALANCES								
(DEFICITS)								
Liabilities:								
Accounts payable	145,236	-	-	-	-	-	-	722,851
Deferred revenue	-	-	-	-	-	-	-	30,527
Due to other funds	514,171	710,942	-	-	-	1,901,438	-	3,136,272
Total liabilities	659,407	710,942	-	-	-	1,901,438	-	3,889,650
Fund balances (deficit):								
Reserved for:								
Continuing appropriations	-	-	-	-	-	-	-	276,354
Related assets	841	3,000,000	-	-	-	-	-	3,009,127
Encumbrances	199,928	24,606	-	-	-	-	-	463,689
Unreserved (deficit)	(182,965)	(496,503)	70,326	37,308	412,002	1,256,987	181,473	1,746,194
Total fund balances (deficit)	17,804	2,528,103	70,326	37,308	412,002	1,256,987	181,473	5,495,364
Total liabilities and fund balances	\$ 677,211	\$ 3,239,045	\$ 70,326	\$ 37,308	\$ 412,002	\$ 3,158,425	\$ 181,473	\$ 9,385,014

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, 2005

	Palauan Ed Textbook Development and Sales	Public and Law Access Unit	Drug Fine Collection	Sports Facilities Trust	Scholarship	Hospital Trust	EQPB Trust	Agrifund	Other Grants
Revenues:									
Federal contributions	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Compact funding	-	-	-	-	-	-	-	-	-
Fees and charges	550	13,813	1,645	6,036	-	1,851,072	71,311	1,202	-
Net increase in the fair value of investments	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	49,265	-	-	-	1,152,685
Total revenues	550	13,813	1,645	6,036	49,265	1,851,072	71,311	1,202	1,152,685
Expenditures:									
Ministry of Health	-	-	-	-	-	1,574,743	-	-	57,553
Ministry of Education	-	-	-	-	-	-	-	-	69,605
Ministry of Finance	-	-	-	-	-	-	-	-	495,609
Ministry of State	-	-	-	-	-	-	-	-	139,626
Ministry of Resources and Development	-	-	-	-	-	-	-	16,228	48,088
Ministry of Community and Cultural Affairs	-	-	-	2,742	-	-	-	-	30,181
Office of the President	-	-	-	-	-	-	-	-	384,322
Ministry of Justice	-	-	1,079	-	-	-	-	-	7,737
Office of the Public Auditor	-	-	-	-	-	-	-	-	-
Investment management fees	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	1,382,815	-	8,000	-	46,964
Total expenditures	-	-	1,079	2,742	1,382,815	1,574,743	8,000	16,228	1,279,685
Excess (deficiency) of revenues over (under) expenditures	550	13,813	566	3,294	(1,333,550)	276,329	63,311	(15,026)	(127,000)
Other financing sources (uses):									
Operating transfers in	-	-	-	-	1,270,000	-	-	-	127,000
Operating transfers out	-	-	-	-	-	-	(17,500)	-	-
Total other financing sources (uses), net	-	-	-	-	1,270,000	-	(17,500)	-	127,000
Net change in fund balances (deficits)	550	13,813	566	3,294	(63,550)	276,329	45,811	(15,026)	-
Fund balances (deficits) at the beginning of the year	17,314	44,389	(1,565)	(2,020)	166,392	435,257	9,633	6,025	-
Fund balances (deficits) at the end of the year	\$ 17,864	\$ 58,202	\$ (999)	\$ 1,274	\$ 102,842	\$ 711,586	\$ 55,444	\$ (9,001)	\$ -

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, 2006

	Operator License Fund	OTIA Direct Grants	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:									
Federal contributions	\$ -	\$ 1,908,562	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,908,562
Compact funding	-	-	-	246,000	631,000	-	-	2,000,000	2,877,000
Fees and charges	79,179	7,998	-	-	-	-	-	-	2,032,806
Net increase in the fair value of investments	-	-	125,141	9,341	16,962	17,537	198,409	14,111	381,501
Other	-	-	-	-	-	-	-	-	1,201,950
Total revenues	79,179	1,916,560	125,141	255,341	647,962	17,537	198,409	2,014,111	8,401,819
Expenditures:									
Ministry of Health	-	388,787	-	-	-	-	-	-	2,021,083
Ministry of Education	-	-	-	-	-	-	-	-	69,605
Ministry of Finance	-	626,738	-	-	-	-	-	-	1,122,347
Ministry of State	-	-	-	-	-	-	-	-	139,626
Ministry of Resources and Development	-	339,780	-	-	-	-	-	-	404,096
Ministry of Community and Cultural Affairs	-	-	-	-	-	-	-	-	32,923
Office of the President	-	74,224	-	-	-	-	-	-	458,546
Ministry of Justice	35,030	10,633	-	-	-	-	-	-	54,479
Office of the Public Auditor	-	432,000	-	-	-	-	-	-	432,000
Investment management fees	-	-	1,508	119	197	356	16,672	221	19,073
Other	-	36,400	-	-	-	-	-	-	1,474,179
Total expenditures	35,030	1,908,562	1,508	119	197	356	16,672	221	6,227,957
Excess (deficiency) of revenues over (under) expenditures	44,149	7,998	123,633	255,222	647,765	17,181	181,737	2,013,890	2,173,862
Other financing sources (uses):									
Operating transfers in	-	-	-	-	-	-	-	-	1,397,000
Operating transfers out	-	-	-	(246,000)	(631,000)	-	(913,000)	(2,000,000)	(3,807,500)
Total other financing sources (uses), net	-	-	-	(246,000)	(631,000)	-	(913,000)	(2,000,000)	(2,410,500)
Net change in fund balances (deficits)	44,149	7,998	123,633	9,222	16,765	17,181	(731,263)	13,890	(236,638)
Fund balances (deficits) at the beginning of the year	10,000	9,806	2,404,470	61,104	20,543	394,821	1,988,250	167,583	5,732,002
Fund balances (deficits) at the end of the year	\$ 54,149	\$ 17,804	\$ 2,528,103	\$ 70,326	\$ 37,308	\$ 412,002	\$ 1,256,987	\$ 181,473	\$ 5,495,364

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU
NONMAJOR GOVERNMENTAL FUNDS - CAPITAL PROJECTS FUNDS

September 30, 2006

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.

Non-DOI Capital Projects Fund - To account for construction grants received from U.S. Grantor Agencies, other than the U.S. Department of the Interior directly or in a sub-grantee capacity.

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, 2006

	DOI Capital Projects	Local Capital Projects	Compact Section 212(b) Capital Account	Total
<u>ASSETS</u>				
Investments	\$ -	\$ -	\$ 363,187	\$ 363,187
Receivables, net:				
General	-	9,581	-	9,581
Federal agencies	-	-	-	-
Prepaid items	-	108,430	-	108,430
Due from other funds	263,594	722,905	-	986,499
Total assets	<u>\$ 263,594</u>	<u>\$ 840,916</u>	<u>\$ 363,187</u>	<u>\$ 1,467,697</u>
<u>LIABILITIES AND FUND BALANCES</u>				
Liabilities:				
Accounts payable	\$ -	\$ 215,414	\$ -	\$ 215,414
Deferred revenue	180,455	-	-	180,455
Due to other funds	-	-	288,504	288,504
Total liabilities	<u>180,455</u>	<u>215,414</u>	<u>288,504</u>	<u>684,373</u>
Fund balances:				
Reserved for:				
Encumbrances	55,006	4,556,904	-	4,611,910
Unreserved (deficit)	28,133	(3,931,402)	74,683	(3,828,586)
Total fund balances	<u>83,139</u>	<u>625,502</u>	<u>74,683</u>	<u>783,324</u>
Total liabilities and fund balances	<u>\$ 263,594</u>	<u>\$ 840,916</u>	<u>\$ 363,187</u>	<u>\$ 1,467,697</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 (Deficits)
Year Ended September 30, 2006

	DOI Capital Projects	Local Capital Projects	Compact Section 212(b) Capital Account	Total
Revenues:				
Federal contributions	\$ -	\$ -	\$ -	\$ -
Net increase in the fair value of investments	-	-	16,839	16,839
Total revenues	-	-	16,839	16,839
Expenditures:				
Capital projects	-	502,599	317	502,916
Total expenditures	-	502,599	317	502,916
Net change in fund balances	-	(502,599)	16,522	(486,077)
Fund balances at the beginning of the year	83,139	1,128,101	58,161	1,269,401
Fund balances at the end of the year	\$ 83,139	\$ 625,502	\$ 74,683	\$ 783,324

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU
NONMAJOR GOVERNMENTAL FUNDS - DEBT SERVICE FUND

September 30, 2006

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
SPECIAL REVENUE FUNDS

Statement of Revenues, Expenditures and Changes in
Fund Balance (Deficit) - Budget and Actual - Compact Section 211(b) - Energy Fund
Year Ended September 30, 2006

	Fiscal Year 2006 Budget	Continuing Appropriation	Total Available Budget	Actual	Variance
Revenues:					
Net increase in the fair value of investments	\$ 1,509	\$ -	\$ 1,509	\$ 125,142	\$ 123,633
Total revenues	<u>1,509</u>	<u>-</u>	<u>1,509</u>	<u>125,142</u>	<u>123,633</u>
Expenditures:					
Investment management fees	<u>1,509</u>	<u>-</u>	<u>1,509</u>	<u>1,509</u>	<u>-</u>
Total expenditures	<u>1,509</u>	<u>-</u>	<u>1,509</u>	<u>1,509</u>	<u>-</u>
Excess of revenues over expenditures	-	-	-	123,633	123,633
Other changes in unreserved fund balance:					
Decrease in reserve for continuing appropriations	-	-	-	736,975	736,975
Unreserved fund balance (deficit) at the beginning of the year	<u>(333,550)</u>	<u>(4,415,607)</u>	<u>(4,749,157)</u>	<u>(1,357,111)</u>	<u>3,392,046</u>
Unreserved fund balance (deficit) at the end 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>

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU
SPECIAL REVENUE FUNDS

Statement of Revenues, Expenditures and Changes in
Fund Balance (Deficit) - Budget and Actual - Compact Section 211(c) - Communications Fund
Year Ended September 30, 2006

	Fiscal Year 2006 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	119	-	119	9,341	9,222
Total revenues	246,119	-	246,119	255,341	9,222
Expenditures:					
Investment management fees	119	-	119	119	-
Total expenditures	119	-	119	119	-
Excess of revenues over expenditures	246,000	-	246,000	255,222	9,222
Other financing sources (uses):					
Transfers to General Fund	(246,000)	-	(246,000)	(246,000)	-
Total other financing sources (uses), net	(246,000)	-	(246,000)	(246,000)	-
Excess of revenues and other financing sources over expenditures and other financing uses	-	-	-	9,222	9,222
Other changes in unreserved fund balance:					
Decrease in reserve for continuing appropriations	-	-	-	12,500	12,500
Unreserved fund balance (deficit) at the beginning of the year	75,262	(50,000)	25,262	48,604	23,342
Unreserved fund balance (deficit) at the end of the year	\$ 75,262	\$ (50,000)	\$ 25,262	\$ 70,326	\$ 45,064

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, 2006

	Fiscal Year 2006 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	197	-	197	16,962	16,765
Total revenues	631,197	-	631,197	647,962	16,765
Expenditures:					
Investment management fees	197	-	197	197	-
Total expenditures	197	-	197	197	-
Excess of revenue over expenditures	631,000	-	631,000	647,765	16,765
Other financing sources (uses), net:					
Transfers to General Fund	(631,000)	-	(631,000)	(631,000)	-
Net change in fund balance	-	-	-	16,765	16,765
Unreserved fund balance (deficit) at the beginning of the year	58,176	-	58,176	20,543	(37,633)
Unreserved fund balance (deficit) at the end of the year	\$ 58,176	\$ -	\$ 58,176	\$ 37,308	\$ (20,868)

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, 2006

	Fiscal Year 2006 Budget	Continuing Appropriation	Total Available Budget	Actual	Variance
Revenues:					
Net increase in the fair value of investments	\$ 356	\$ -	\$ 356	\$ 17,537	\$ 17,181
Total revenues	356	-	356	17,537	17,181
Expenditures:					
Investment management fees	356	-	356	356	-
Total expenditures	356	-	356	356	-
Excess of revenues over expenditures	-	-	-	17,181	17,181
Unreserved fund balance (deficit) at the beginning of the year	273,670	-	273,670	394,821	121,151
Unreserved fund balance (deficit) at the end of the year	\$ 273,670	\$ -	\$ 273,670	\$ 412,002	\$ 138,332

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, 2006

	<u>Fiscal Year 2006 Budget</u>	<u>Continuing Appropriation</u>	<u>Total Available Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:					
Net increase in the fair value of investments	\$ 16,672	\$ -	\$ 16,672	\$ 198,409	\$ 181,737
Total revenues	<u>16,672</u>	<u>-</u>	<u>16,672</u>	<u>198,409</u>	<u>181,737</u>
Expenditures:					
Investment management fees	<u>16,672</u>	<u>-</u>	<u>16,672</u>	<u>16,672</u>	<u>-</u>
Total expenditures	<u>16,672</u>	<u>-</u>	<u>16,672</u>	<u>16,672</u>	<u>-</u>
Excess of revenues over expenditures	-	-	-	181,737	181,737
Other financing sources (uses):					
Transfers to General Fund	<u>(913,000)</u>	<u>-</u>	<u>(913,000)</u>	<u>(913,000)</u>	<u>-</u>
Net change in fund balance	<u>(913,000)</u>	<u>-</u>	<u>(913,000)</u>	<u>(731,263)</u>	<u>181,737</u>
Unreserved fund balance (deficit) at the beginning of the year	<u>6,566,601</u>	<u>-</u>	<u>6,566,601</u>	<u>1,988,250</u>	<u>(4,578,351)</u>
Unreserved fund balance (deficit) at the end 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>

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU
SPECIAL REVENUE FUNDS

Statement of Revenues, Expenditures and Changes in
Deficit - Budget and Actual - Compact Section 221(b) - Special Block Grants
Year Ended September 30, 2006

	Fiscal Year 2006 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	221	-	221	14,111	13,890
Total revenues	2,000,221	-	2,000,221	2,014,111	13,890
Expenditures:					
Investment management fees	221	-	221	221	-
Total expenditures	221	-	221	221	-
Excess of revenues over expenditures	2,000,000	-	2,000,000	2,013,890	13,890
Other financing sources (uses):					
Transfers to Palau Community College	(2,000,000)	-	(2,000,000)	(2,000,000)	-
Net change in fund balance	-	-	-	13,890	13,890
Other changes in unreserved fund balance:					
Decrease in reserve for continuing appropriations	-	-	-	759,000	759,000
Unreserved fund balance (deficit) at the beginning of the year	(619,112)	2,277,000	1,657,888	(591,417)	(2,249,305)
Unreserved fund balance (deficit) at the end of the year	\$ (619,112)	\$ 2,277,000	\$ 1,657,888	\$ 181,473	\$ (1,476,415)

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU
CAPITAL PROJECTS FUNDS

Statement of Revenues, Expenditures, and Changes in
Fund Balance (Deficit) - Budget and Actual - Compact Section 212(b) - Capital Account
Year Ended September 30, 2006

	Fiscal Year 2006 Budget	Continuing Appropriation	Total Available Budget	Actual	Variance
Revenues:					
Net increase in the fair value of investments	\$ 317	\$ -	\$ 317	\$ 16,839	\$ 16,522
Total revenues	<u>317</u>	<u>-</u>	<u>317</u>	<u>16,839</u>	<u>16,522</u>
Expenditures:					
Investment management fees	317	-	317	317	-
New public health building	-	-	-	-	-
Elementary school repairs	-	-	-	-	-
State capital improvement projects	-	-	-	-	-
Total expenditures	<u>317</u>	<u>-</u>	<u>317</u>	<u>317</u>	<u>-</u>
Excess of revenues over expenditures	-	-	-	16,522	16,522
Other changes in unreserved fund balance:					
Decrease in reserve for continuing appropriations	-	-	-	1,925,109	1,925,109
Decrease in reserve for encumbrances	-	-	-	36,000	36,000
Unreserved fund balance (deficit) at beginning of year	<u>(1,046,934)</u>	<u>(24,339,101)</u>	<u>(25,386,035)</u>	<u>(1,902,948)</u>	<u>23,483,087</u>
Unreserved fund balance (deficit) at end 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>

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU
OTHER GRANTS FUND

Schedule of Expenditures of Other Grants
Year Ended September 30, 2006

Fund 360100 Grantor Account Title	Cost Center	Authorization	Receivable from Grantor (Deferred Revenue) at 10/01/05	Cash Receipts FY 2006	Expenditures FY 2006	Receivable from Grantor (Deferred Revenue) at 9/30/06
<u>UNFPA Grant</u>						
UNFPA FY 1996	H63920	\$ 57,889	\$ 1,058	-	-	1,058
<u>UN Pop Education Program</u>						
UN Pop Education Program	E53921	22,940	(1,188)	-	-	(1,188)
Population Education Grants	E63921	27,295	(1,894)	-	-	(1,894)
Population Education Grants	E83921	9,180	(7,239)	-	-	(7,239)
UNFPA - Census Relates	S63921	16,000	(606)	-	-	(606)
Total UN Pop Education Program		75,415	(10,927)	-	-	(10,927)
<u>UNCCD Grant Committee</u>						
UNCCD (SLM-PDF A)	A53923	25,000	(24,980)	-	18,168	(6,812)
UNCCD Gran Committee	S03923	22,950	(4,851)	-	-	(4,851)
Total UNCCD		47,950	(29,831)	-	18,168	(11,663)
<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	(1,558)	-	600	(958)
WHO APW HLTH CAREER TRNG	H63927	15,200	-	15,200	7,095	(8,105)
Total WHO APW health Career Trng		47,450	(1,558)	15,200	7,695	(9,063)
<u>UNDP Public Sector Program</u>						
UNDP Public Sector Program	A73929	447,642	9,961	-	-	9,961
UN DEVEL PROGRAMME (UNDP)	F53929	161,000	19,715	48,000	84,431	56,146
Total UNDP		608,642	29,676	48,000	84,431	66,107
<u>Climate Change (UN) GET</u>						
National Biodiversity Plan	A23930	330,000	11,100	-	-	11,100
Climate Change Interim	A43930	15,000	(2,514)	-	1,907	(607)
2ND National Comm. UNFCCC	A63930	405,000	-	86,850	81,536	(5,314)
Total Climate Change (UN) GET		750,000	8,586	86,850	83,443	5,179
<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	18,048	7,978	-	10,070
<u>SPREP (International Water IWP)</u>						
Inte'l Water of the Pac	A23933	97,875	(568)	-	-	(568)
Int'l Water of the Pacific FY04	F43933	102,200	2,612	92,450	48,938	(40,900)
Total SPREP		200,075	2,044	92,450	48,938	(41,468)
<u>UNDP (WSSD) Grants</u>						
UNDP (WSSD) Projects	A23934	5,965	-	-	(50)	(50)
<u>SPREP</u>						
Ozone Depleting Substance	A33936	50,000	2,924	-	1,512	4,436
<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	(37,365)	91,267	46,738	(81,894)
<u>UNDP (NCSA) Global Env. Mgmt</u>						
UNDP (Global Env. Mgmt.)	A33939	25,000	24,838	-	-	24,838

REPUBLIC OF PALAU
OTHER GRANTS FUND

Schedule of Expenditures of Other Grants
Year Ended September 30, 2006

Fund 360100 Grantor Account Title	Cost Center	Authorization	Receivable from Grantor (Deferred Revenue) at 10/01/05	Cash Receipts FY 2006	Expenditures FY 2006	Receivable from Grantor (Deferred Revenue) at 9/30/06
<u>UNICEF</u>						
Justice Program	J33940	6,200	(345)	-	-	(345)
<u>PALAU NCSA</u>						
PALAU NCSA - TTP/03/G41	F43943	200,000	12,195	-	85,883	98,078
<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	(4,350)	7,250	3,978	(7,622)
<u>3RD REPORT ON BIODIVERSITY</u>						
3rd Report on Biodiversity	A63947	16,500	-	16,500	227	(16,273)
<u>2ND FRANCE-OCEANIA SUMMIT</u>						
2nd France-Oceania Summit	A63954	34,410	-	34,410	32,758	(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	(603)	-	551	(52)
Nippon Foundation Grant	R63956	25,493	-	25,493	11,789	(13,704)
Total Japan Grant		151,197	(598)	25,493	12,340	(13,751)
<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	(36,500)	-	30,182	(6,318)
<u>Secretariat Pacific Comm</u>						
Secretariat Pacific Comm	R13961	6,000	2,837	-	-	2,837
<u>Vanuatu Grants</u>						
Vanuatu Grants (NEMO)	A13962	8,269	(863)	-	-	(863)
Total Vanuatu Grants		8,269	(863)	-	-	(863)
<u>SPF Org. Comm - China Grants</u>						
SPF Org. Comm - China Grants	A93963	231,000	(1,809)	-	(972)	(2,781)
<u>Info Dev. Planning (IBRD)</u>						
Info Dev. Implement (IBRD)	A93960	200,000	21,225	-	-	21,225
Info 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	(2,624)	-	328	(2,296)

REPUBLIC OF PALAU
OTHER GRANTS FUND

Schedule of Expenditures of Other Grants
Year Ended September 30, 2006

Fund 360100 Grantor Account Title	Cost Center	Authorization	Receivable from Grantor (Deferred Revenue) at 10/01/05	Cash Receipts FY 2006	Expenditures FY 2006	Receivable from Grantor (Deferred Revenue) at 9/30/06
PM & SP Capacity Building	F63966	200,000	-	75,000	106,237	31,237
ROC-PAC Summit Security	J63966	30,000	-	30,000	20,524	(9,476)
Total Republic of China Grants		292,087	53,138	105,000	127,089	75,226
<u>Forum Sect. Drought Relief</u>						
Forum Sect. Drought Relief	A83967	10,180	(2,156)	-	-	(2,156)
Forum Import Mang Wrkshp	A13967	2,300	2,028	-	-	2,028
Total Forum Sect. Drought Relief		12,480	(128)	-	-	(128)
<u>Computerization (State)</u>						
Computerization (State)	S83968	10,000	(172)	-	-	(172)
<u>FFA - Grants</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	(42,460)	-	38,025	(4,435)
FAA - President's Office	A73969	19,985	(192)	-	-	(192)
FAA - President's Office	A83969	14,980	(14,980)	-	-	(14,980)
TRAVEL - FOC/FORUM Meeting	P63969	65,000	-	65,000	3,849	(61,151)
Total FFA - Grants		381,286	(75,463)	65,000	41,874	(98,589)
<u>PMA Office Building/Infrastructure</u>						
PMA Office Building/Infrastructure	A53970	39,994	(2,219)	-	-	(2,219)
PMA Observer & Monitoring	A63970	66,790	(2,605)	-	-	(2,605)
SPREP (CBEMP) Palau EQPB	R03970	8,895	(3,124)	-	-	(3,124)
Total PMA Office Building/Infrastructure		115,679	(7,948)	-	-	(7,948)
<u>Fisheries Forum Agency</u>						
FAA Recrit Qualiry 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)
<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	(6,064)	-	1,137	(4,927)
Ngermeduu Conservation Area	R33972	30,000	(6,374)	-	69	(6,305)
FFA Ngarchelong Clam Project	S23972	20,000	25	-	-	25
Total SPREP (Ngermeduu Conservation)		90,752	(17,716)	-	1,206	(16,510)
<u>GIS/GPS Tarining (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)

**REPUBLIC OF PALAU
OTHER GRANTS FUND**

Schedule of Expenditures of Other Grants
Year Ended September 30, 2006

Fund 360100 Grantor Account Title	Cost Center	Authorization	Receivable from Grantor (Deferred Revenue) at 10/01/05	Cash Receipts FY 2006	Expenditures FY 2006	Receivable from Grantor (Deferred Revenue) at 9/30/06
<u>Palau Youth Empowerment Fund</u>						
Palau Youth Empowerment Fund	C83974	53,551	(23,680)	-	9,000	(14,680)
PMA Port Samplers (SPC)	R63974	14,790	(392)	-	-	(392)
Total Palau Youth Empowerment Fund		68,341	(24,072)	-	9,000	(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)
Ramsar Wetlds Cons Fund	S70201	6,796	(5,721)	-	-	(5,721)
Total Australian Grants		32,768	(12,181)	-	-	(12,181)
<u>Japan Rotary Club Donation</u>						
Japan Rotary Club Donation	R63976	24,725	(250)	-	-	(250)
Pal/Jpn Fisheries Conslt.	R13976	18,013	(1,208)	-	-	(1,208)
Total Rotary Club Donation		42,738	(1,458)	-	-	(1,458)
<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)	R73979	12,050	(287)	-	-	(287)
Pilot Project (Solid Waste)	R93979	39,998	(200)	-	-	(200)
Total SPREP Grants		52,048	(487)	-	-	(487)
<u>WildAid-Packard Foundation</u>						
WildAid-Packard Foundation	J33980	72,867	(9,734)	-	4,062	(5,672)
Packard EBM Project-EQPB	A63980	107,755	-	107,755	405	(107,350)
		180,622	(9,734)	107,755	4,467	(113,022)
<u>Marine Res Conservation</u>						
Marine Res Conservation	R53980	38,900	(4,764)	-	-	(4,764)
<u>CDC & H V Hepatitis Survey</u>						
CDC & HIV Hepatitis Survey	H33981	5,472	(15)	-	-	(15)
<u>FHP Foundation Grant</u>						
FHP Foundation Grant	H63984	39,505	(2,840)	-	-	(2,840)
<u>RR & TC Pacific Basin Grant</u>						
RR & TC Pacific Basin Grant	H63985	54,000	9,900	-	-	9,900
RR & TC Pacific Basin Grant	H83985	22,000	(479)	-	-	(479)
SDSU Foundation	H93985	23,100	(178)	-	-	(178)
Total RR & TC Pacific Basin Grant		99,100	9,243	-	-	9,243
<u>Pacific Basin Development Council</u>						
Pacific Basin Development Council	A63986	4,800	(1,011)	-	-	(1,011)
<u>DNA Project (University of Utah)</u>						
DNA Project (University of Utah)	H93987	16,700	(39)	-	-	(39)
<u>Christa M. Fellowship Program</u>						
Christa M. Fellowship Program	E73990	20,558	(4,719)	-	-	(4,719)
Christa M. Fellowship Program	E83990	10,279	(79)	-	-	(79)
Christa M. Fellowship Program	E93990	10,279	(279)	-	-	(279)
Christa M. Fellowship Program	E03990	10,279	(4,405)	-	-	(4,405)
Christa M. Fellowship Program	E23990	10,003	(4,933)	-	-	(4,933)

**REPUBLIC OF PALAU
OTHER GRANTS FUND**

**Schedule of Expenditures of Other Grants
Year Ended September 30, 2006**

<u>Fund 360100</u> <u>Grantor Account Title</u>	<u>Cost</u> <u>Center</u>	<u>Authorization</u>	<u>Receivable</u> <u>from</u> <u>Grantor</u> <u>(Deferred</u> <u>Revenue)</u> <u>at 10/01/05</u>	<u>Cash</u> <u>Receipts</u> <u>FY 2006</u>	<u>Expenditures</u> <u>FY 2006</u>	<u>Receivable</u> <u>from</u> <u>Grantor</u> <u>(Deferred</u> <u>Revenue)</u> <u>at 9/30/06</u>
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	E23992	47,400	-	-	-	-
LSTA State Grants	E43992	68,499	31,418	43,041	11,623	-
LSTA State Grants FY05	E63992	43,687	-	-	39,782	39,782
Total LSTA State Grants		244,237	29,582	43,041	51,405	37,946
<u>Genetic Study (MOH)</u>						
Genetic Study	H03993	75,000	-	-	-	-
Genetic Study	H13993	405,000	(42,272)	-	31,574	(10,698)
Total Genetic Study (MOH)		480,000	(42,272)	-	31,574	(10,698)
<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	(32,140)	41,177	21,563	(51,754)
<u>PRIDE - EDUCATION SUMMIN</u>						
Education Summit FY2006	E63998	18,200	-	18,200	18,200	-
<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	(24,980)	-	13,691	(11,289)
<u>UNDP/UNCCD/GEF</u>						
UNDP (SEDREA) Energy	A63923	12,000	-	12,000	3,545	(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	-	(11,575)
<u>HOUSEHOLD INCOME/EXP SURVEY</u>						
Househol Income/Expenditures Survey	F68964	26,684	-	26,684	5,436	(21,248)
<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	144,179	44,407	11,511	111,283
<u>KOREAN GRANTS</u>						
PALAU PROJ DEVEL FUND	R58967	12,000	(10,552)	-	10,552	-

REPUBLIC OF PALAU
OTHER GRANTS FUND

Schedule of Expenditures of Other Grants
Year Ended September 30, 2006

<u>Fund 360100</u> <u>Grantor Account Title</u>	<u>Cost Center</u>	<u>Authorization</u>	Receivable from Grantor (Deferred Revenue) at 10/01/05	Cash Receipts FY 2006	Expenditures FY 2006	Receivable from Grantor (Deferred Revenue) at 9/30/06
<u>HOSPITAL EQUIP - IINDIA GRT</u>						
HOSPITAL EQUIP - INDIA GRT	H58968	149,841	(149,821)	-	8,284	(141,537)
<u>PALAU DIGITAL ARCHIVING</u>						
DIGITAL ARCHIVING	S58969	240,000	65,934	138,161	121,458	49,231
<u>DRUG DETECTOR DOG UNIT</u>						
DRUG DETECTOR DOG UNIT	F58970	175,000	59,856	175,000	104,044	(11,100)
<u>NURSES ASSOCIATION FY2006</u>						
Nurses Association FY2006	H68971	10,000	-	10,000	10,000	-
<u>INDEPENDENCE DAY (ROC)</u>						
12th Independence Day	P6R0C1	100,000	-	-	69,162	69,162
President's Expenses	P6R0C1	200,000	-	-	157,081	157,081
Total Independence day		300,000	-	-	226,243	226,243
<u>NEMO PEACESAT ASSISTANCE</u>						
Nemo PEACESAT Assistance	J68980	1,938	-	1,938	634	(1,304)
<u>NATIONAL FISH & WILDLIFE FOUNDATION</u>						
Coral Reef Conservation	J68981	41,152	-	-	2,637	2,637
<u>UN Grants</u>						
Biodiversity Cons Program	9935-PR0001	111,449	(975)	-	-	(975)
Total Other Grants		8,185,896	(84,874)	1,225,336	1,279,684	(30,527)

REPUBLIC OF PALAU

Combined Balance Sheet Grants Fund September 30, 2006

	U.S. Federal Grants	Other Country Grants	Non-DOI Capital Projects	Total
<u>ASSETS</u>				
Receivables, net:				
General	\$ 1,015	\$ 2,798,957	\$ -	\$ 2,799,972
Federal agencies	700,610	-	483,991	1,184,601
Due from other funds	-	67,187	482,812	549,999
Advances	89,238	4,836	-	94,074
Prepaid items	370,846	1,500	-	372,346
Total assets	<u>\$ 1,161,709</u>	<u>\$ 2,872,480</u>	<u>\$ 966,803</u>	<u>\$ 5,000,992</u>
<u>LIABILITIES AND FUND BALANCES</u>				
Liabilities:				
Accounts payable	\$ 463,167	\$ 2,872,480	\$ 965,182	\$ 4,300,829
Other liabilities and accruals	3,954	-	-	3,954
Due to other funds	694,588	-	-	694,588
Total liabilities	<u>1,161,709</u>	<u>2,872,480</u>	<u>965,182</u>	<u>4,999,371</u>
Fund balances:				
Reserved for:				
Related assets	179,474	-	-	179,474
Encumbrances	1,002,908	5,862,621	-	6,865,529
Unreserved (deficits):				
Special revenue funds	(1,182,382)	(5,862,621)	1,621	(7,043,382)
Total fund balances	<u>-</u>	<u>-</u>	<u>1,621</u>	<u>1,621</u>
Total liabilities and fund balances	<u>\$ 1,161,709</u>	<u>\$ 2,872,480</u>	<u>\$ 966,803</u>	<u>\$ 5,000,992</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU
MAJOR GOVERNMENTAL FUNDS
GRANTS FUND

Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances
Year Ended September 30, 2006

	U.S. Federal Grants	Other Country Grants	Non-DOI Capital Projects	Total
Revenues:				
Federal contributions	\$ 7,498,710	\$ -	\$ 9,400,475	\$ 16,899,185
Other grants	-	12,824,465	-	12,824,465
Total revenues	7,498,710	12,824,465	9,400,475	29,723,650
Expenditures:				
Ministry of Health	4,220,532	-	-	4,220,532
Ministry of Education	2,276,592	-	-	2,276,592
Ministry of Resources and Development	242,799	-	-	242,799
Ministry of Commerce	349,161	-	-	349,161
Office of the President	228,413	-	-	228,413
Office of the Vice-President	125,164	-	-	125,164
Capital projects	-	12,824,465	9,400,475	22,224,940
Total expenditures	7,442,661	12,824,465	9,400,475	29,667,601
Excess (deficiency) of revenues over (under) expenditures	56,049	-	-	56,049
Other financing sources (uses):				
Operating transfers out	(73,549)	-	-	(73,549)
Operating transfers in	17,500	-	-	17,500
Total other financing sources	(56,049)	-	-	(56,049)
Net change in fund balances	-	-	-	-
Fund balances at the beginning of the year	-	-	1,621	1,621
Fund balances at the end of the year	\$ -	\$ -	\$ 1,621	\$ 1,621

See Accompanying Independent Auditors' Report.