

**REPUBLIC OF PALAU
NATIONAL GOVERNMENT**

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

YEAR ENDED SEPTEMBER 30, 2010

REPUBLIC OF PALAU
NATIONAL GOVERNMENT

BASIC FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION AND
INDEPENDENT AUDITORS' REPORT

YEAR ENDED SEPTEMBER 30, 2010

REPUBLIC OF PALAU
FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2010

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INDEPENDENT AUDITORS' REPORT

His Excellency Johnson Toribiong
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, 2010, 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, the Palau National Communications Corporation, and the Palau District Housing Authority, which represents 33%, 8% and 42%, respectively, of the assets, net assets and operating revenues of the Republic's discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for the Palau Community College, the Palau National Communications Corporation, and the Palau District Housing Authority, is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Republic's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinions.

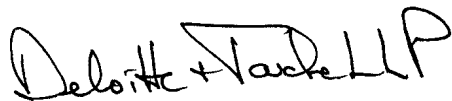
In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Republic of Palau as of September 30, 2010, 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 per note (10) H, the Republic's ability to fund certain liabilities may be dependent upon the ultimate result of ongoing negotiations.

The Management's Discussion and Analysis, on pages 3 through 11, 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 July 23, 2012, on our consideration of the Republic of Palau's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

July 23, 2012

REPUBLIC OF PALAU

Management's Discussion and Analysis Year Ended September 30, 2010

This report represents the management discussions and analysis of the Republic of Palau (ROP) financial performance during fiscal year ended September 30, 2010.

FINANCIAL HIGHLIGHTS

- The total assets of the ROP exceeded its liabilities at the close of fiscal year by \$379,538,529. Of this amount, \$241,677,822 was invested in capital assets, net of related debt, and \$155,045,420 was restricted; and unrestricted net assets, (amount that may be used to meet the government's ongoing responsibilities) was a deficiency of \$17,184,713.
- At the end of the fiscal year, the unreserved fund deficit for the General Fund was \$15,045,947 or 28% of total general fund expenditures. The general fund operating deficit was 4% or approximately \$2.0 million. The general fund unreserved fund deficit increased by \$2,177,511 or 17% from last year.
- The Republic's Long-Term Obligations as of September 30, 2010 includes \$18,057,143 payable to the Mega International Commercial Bank, and \$3,631,917 as Compensated absences (accrued annual leaves).

OVERVIEW OF THE FINANCIAL STATEMENT

The financial statements presented herein include all activities of the Republic of Palau. 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

The Government-Wide Financial Statements present the financial picture of the ROP from the economic resources measurement focus using the accrual basis of accounting. They present governmental activities in a manner similar to a private-sector business. These statements include all assets of the ROP (including infrastructure) as well as all liabilities (including long-term debt).

The Statement of Net Assets and the Statement of Activities report information about the ROP as a whole and about its activities. These statements include *all* assets and liabilities of the ROP using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the ROP's *net assets* and changes in them. Net assets are the difference between assets and liabilities, which is one way to measure the ROP's financial health, or *financial position*. Over time, *increases or decreases* in the ROP's net assets are one indicator of whether its *financial health* 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.

REPUBLIC OF PALAU

Management's Discussion and Analysis, Continued Year Ended September 30, 2010

The focus of the Statement of Activities is on both the gross and net cost of various activities that are provided by the government's general tax and other revenues. This is intended to summarize information and simplify the user's analysis of cost of various government services and/or subsidy to the component units.

The Governmental Activities reflect the ROP's basic services including, but not limited to, Public Safety, Public Education, Community and Cultural Affairs, Health Care, General Administration and Public Infrastructures which include Water and Sewer Services. These services are financed primarily with taxes and grants. The component units reflect private sector type operations where the fee for service typically covers all or most of the cost of operations including depreciation.

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

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

Governmental Funds - Most of the ROP's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial* assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the ROP's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the ROP programs. The differences of results in the Governmental fund financial statements to those in the Government-Wide financial statements are explained in a reconciliation schedule following each Governmental Fund financial statement on page 16 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 21 through 53 of this report.

REPUBLIC OF PALAU

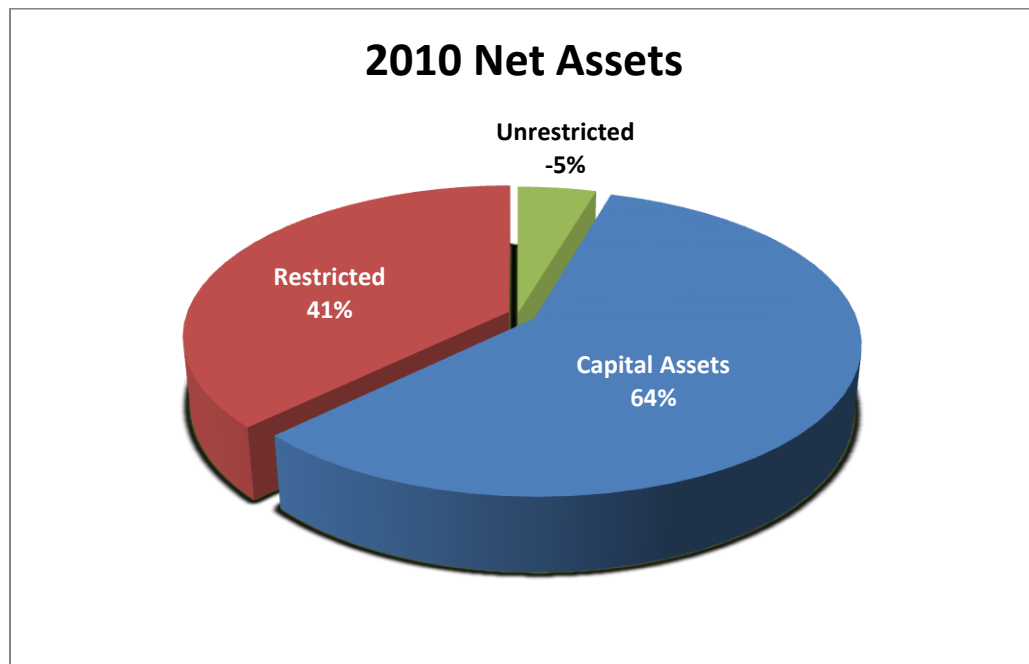
Management's Discussion and Analysis, Continued
Year Ended September 30, 2010

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Republic of Palau assets exceeded its liabilities by \$379,538,529 at the close of this fiscal year as compared to \$392,460,869 at the close of the last fiscal year. This represents a 3% decrease. A comparative analysis of the changes is presented below:

STATEMENT OF NET ASSETS

	Governmental Activities	
	2010	2009
Assets:		
Current assets	\$ 20,880,382	\$ 13,990,139
Noncurrent assets	<u>413,919,340</u>	<u>423,952,631</u>
Total assets	<u>434,799,722</u>	<u>437,942,770</u>
Liabilities:		
Current liabilities	34,462,865	22,696,206
Noncurrent liabilities	<u>20,798,328</u>	<u>22,785,695</u>
Total liabilities	<u>55,261,193</u>	<u>45,481,901</u>
Net assets:		
Invested in capital assets, net of related debt	241,677,822	258,621,251
Restricted	155,045,420	148,623,070
Unrestricted	<u>(17,184,713)</u>	<u>(14,783,452)</u>
Total net assets	<u>\$ 379,538,529</u>	<u>\$ 392,460,869</u>



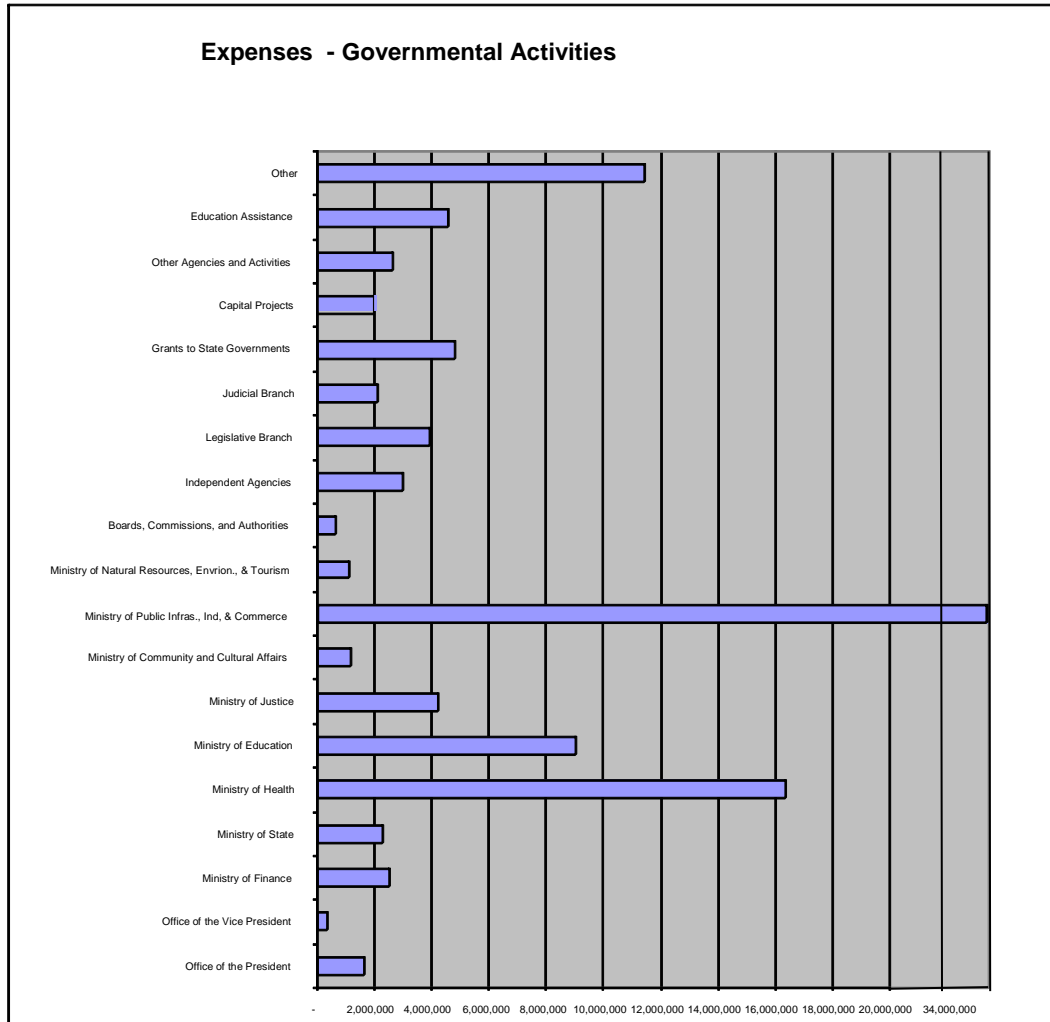
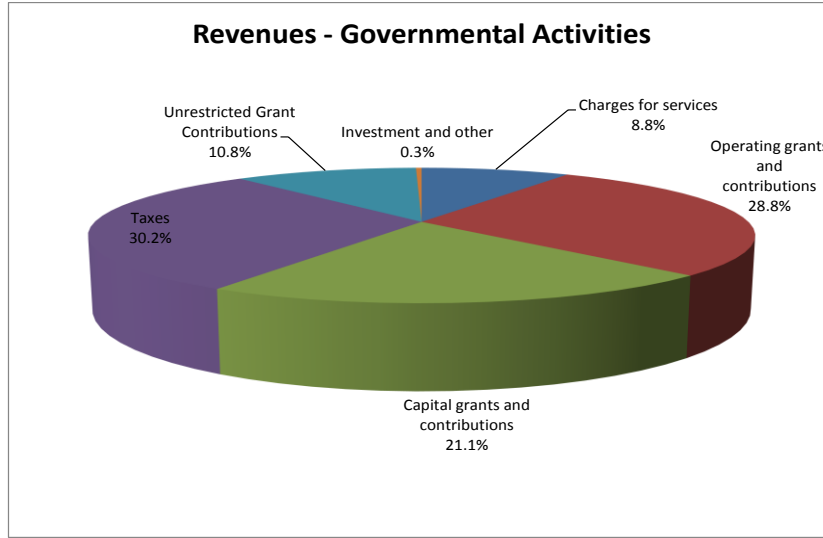
REPUBLIC OF PALAU

Management's Discussion and Analysis, Continued Year Ended September 30, 2010

	Governmental Activities	
	2010	2009
Revenues:		
Program revenues:		
Charges for services	\$ 8,332,080	\$ 6,768,142
Operating grants and contributions	27,429,084	18,184,363
Capital grants and contributions	20,112,849	14,151,789
General revenues:		
Taxes	28,793,562	28,319,238
Unrestricted grant contributions	10,260,000	10,260,000
Investment and other	317,574	514,133
Total revenues	95,245,149	78,197,665
Expenses:		
Office of the President	1,646,767	1,557,973
Office of the Vice President	338,077	406,154
Ministry of Finance	2,529,773	2,858,105
Ministry of State	2,285,358	2,467,462
Ministry of Health	16,392,508	12,197,565
Ministry of Education	9,046,298	9,488,601
Ministry of Justice	4,249,741	4,459,606
Ministry of Community and Cultural Affairs	1,197,952	1,187,621
Ministry of Infrastructure, Industry and Commerce	34,021,851	30,667,186
Ministry of Natural Resources, Environment and Tourism	1,126,489	1,717,648
Boards, Commissions and Authorities	673,646	776,209
Independent Agencies	2,968,466	3,078,991
Legislature Branch	3,938,883	3,935,803
Judicial Branch	2,093,370	2,211,226
Grants to State Governments	4,811,052	4,811,000
Capital Projects	2,144,937	8,872,386
Other Agencies and Activities	2,658,528	1,885,007
Education Assistance	4,588,610	4,147,475
Other	11,455,183	3,763,621
Total expenses	108,167,489	100,489,639
Change in net assets	(12,922,340)	(22,291,974)
Net assets at the beginning of the year	392,460,869	414,752,843
Net assets at the end of the year	\$ 379,538,529	\$ 392,460,869

REPUBLIC OF PALAU

Management's Discussion and Analysis, Continued Year Ended September 30, 2010



REPUBLIC OF PALAU

Management's Discussion and Analysis, Continued Year Ended September 30, 2010

Key elements of the decrease in net assets are as follows:

Overall revenues increased in the current year by \$17 million (or 22%) due to an increase in program revenues of \$17 million (or 42.8%) and \$277 thousand (or 0.7%) in general revenues as compared with prior year. The increase in program revenues is primarily attributable to an increase in grants and contributions of \$15.2 million (or 47%), which were primarily due to an increase in investment earnings generated by the Compact Trust Fund.

Overall costs of governmental activities increased in the current year by \$7.7 million (or 7.6%) compared with prior year. The increase is primarily attributable to the recognition of impairment loss due to Compact Road damage.

Investment in capital assets (e.g. land, improvements, buildings, equipment, and infrastructure), net of accumulated depreciation, less any related debt used to acquire those assets that is still outstanding, represents 63% 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 of \$17,184,713 at the end of the current fiscal year.

FINANCIAL ANALYSIS OF FUNDS

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

At September 30, 2010, ROP's governmental funds reported combined fund balances of \$148,007,904 and at September 30, 2009 the ROP reported \$144,847,922, an increase of \$3,159,982 or 2%. The increase is made up mostly of the Compact Section 211(f) Trust Fund net change in the fair value of investment.

The General Fund is the chief operating fund of the ROP. At September 30, 2010, the General Fund reported revenues at \$45,905,814, a decrease of \$428,305 from last fiscal year or 1%, while reported expenditures was at \$53,863,388 or 1% below last fiscal year. The total other financing sources (uses), net of \$5,933,238 combined with revenues of \$45,905,814 resulted in a net change in fund balance deficit of \$2,024,336. The cumulative fund deficit at end of year was \$10,507,887.

Special Revenue (Grants Fund) – These funds include US Federal grants, Other Country grants (ROC funded), Non-DOI Capital Projects (FAA funded), Other Grants, and OTIA direct grants fund. They are grouped and categorized as a major fund. Of the total revenues of \$31,484,072, the US Federal Contributions is 32%, Other Country grants (ROC) is 43%, Non-DOI Capital Projects is 21%, Other Grants (various countries and foundations) 2%, and OTIA direct grants 2% for fiscal year end September 30, 2010.

REPUBLIC OF PALAU

Management's Discussion and Analysis, Continued Year Ended September 30, 2010

Permanent Fund includes the Compact Section 211(f) Trust Fund. Market value of the fund at end of fiscal year was \$151,084,308, a net increase of \$7,108,525 or 5%. A reduction of \$5,000,000 million from this fund was appropriated and withdrawn for the year ended September 30, 2010.

Other Governmental Funds are various funds grouped and categorized as Non-major Governmental Funds. They include Other Special Revenues (miscellaneous non-General Fund and Non-Trust Fund), Other Capital Projects Funds (mostly local), and Other Debt Service Funds.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the course of the fiscal year, management and elected officials of the ROP revised the General Fund budget to increase appropriations by \$7.2 million. The primary reason for the upward revision was due to Republic of Palau Public Law 8-15, which appropriated additional amounts to cover the ROP's overall operation.

For the current fiscal year, the General Fund budget appropriations, including transfers out, of \$57.0 million was \$0.8 million in excess of actual reported revenues and transfers in of \$56.2 million. General fund revenues increased by \$2.0 million, or (3.7%) from prior year primarily due to increase in one-time transfers from other governmental funds. Concurrently, General Fund appropriations, including transfers out, of \$57.0 million was down \$0.4 million or (0.7%) from prior year. Budgeted appropriations, including transfers in over reported appropriations, including transfers out resulted in net change in unreserved fund deficit of \$2.2 million. Additionally, charges to appropriations, including transfers out, of \$57.0 million were lower than budgeted.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The ROP investment in capital assets for its governmental activities as of September 30, 2010 amounted to \$256,414,018 (net of accumulated depreciation of \$152,548,082), as compared to \$274,026,961 (net of accumulated depreciation of \$125,898,640) for the year ended September 30, 2009. The total decrease in ROP's investment in capital assets for the current period was \$17,612,943.

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

	<u>Governmental Activities</u>	
	<u>2010</u>	<u>2009</u>
Land	\$ 3,691,850	\$ 4,238,850
Buildings and improvements, net	95,904,793	89,544,433
Machinery and Equipment, net	8,047,040	10,821,580
Vehicles, net	999,612	560,733
Infrastructure, net	137,474,281	163,045,591
Construction in progress	<u>10,296,442</u>	<u>5,815,774</u>
Total	\$ <u>256,414,018</u>	\$ <u>274,026,961</u>

REPUBLIC OF PALAU

Management's Discussion and Analysis, Continued Year Ended September 30, 2010

Major capital asset additions during the current year included ongoing construction in progress of \$19.0 million associated with improvements to the Palau International Airport, completion of Palau Light Up Projects, State Government Dock Improvement Projects, and \$1.9 million from completion of several state road projects.

Functions/programs expenses of the primary government include impairment loss of \$7,207,200 due to defects/damages on the Compact Road.

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

Long-Term Debt

At September 30, 2010, the ROP had total long-term obligations outstanding of \$24,689,060 as compared to \$26,203,348 in the prior year.

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

	<u>Governmental Activities</u>	
	<u>2010</u>	<u>2009</u>
Loans payable	\$ 18,057,143	\$ 19,657,141
Compensated absences	3,631,917	3,546,207
Due to U.S. Government	<u>3,000,000</u>	<u>3,000,000</u>
Total	\$ <u>24,689,060</u>	\$ <u>26,203,348</u>

The Republic has not established a trust fund as part of the terms and conditions under the Compact Agreement as of September 30, 2010, and therefore has restricted assets of \$3,000,000 in the Compact Section 211(b) to fund this repayment.

Refer to Note (6) & (7) to the accompanying financial statements for additional information regarding long-term obligations.

Economic Factors and Next Year's Budget

In Fiscal Year 2010, actual local revenues collected were \$35.5 million, a 5.6% increase from the \$33.6 million collected in Fiscal Year 2009. The increase in collections; however, was still \$1.2 million or 3.4% below the projected \$36.7 million for the year. All three major revenue categories show increases from prior year with the largest increase coming from fees and charges. In Fiscal 2010, collection from fees and charges was \$4.6 million, a 44% increase from the \$3.2 million collected in Fiscal Year 2009. Licenses and permits collections show an increase from \$1.8 million to \$2.0 million or 11% increase. Lastly, taxes, which is the largest of revenue categories was fairly flat with collections of \$28.8 million in Fiscal Year 2010 compared to \$28.3 million in Fiscal Year 2009, a marginal increase of 1.77%. Compact Revenues has basically remained fairly constant while indirect cost recoveries fluctuate and depend on program size. Investment earnings continue to decline as a result of global financial and economic crisis in addition to the Compact's economic provision agreement which ended in 2009. The government continues to tap into the remaining balances of its investment principal value for budgetary support as it awaits the outcome of its new Compact Agreement.

REPUBLIC OF PALAU

Management's Discussion and Analysis, Continued Year Ended September 30, 2010

Although revenue collections show an increase in collections for Fiscal 2010 from previous year, the government continues to struggle to balance its budget, mainly due to increasing energy costs, which is affecting prices and costs across all sectors. Additionally, the government in these past few years has completed some major infrastructure projects that will now require maintenance planning and budgets to maintain. The government continues to seek other revenue sources to meet these anticipated costs. Again in 2010, some new measures were introduced to OEK, mainly for additional revenue sources, i.e. tax reforms, new water and sewer rates; however, the proposals have yet to be enacted.

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

During the first two years of the current administration, it has tried to be more conservative in its revenue projection approach; however, the current size of the government in addition to rising costs has ultimately made it more difficult to balance the Budget. The administration realizes that the only long term solution to the current imbalance in its revenue collections and expenditures is either enactment of new revenue sources or reduction in government "fixed costs", i.e. salary and wages, utilities, and/or combination of both.

After Fiscal Year 2010, it appears that revenue collections may gradually improve going forward. This can be attributed to the improving global economies as well as improved collection processes by the Bureau of Taxation and Customs. The Bureau of Taxation and Customs has earlier implemented a nation-wide amnesty program aimed at bringing in business owners who had previously avoided paying taxes. The amnesty program would bring all businesses into the system without penalties. This appears to have accomplished what it was intended to do – broaden the tax base, which has eventually resulted in improved collections.

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 Vice President/Minister of Finance, P.O. Box 6011, Koror, Republic of Palau 96940.

REPUBLIC OF PALAU

Statement of Net Assets
September 30, 2010

	Primary Government	Component Units
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 7,097,290	\$ 5,458,873
Time certificates of deposit	-	625,459
Investments	3,411,800	-
Receivables, net of allowance for uncollectibles	8,834,810	16,308,555
Inventories	-	8,278,505
Other current assets	1,206,106	296,314
Restricted assets:		
Cash and cash equivalents	330,376	6,484,492
Time certificates of deposit	-	449,520
Investments held for Endowment Foundation	-	1,841,349
Total current assets	20,880,382	39,743,067
Noncurrent assets:		
Restricted assets:		
Investments	154,401,170	-
Cash and cash equivalents and time certificates of deposit	1,454,933	205,112
Investments	1,185,575	-
Receivables, net of allowance for uncollectibles	-	21,593,028
Deposits	-	3,604,156
Capital assets, net of accumulated depreciation	256,414,018	49,906,533
Foreclosed real estate	-	367,218
Other noncurrent assets	463,644	251,500
Total noncurrent assets	413,919,340	75,927,547
Total assets	\$ 434,799,722	\$ 115,670,614
<u>LIABILITIES</u>		
Current liabilities:		
Notes payable	\$ 198,142	\$ 300,000
Current portion of long-term obligations	1,599,998	2,597,609
Accounts payable	6,473,706	6,742,673
Contracts payable	4,722,004	-
Due to state governments	2,282,549	-
Due to component units	4,894,575	-
Accrued payroll and others	4,911,014	1,541,025
Current portion of compensated absences payable	2,290,734	-
Other liabilities	1,030,667	538,549
Income tax refunds	1,024,370	-
Deferred revenue	5,035,106	1,057,805
Total current liabilities	34,462,865	12,777,661
Noncurrent liabilities:		
Noncurrent portion of long-term obligations	16,457,145	51,843,307
Compensated absences payable, net of current portion	1,341,183	-
Due to U.S. Government	3,000,000	-
Deposits	-	531,326
Total noncurrent liabilities	20,798,328	52,374,633
Total liabilities	55,261,193	65,152,294
<u>NET ASSETS</u>		
Invested in capital assets, net of related debt	241,677,822	15,140,971
Restricted for:		
Nonexpendable:		
Future operations	151,084,308	5,828,400
Expendable:		
Compact related	2,821,259	-
Other purposes	1,139,853	16,384,423
Unrestricted	(17,184,713)	13,164,526
Total net assets	379,538,529	50,518,320
Total liabilities and net assets	\$ 434,799,722	\$ 115,670,614

See accompanying notes to basic financial statements.

REPUBLIC OF PALAU

Statement of Activities
For the Year Ended September 30, 2010

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	\$ 16,392,508	\$ 1,486,285	\$ 6,153,490	\$ -	\$ (8,752,733)	\$ -
Ministry of Education	9,046,298	-	2,993,283	-	(6,053,015)	-
Ministry of Infrastructure, Industry and Commerce	34,021,851	1,761,755	561,306	-	(31,698,790)	-
State Block Grants	4,811,052	-	-	-	(4,811,052)	-
Education assistance	4,588,610	-	2,000,000	-	(2,588,610)	-
Ministry of Finance	2,529,773	869,312	87,431	-	(1,573,030)	-
Ministry of Justice	4,249,741	76,893	768,352	-	(3,404,496)	-
Legislative Branch	3,938,883	-	-	-	(3,938,883)	-
Ministry of State	2,285,358	131,829	268,075	-	(1,885,454)	-
Judicial Branch	2,093,370	216,917	-	-	(1,876,453)	-
Ministry of Natural Resources, Environment and Tourism	1,126,489	1,343,905	72,220	-	289,636	-
Office of the President	1,646,767	-	647,491	-	(999,276)	-
Ministry of Community and Cultural Affairs	1,197,952	-	2,461	-	(1,195,491)	-
Office of the Vice-President	338,077	-	-	-	(338,077)	-
Boards, Commissions & Authorities	673,646	1,439,743	112,600	-	878,697	-
Independent Agencies	2,968,466	372,842	412,351	-	(2,183,273)	-
Other Agencies and Activities	2,658,528	-	400,284	-	(2,258,244)	-
Capital projects	2,144,937	-	-	20,112,849	17,967,912	-
Unallocated interest - long-term debt	667,123	-	-	-	(667,123)	-
Future operations	931,066	-	13,027,625	-	12,096,559	-
Depreciation - unallocated	1,531,990	-	-	-	(1,531,990)	-
Impairment loss due to defects on Compact Road	7,207,200	-	-	-	(7,207,200)	-
Investment loss on cost basis stock	553,925	-	-	-	(553,925)	-
Other	563,879	632,599	(77,885)	-	(9,165)	-
Total primary government	\$ 108,167,489	\$ 8,332,080	\$ 27,429,084	\$ 20,112,849	(52,293,476)	-
Component units:						
National Development Bank of Palau	\$ 1,470,162	\$ 1,264,612	\$ 81,767	\$ -	-	(123,783)
Palau Community College	10,544,727	3,792,856	4,150,457	-	-	(2,601,414)
Palau National Communications Corporation	10,641,591	9,354,886	-	-	-	(1,286,705)
Palau International Coral Reef Center	1,206,714	183,955	370,719	169,558	-	(482,482)
Palau Visitors Authority	610,916	4,908	-	627,500	-	21,492
Public Utilities Corporation	23,977,898	22,342,050	719,418	200,000	-	(716,430)
Palau District Housing Authority	187,498	113,205	13,550	-	-	(60,743)
Total component units	\$ 48,639,506	\$ 37,056,472	\$ 5,335,911	\$ 997,058	-	(5,250,065)
General revenues:						
Taxes:						
Business gross receipts					9,187,669	-
Salary and wage					6,674,973	-
Alcohol and tobacco					4,720,971	-
General import					1,607,170	-
Travelers head					1,815,508	-
Hotel occupancy					2,205,031	-
Other					2,582,240	-
Grants and contributions not restricted for specific programs					10,260,000	-
Unrestricted investment earnings					15,420	383,515
Contributions from primary government					-	2,826,600
Other					302,154	-
Total general revenues					39,371,136	3,210,115
Change in net assets					(12,922,340)	(2,039,950)
Net assets at the beginning of the year					392,460,869	52,558,270
Net assets at the end of the year					\$ 379,538,529	\$ 50,518,320

See accompanying notes to basic financial statements.

REPUBLIC OF PALAU

Balance Sheet
Governmental Funds
September 30, 2010

	General	Special Revenue Grants	Permanent Compact Section 211(f)	Other Governmental Funds	Total
ASSETS					
Cash and cash equivalents	\$ 7,202,326	\$ -	\$ -	\$ -	\$ 7,202,326
Time certificate of deposit	1,349,897	-	-	-	1,349,897
Investments	1,809,885	-	-	2,787,490	4,597,375
Receivables, net:					
Taxes	3,344,500	-	-	-	3,344,500
General	803,258	1,277	-	9,581	814,116
Federal agencies	-	4,129,480	-	-	4,129,480
Accrued interest	4,326	-	522,958	19,430	546,714
Due from other funds	1,340,551	6,821,987	41,422	2,400,286	10,604,246
Advances	361,195	244,695	-	1,267	607,157
Inventory	46,467	-	-	-	46,467
Prepaid items	24,256	968,381	-	23,489	1,016,126
Restricted assets:					
Cash and cash equivalents	330,376	-	-	-	330,376
Investments	-	-	151,401,170	3,000,000	154,401,170
	<u>\$ 16,617,037</u>	<u>\$ 12,165,820</u>	<u>\$ 151,965,550</u>	<u>\$ 8,241,543</u>	<u>\$ 188,989,950</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Note payable	\$ 198,142	\$ -	\$ -	\$ -	\$ 198,142
Accounts payable	4,811,714	1,168,504	-	493,488	6,473,706
Contracts payable	-	4,722,004	-	-	4,722,004
Due to state governments	2,282,549	-	-	-	2,282,549
Due to component units	4,744,575	-	-	150,000	4,894,575
Accrued payroll and others	3,835,439	-	881,242	-	4,716,681
Other liabilities	964,440	65,392	-	835	1,030,667
Deferred revenues	-	4,854,653	-	180,453	5,035,106
Due to other funds	9,263,695	1,335,842	-	4,709	10,604,246
Income tax refunds	1,024,370	-	-	-	1,024,370
Total liabilities	<u>27,124,924</u>	<u>12,146,395</u>	<u>881,242</u>	<u>829,485</u>	<u>40,982,046</u>
Fund balances (deficit):					
Reserved for:					
Continuing appropriations	1,545,502	-	-	-	1,545,502
Related assets	2,689,924	415,809	151,084,308	3,009,000	157,199,041
Encumbrances	302,634	9,107,090	-	191,108	9,600,832
Unreserved (deficit):					
General fund	(15,045,947)	-	-	-	(15,045,947)
Special revenue funds	-	(9,503,474)	-	3,040,263	(6,463,211)
Capital projects funds	-	-	-	1,171,687	1,171,687
Total fund balances (deficit)	<u>(10,507,887)</u>	<u>19,425</u>	<u>151,084,308</u>	<u>7,412,058</u>	<u>148,007,904</u>
	<u>\$ 16,617,037</u>	<u>\$ 12,165,820</u>	<u>\$ 151,965,550</u>	<u>\$ 8,241,543</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	256,414,018
Long-term liabilities, including loans payable, are not due and payable in the current period and therefore are not reported in the funds. The liabilities include:	
Long-term obligations	(18,057,143)
Compensated absences	(3,631,917)
Accrued interest payable	(194,333)
Due to U.S. Government	(3,000,000)
	<u>(24,883,393)</u>
Net assets of governmental activities	<u>\$ 379,538,529</u>

See accompanying notes to basic financial statements.

REPUBLIC OF PALAU

Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficit)
Governmental Funds
Year Ended September 30, 2010

	General	Special Revenue Grants	Permanent Compact Section 211(f)	Other Governmental Funds	Total
Revenues:					
Taxes	\$ 28,793,562	\$ -	\$ -	\$ -	\$ 28,793,562
Federal and other grants	-	31,484,072	-	-	31,484,072
Compact funding	10,260,000	-	-	2,887,500	13,147,500
Net change in the fair value of investments	15,420	-	13,027,625	143,088	13,186,133
Fees and charges	4,609,868	-	-	1,725,313	6,335,181
Licenses and permits	1,996,547	-	-	-	1,996,547
Other	230,417	-	-	71,737	302,154
Total revenues	45,905,814	31,484,072	13,027,625	4,827,638	95,245,149
Expenditures:					
Current:					
Ministry of Health	7,645,061	6,153,490	-	1,264,124	15,062,675
Ministry of Education	6,246,223	2,993,283	-	-	9,239,506
Ministry of Infrastructure, Industry and Commerce	8,016,174	561,306	-	-	8,577,480
State Block Grants	4,811,052	-	-	-	4,811,052
Education assistance	3,016,719	-	-	1,571,891	4,588,610
Ministry of Finance/Administration	2,395,269	87,431	-	-	2,482,700
Ministry of Justice	3,764,994	137,352	-	45,759	3,948,105
Legislative Branch	3,943,092	-	-	-	3,943,092
Investment management fees	-	-	919,100	11,966	931,066
Ministry of State	2,249,578	11,575	-	-	2,261,153
Judicial Branch	2,059,009	-	-	-	2,059,009
Ministry of Natural Resources, Environment and Tourism	1,239,725	72,220	-	-	1,311,945
Office of the President	998,286	647,491	-	-	1,645,777
Ministry of Community and and Cultural Affairs	965,143	2,461	-	-	967,604
Office of the Vice-President	338,077	-	-	-	338,077
Boards, Commissions and Authorities	661,340	-	-	-	661,340
Office of the Public Auditor	314,381	412,351	-	-	726,732
Office of the Special Prosecutor	254,719	-	-	-	254,719
Environmental Quality Protection Board	327,845	112,600	-	-	440,445
National Postal Service	287,864	-	-	-	287,864
Palau Visitors Authority	627,500	-	-	-	627,500
Compact Review Fund	414,634	-	-	-	414,634
National Aviation Administration	130,995	-	-	-	130,995
Other agencies and activities	2,262,039	400,284	-	-	2,662,323
Other	339,744	-	-	23,525	363,269
Capital outlay:					
Capital projects	-	20,628,521	-	322,073	20,950,594
Debt service:					
Principal retirement	-	-	-	1,599,998	1,599,998
Interest	-	-	-	683,456	683,456
Investment loss on cost basis stock	553,925	-	-	-	553,925
Total expenditures	53,863,388	32,220,365	919,100	5,522,792	92,525,645
Excess (deficiency) of revenues over (under) expenditures	(7,957,574)	(736,293)	12,108,525	(695,154)	2,719,504
Other financing sources (uses):					
Proceeds from sale of assets	440,478	-	-	-	440,478
Operating transfers in	9,853,765	736,293	-	3,624,712	14,214,770
Operating transfers out	(4,361,005)	-	(5,000,000)	(4,853,765)	(14,214,770)
Total other financing sources (uses), net	5,933,238	736,293	(5,000,000)	(1,229,053)	440,478
Net change in fund balances (deficit)	(2,024,336)	-	7,108,525	(1,924,207)	3,159,982
Fund balances (deficit) at beginning of year	(8,483,551)	19,425	143,975,783	9,336,265	144,847,922
Fund balances (deficit) at end of year	\$ (10,507,887)	\$ 19,425	\$ 151,084,308	\$ 7,412,058	\$ 148,007,904

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, 2010

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

Net change in fund balances - total governmental funds \$ 3,159,982

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 decreases to construction in progress and transfers from construction in progress to infrastructure. For the current year, these activities consist of:

Capital outlays, net of disposals	\$ 9,036,499	
Depreciation expense, net	(26,649,442)	(17,612,943)

The repayment of principal of long-term debt consumes the current financial resources of governmental funds which has no effect on net assets. 1,599,998

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

Change in accrued interest payable	\$ 16,333	
Change in compensated absences payable	(85,710)	(69,377)

Change in net assets of governmental activities. \$ (12,922,340)

See accompanying notes to basic financial statements.

REPUBLIC OF PALAU

Statement of Fiduciary Net Assets
Fiduciary Funds
September 30, 2010

	Private Purpose Trust	Pension (and Other Employee Benefit) Trust	Total
<u>ASSETS</u>			
Cash and cash equivalents	\$ 1,248,962	\$ 242,065	\$ 1,491,027
Receivables, net:			
Contributions	3,174,866	1,279,218	4,454,084
Loan	6,000,000	-	6,000,000
Accrued interest and dividends	361,657	-	361,657
Other	24,282	26,000	50,282
Investments:			
Common stock	35,187,468	23,509,960	58,697,428
U.S. Government obligations	16,709,082	6,289,760	22,998,842
Corporate bonds	11,606,580	5,782,345	17,388,925
Money market funds	2,390,546	1,911,263	4,301,809
Other fixed income	-	199,262	199,262
Time certificate of deposit with an uninsured bank	-	1,452,609	1,452,609
Prepaid expense	2,596	-	2,596
Capital assets, net	328,395	70,431	398,826
Total assets	<u>77,034,434</u>	<u>40,762,913</u>	<u>117,797,347</u>
<u>LIABILITIES</u>			
Benefits payable	283,599	-	283,599
Other liabilities and accruals	106,829	34,032	140,861
Total liabilities	<u>390,428</u>	<u>34,032</u>	<u>424,460</u>
<u>NET ASSETS</u>			
Held in trust for:			
Social security benefits	76,644,006	-	76,644,006
Pension benefits	-	40,728,881	40,728,881
Total net assets	<u>\$ 76,644,006</u>	<u>\$ 40,728,881</u>	<u>\$ 117,372,887</u>

See accompanying notes to basic financial statements.

REPUBLIC OF PALAU

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
Year Ended September 30, 2010

	Private Purpose Trust	Pension (and Other Employee Benefit) Trust	Total
	<u>Trust</u>	<u>Trust</u>	<u>Trust</u>
Additions:			
Contributions:			
Employer	\$ -	\$ 2,464,953	\$ 2,464,953
Employee	9,302,778	2,488,518	11,791,296
Other	963,412	-	963,412
Total contributions	<u>10,266,190</u>	<u>4,953,471</u>	<u>15,219,661</u>
Investment earnings:			
Net change in the fair value of investments	2,429,052	214,382	2,643,434
Interest and dividends	<u>2,039,296</u>	<u>2,368,611</u>	<u>4,407,907</u>
Total investment earnings	4,468,348	2,582,993	7,051,341
Less investment expense	<u>360,958</u>	<u>238,778</u>	<u>599,736</u>
Net investment earnings	<u>4,107,390</u>	<u>2,344,215</u>	<u>6,451,605</u>
Other	<u>298,410</u>	<u>17,336</u>	<u>315,746</u>
Total additions	<u>14,671,990</u>	<u>7,315,022</u>	<u>21,987,012</u>
Deductions:			
Benefits	8,801,853	7,512,198	16,314,051
General and administrative	<u>1,068,499</u>	<u>328,262</u>	<u>1,396,761</u>
Total deductions	<u>9,870,352</u>	<u>7,840,460</u>	<u>17,710,812</u>
Change in net assets	4,801,638	(525,438)	4,276,200
Net assets at the beginning of the year	<u>71,842,368</u>	<u>41,254,319</u>	<u>113,096,687</u>
Net assets at the end of the year	<u>\$ 76,644,006</u>	<u>\$ 40,728,881</u>	<u>\$ 117,372,887</u>

See accompanying notes to basic financial statements.

REPUBLIC OF PALAU

Combining Statement of Net Assets (Deficiency)
Component Units
September 30, 2010

	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
Assets								
Current assets:								
Cash and cash equivalents	\$ 1,271,165	\$ 545,486	\$ 612,798	\$ 141,051	\$ 40,198	\$ 1,876,845	\$ 971,330	\$ 5,458,873
Time certificates of deposit	-	-	625,459	-	-	-	-	625,459
Receivables, net:								
General	224,742	1,453,615	859,657	27,976	1,471	2,747,466	36,431	5,351,358
Receivable from primary government	-	779,607	270,953	-	180,253	3,057,536	-	4,288,349
Grantor agency	-	-	-	15,438	-	27,756	30,375	73,569
Loans	5,960,782	-	-	-	-	-	208,450	6,169,232
Accrued interest	416,457	-	-	-	-	-	9,590	426,047
Inventories	9,371	239,239	306,052	102,213	-	7,621,630	-	8,278,505
Prepaid items	33,221	-	58,083	10,032	30	194,948	-	296,314
Total current assets	7,915,738	3,017,947	2,733,002	296,710	221,952	15,526,181	1,256,176	30,967,706
Other assets, restricted:								
Cash and cash equivalents	600,066	74,428	3,855,830	-	-	1,954,168	-	6,484,492
Time certificates of deposit	449,520	-	-	-	-	-	-	449,520
Investments held for Endowment Foundation	-	1,841,349	-	-	-	-	-	1,841,349
Total other assets, restricted	1,049,586	1,915,777	3,855,830	-	-	1,954,168	-	8,775,361
Noncurrent assets:								
Time certificates of deposit	205,112	-	-	-	-	-	-	205,112
Loans receivable	20,049,484	-	-	-	-	-	1,543,544	21,593,028
Deposit for new generators	-	-	-	-	-	3,604,156	-	3,604,156
Capital assets, net of accumulated depreciation	727,862	1,657,923	21,836,420	2,300,311	84,078	23,276,387	23,552	49,906,533
Foreclosed real estate	367,218	-	-	-	-	-	-	367,218
Other	-	-	51,500	-	-	200,000	-	251,500
Total noncurrent assets	21,349,676	1,657,923	21,887,920	2,300,311	84,078	27,080,543	1,567,096	75,927,547
Total assets	\$ 30,315,000	\$ 6,591,647	\$ 28,476,752	\$ 2,597,021	\$ 306,030	\$ 44,560,892	\$ 2,823,272	\$ 115,670,614
Liabilities and Net Assets								
Current liabilities:								
Current portion of long-term debt	\$ 788,084	\$ -	\$ 1,326,034	\$ -	\$ -	\$ 483,491	\$ -	\$ 2,597,609
Short-term loan payable	300,000	-	-	-	-	-	-	300,000
Accounts payable	67,855	834,479	5,645	164,635	33,466	5,636,593	-	6,742,673
Due to grantor	100,689	-	-	-	-	-	-	100,689
Accrued payroll and others	121,193	365,954	446,992	74,321	24,642	492,530	15,393	1,541,025
Deferred revenue	-	771,389	40,966	144,761	-	-	-	957,116
Other liabilities	-	94,109	-	-	-	444,440	-	538,549
Total current liabilities	1,377,821	2,065,931	1,819,637	383,717	58,108	7,057,054	15,393	12,777,661
Noncurrent liabilities:								
Notes payable, net of current portion	13,328,946	-	29,397,852	-	-	9,116,509	-	51,843,307
Deposits	-	-	531,326	-	-	-	-	531,326
Total noncurrent liabilities	13,328,946	-	29,929,178	-	-	9,116,509	-	52,374,633
Total liabilities	14,706,767	2,065,931	31,748,815	383,717	58,108	16,173,563	15,393	65,152,294
Net assets (deficiency):								
Invested in capital assets, net of related debt	727,862	1,657,923	(8,887,466)	2,300,311	84,078	19,234,711	23,552	15,140,971
Restricted								
Nonexpendable	-	1,972,570	3,855,830	-	-	-	-	5,828,400
Expendable	14,880,371	(335,936)	-	-	-	-	1,839,988	16,384,423
Unrestricted	-	1,231,159	1,759,573	(87,007)	163,844	9,152,618	944,339	13,164,526
Total net assets (deficiency)	15,608,233	4,525,716	(3,272,063)	2,213,304	247,922	28,387,329	2,807,879	50,518,320
	\$ 30,315,000	\$ 6,591,647	\$ 28,476,752	\$ 2,597,021	\$ 306,030	\$ 44,560,892	\$ 2,823,272	\$ 115,670,614

See accompanying notes to basic financial statements.

REPUBLIC OF PALAU

Combining Statement of Revenues, Expenses, and Changes in Net Assets (Deficiency)
Component Units
Year Ended September 30, 2010

	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	\$ 2,019,597	\$ 3,263,396	\$ 9,071,171	\$ 175,871	\$ -	\$ 21,664,809	\$ 97,600	\$ 36,292,444
Grants and contributions	-	4,150,457	-	370,719	-	-	13,550	4,534,726
Other	(754,985)	529,460	283,715	8,084	4,908	677,241	15,605	764,028
Total operating revenues	1,264,612	7,943,313	9,354,886	554,674	4,908	22,342,050	126,755	41,591,198
Operating expenses:								42,845,000
Cost of services	644,004	8,423,131	4,659,946	812,173	540,210	19,621,814	89,029	34,790,307
Depreciation	42,366	314,199	3,013,918	299,358	16,694	2,613,498	14,549	6,314,582
Administration costs	166,839	1,784,794	1,497,458	124,236	54,012	1,139,363	40,879	4,807,581
Total operating expenses	853,209	10,522,124	9,171,322	1,235,767	610,916	23,374,675	144,457	45,912,470
Operating income (loss)	411,403	(2,578,811)	183,564	(681,093)	(606,008)	(1,032,625)	(17,702)	(4,321,272)
Nonoperating revenues (expenses):								
Contributions from primary government	-	2,384,100	-	382,500	-	-	60,000	2,826,600
Net change in the fair value of investments	-	172,832	-	-	-	165,376	-	338,208
Interest income	34,969	-	7,073	1,166	-	1,159	940	45,307
Grant revenues	81,767	-	-	-	-	719,418	-	801,185
Interest expense	(575,581)	-	(1,426,595)	-	-	(334,321)	-	(2,336,497)
Other, net	(41,372)	(22,603)	(43,674)	29,053	-	(268,902)	(43,041)	(390,539)
Total nonoperating revenues (expenses), net	(500,217)	2,534,329	(1,463,196)	412,719	-	282,730	17,899	1,284,264
Capital contributions	-	-	-	169,558	627,500	200,000	-	997,058
Change in net assets (deficiency)	(88,814)	(44,482)	(1,279,632)	(98,816)	21,492	(549,895)	197	(2,039,950)
Net assets (deficiency) at the beginning of the year	15,697,047	4,570,198	(1,992,431)	2,312,120	226,430	28,937,224	2,807,682	52,558,270
Net assets (deficiency) at the end of the year	\$ 15,608,233	\$ 4,525,716	\$ (3,272,063)	\$ 2,213,304	\$ 247,922	\$ 28,387,329	\$ 2,807,879	\$ 50,518,320

See accompanying notes to basic financial statements.

REPUBLIC OF PALAU

Notes to Financial Statements September 30, 2010

(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; and the Judicial Branch. The Legislative Branch consists of two houses which sit for four-year terms. The House of Delegates has 16 members, one from each state. The Senate has 9 members selected in a nationwide election. The Executive Branch consists of the President as the chief executive officer, the Vice-President, and the Council of Chiefs. The President is assisted by an 8 member Cabinet. The Judicial Branch is made up of the Supreme Court, the Land Court, and the Court of Common Pleas.

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

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

Once financial accountability has been determined for a potential component unit, that component unit is either blended into the primary government or discretely presented from the primary government. The nature and relationship of the Republic's component units 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, 2010

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

1. Blended Component Units

The following Component Units are blended within the Primary Government:

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 on October 1, 1987. The Fund is administered under the authority of five trustees appointed by the President with the advice and consent of the Senate of the Republic. The Fund provides retirement, disability, and death benefits to qualified individuals and their survivors. Further, the Fund was appointed responsibility under 41 PNC, Section 723, for the administration and operation of the Palau Healthcare Fund Program.

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, RPPL No. 4-40, RPPL No. 4-49, RPPL No. 5-30, RPPL No. 6-37 and RPPL No. 7-56. The Pension Fund is administered under the authority of a seven member Board of Trustees appointed by the President with the advice and consent of the Senate of the Republic.

2. Discretely Presented Component Units

Discretely presented component units are entities which are legally separate from the Republic, but are financially accountable to the Republic, or whose relationships with the Republic are such that exclusion would cause the Republic's basic financial statements to be misleading or incomplete. The component units' column of the basic financial statements includes the financial data of the following component units:

A. National Development Bank of Palau

The National Development Bank of Palau (the Bank) was formed on February 24, 1982, under the provisions of RPPL No. 1-27, as amended by RPPL No. 3-4, RPPL No. 4-48, RPPL No. 5-37 and RPPL No. 6-18. The law created a wholly-owned government corporation managed by a Board of Directors appointed by the President of the Republic with the advice and consent of the OEK. The purpose of the Bank is to be the central financial institution responsible for initiating and promoting economic development within the Republic.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2010

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

2. Discretely Presented Component Units, Continued

B. Palau Community College

The Palau Community College (PCC) is a non-profit corporation established by RPPL No. 4-2, and inaugurated on June 3, 1993. Four voting members are appointed by the President of the Republic with the advice and consent of the Senate of the OEK. One voting member shall be a member of the Republic of Palau Board of Education as designated by the Republic Board of Education. Two non-voting member appointed by the Board of Trustees to serve in an advisory capacity to the Board. The Board shall grant voting membership to one member from the RMI, one member from the FSM as designated by those governments. The Board shall grant voting membership to a student representative. The purpose of PCC, as defined by RPPL No. 4-2, is to be the institution of higher education for the Republic of Palau and to provide post secondary educational opportunities to the people of the Republic of Palau, Federated States of Micronesia, Republic of the Marshall Islands, as well as students from other countries.

C. Palau 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.

D. 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.

E. Palau Visitors Authority

The Palau Visitors Authority (PVA) was formed on November 23, 1982, under the provisions of RPPL No. 1-49 for the purpose of implementing tourism programs, including marketing and related responsibilities. The law created a wholly-owned public corporation managed by a Board of Directors appointed by the President of the Republic with the advice and consent of the OEK. PVA is subject to annual appropriations by the OEK.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2010

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

2. Discretely Presented Component Units, Continued

F. 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.

G. Palau District Housing Authority

The Palau District Housing Authority (the Authority) was created by an act of the Congress of Micronesia in 1973, the "Territory Community Housing Act". The Authority is charged with the administration of the low-cost housing loan program in the Republic of Palau and is administered by a five-member Board of Directors appointed by the President of the Republic with the advice and consent of the Senate of the OEK. The Authority is authorized to finance and construct homes as needed.

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 respective component 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.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2010

(1) Summary of Significant Accounting Policies, Continued

B. Government-Wide Financial Statements, Continued

Primary government activities are defined as either governmental or business-type activities. Governmental activities, which normally are supported by taxes, intergovernmental revenues and other non-exchange revenues, are reported separately from business-type activities, which rely to a significant extent on fees charged to external parties for goods or services. As such, business-type activities account for operations 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 Republic is legally or contractually obligated to spend resources in accordance with restrictions either externally imposed by creditors, grantors, contributors, and the like, or imposed by law.
- *Unrestricted net assets* consist of net assets, which do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, (for example, internally restricted) to indicate that management does not consider them to be available for general operations. They often have restrictions that are imposed by management, but can be removed or modified.

The government-wide Statement of Net Assets reports \$155,045,420 of restricted net assets, of which \$1,366,864 is restricted by enabling legislation.

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

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2010

(1) Summary of Significant Accounting Policies, Continued

C. Fund Financial Statements

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

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

D. Measurement Focus and Basis of Accounting

Government-Wide Financial Statements:

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

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

Governmental Fund Financial Statements:

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, 2010

(1) Summary of Significant Accounting Policies, Continued

D. Measurement Focus and Basis of Accounting, Continued

Governmental Fund Financial Statements, 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.

Component Unit Financial Statements:

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

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, 2010

(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 - For State and Local Governments: Omnibus*, sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses for either fund category or the governmental and enterprise combined) for the determination of major funds. Major individual governmental funds are reported as separate columns in the fund financial statements. The nonmajor funds are combined in a column in the fund financial statements and detailed in the combining statements. The Republic reports the following major funds:

Grants Fund, a Governmental Fund Type – Special Revenue Fund, is utilized to account for grants received from the United States government and other donor 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, 2010

(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 discretely presented component units follow all GASB pronouncements and those Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins that were issued on or before November 30, 1989, except those that conflict with a GASB pronouncement.

F. Estimates

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

G. Cash and Cash Equivalents and Time Certificates of Deposit

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

- Category 1 Deposits that are federally insured or collateralized with securities held by the Republic or its agent in the Republic's name;
- Category 2 Deposits that are uninsured but fully collateralized with securities held by the pledging financial institution's trust department or agent in the Republic's name; or
- Category 3 Deposits that are collateralized with securities held by the pledging financial institution's trust department or agent but not in the Republic's name and non-collateralized deposits.

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

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

REPUBLIC OF PALAU

Notes to Financial Statements September 30, 2010

(1) Summary of Significant Accounting Policies, Continued

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

As of September 30, 2010, the carrying amount of the primary government's total cash and cash equivalents and time certificates of deposit were \$8,882,599 and the corresponding bank balances were \$10,574,552. Of the bank balance amounts, \$8,661,055 is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2010, bank deposits in the amount of \$750,000 were FDIC insured.

As of September 30, 2010, the carrying amount of the fiduciary funds total cash and cash equivalents and time certificates of deposit were \$2,943,636 and the corresponding bank balances were \$2,644,308. Of the bank balance amounts, \$1,182,261 is maintained in financial institutions subject to FDIC insurance. As of September 30, 2010, bank deposits in the amount of \$500,000 were FDIC insured.

At September 30, 2010, the carrying amount of the discretely presented component units total cash and cash equivalents and time certificate of deposits were \$13,223,456 and the corresponding bank balances were \$15,205,672. Of the bank balance amounts, \$12,664,359 is maintained in financial institutions subject to FDIC insurance. As of September 30, 2010, bank deposits in the amount of \$2,792,353 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, 2010, the Republic has cash deposits and investments in bank accounts that exceed federal depository insurance limits.

H. Investments

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

I. 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" on the governmental funds balance sheet.

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.

REPUBLIC OF PALAU

Notes to Financial Statements September 30, 2010

(1) Summary of Significant Accounting Policies, Continued

J. Inventories

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

K. 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.

L. 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.

M. 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 \$330,376, which is maintained by the primary government and administered on behalf of designated beneficiaries. Furthermore, investments of \$151,401,170, recorded in the Compact Section 211(f) Trust Fund is restricted in that it is not available to be used in current operations; and investments of \$3,000,000 recorded in Compact Section 211(b) Energy Fund is restricted to fund a liability to the United States government pursuant to the Compact of Free Association subsidiary agreement (Refer note 7).

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

N. 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.

REPUBLIC OF PALAU

Notes to Financial Statements September 30, 2010

(1) Summary of Significant Accounting Policies, Continued

N. Fixed Assets, Continued

All land and non-depreciable land improvements are capitalized, regardless of cost. Singular pieces of machinery and equipment, other than vehicles, that equal or exceed \$50,000 are capitalized. Buildings and infrastructure projects with a cost that equals or exceeds \$100,000 are capitalized. The costs of normal maintenance and repairs that do not add to the value of assets or materially extend asset lives are not capitalized.

All vehicles have been grouped together regardless of cost and depreciated on a composite basis.

Management has elected to present only assets acquired subsequent to 1980, except for buildings. Accordingly, fixed assets records consist of additions commencing fiscal year 1980. The Republic has elected to prospectively report general infrastructure assets in the government-wide financial statements and have retroactively reported all major general infrastructure assets at September 30, 2010.

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

O. 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.

P. Interfund/Intrafund Transactions

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

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2010

(1) Summary of Significant Accounting Policies, Continued

Q. Compensated Absences

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

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

R. Fund Equity

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

The unreserved fund balances for the governmental funds represent the amount available for budgeting future operations. The reserve for related assets as of September 30, 2010, is represented by the following assets:

	<u>General</u>	<u>Grants</u>	<u>Compact Section 211(f)</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Investments	\$ 1,185,575	\$ -	\$ -	\$ -	\$ 1,185,575
Cash and time certificate of deposit	1,399,786	-	-	-	1,399,786
Inventory	46,467	-	-	-	46,467
Prepaid items	3,087	415,809	-	9,000	427,896
Restricted assets:					
Cash and cash equivalents	55,009	-	-	-	55,009
Investments	<u>-</u>	<u>-</u>	<u>151,084,308</u>	<u>3,000,000</u>	<u>154,084,308</u>
	<u>\$ 2,689,924</u>	<u>\$ 415,809</u>	<u>\$ 151,084,308</u>	<u>\$ 3,009,000</u>	<u>\$ 157,199,041</u>

S. Fund Balance Reserves and Designation

The Republic's fund balance reserves represent those portions of fund balance (1) not appropriable for expenditures or (2) legally segregated for a specific future use. In the accompanying combined balance sheet, reserves for related assets such as inventories, petty cash and long-term receivables are examples of the former. Reserves for encumbrances, contracts and continuing appropriations are examples of the latter.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2010

(1) Summary of Significant Accounting Policies, Continued

T. New Accounting Standards

During fiscal year 2010, the Republic implemented the following pronouncements:

GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which addresses whether and when intangible assets should be considered capital assets for financial reporting purposes.

GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which is intended to improve how state and local governments report information about derivative instruments - financial arrangements used by governments to manage specific risks or make investments - in their financial statements.

GASB Technical Bulletin No. 2008-1, *Determining the Annual Required Contribution Adjustment for Postemployment Benefits*, which clarifies the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for calculating the annual required contribution (ARC) adjustment.

GASB Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*, which provides guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code, and establishes requirements for recognizing and measuring the effects of the bankruptcy process on assets and liabilities, and for classifying changes in those items and related costs.

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

In March 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The provisions of this statement are effective for periods beginning after June 15, 2010. Management has not evaluated the effect that the implementation of this statement will have on the financial statements of the Republic.

In December 2009, GASB issued Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which amends Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and addresses issues related to measurement of OPEB obligations by certain employers participating in agent multiple employer OPEB plans. The provisions of Statement 57 related to the use and reporting of the alternative measurement method are effective immediately. The provisions related to the frequency and timing of measurements are effective for actuarial valuations first used to report funded status information in OPEB plan financial statements for periods beginning after June 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Republic.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2010

(1) Summary of Significant Accounting Policies, Continued

T. New Accounting Standards, Continued

In June 2010, GASB issued Statement No. 59, *Financial Instruments Omnibus*, which updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools. The provisions of this statement are effective for periods beginning after June 15, 2010. Management has not evaluated the effect that the implementation of this statement will have on the financial statements of the Republic.

U. Risk Financing

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

V. Total Columns

Total columns are presented primarily to facilitate financial analysis. The Management's Discussion and Analysis includes certain prior year summarized comparative information in total. Such information does not include sufficient detail to constitute a full comparative presentation. Accordingly, such information should be read in conjunction with the Republic's financial statements for the year ended September 30, 2009 from which summarized information was derived.

(2) Investments

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

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

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2010

(2) Investments, Continued

The following investment policy governs investments of the Republic’s permanent fund:

- A. Portfolio allocation targets are intended to be long term and strategic in nature. The Compact Trust Fund Board of Trustees (BOT) may make strategic or tactical adjustments to the existing overall fund allocation whenever deemed appropriate and recognizes that the actual allocation of the overall fund may vary considerably in the short term depending on current conditions. The targets are comprised of both historic and projected return and variability calculations for each asset class, subclass and investment style. The asset allocation reflects the BOT’s philosophy that long term growth can best be achieved by investments in equity securities while balancing overall fund volatility and providing for the BOT’s spending requirements by appropriate allocation to cash and fixed income securities:

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

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

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.

REPUBLIC OF PALAU

Notes to Financial Statements September 30, 2010

(2) Investments, Continued

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, the Republic will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The Republic's investments are held and administered by trustees. Based on negotiated trust and custody contracts, all of these investments were held in the Republic's name by the Republic's custodial financial institutions at September 30, 2010.

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, 2010, 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.

Primary Government

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

General Fund:	
Mutual funds	\$ 77,750
Money market funds	<u>546,560</u>
	<u>624,310</u>
Compact Section 211(f) Trust Fund:	
Fixed income securities	52,652,162
Equities	93,387,534
Money market funds	<u>5,361,474</u>
	<u>151,401,170</u>
Nonmajor Governmental Funds:	
Common stock	1,820,495
Money market funds	<u>3,966,995</u>
	<u>5,787,490</u>
	\$ <u><u>157,812,970</u></u>

Additionally, the General Fund holds 11.06% of the shares of the United Micronesia Development Association, Inc. (UMDA) in the amount of \$1,185,575. As the fair market value of this investment is not readily available, such has been recorded at cost. During the year ended September 30, 2010, the primary government recognized investment loss on cash basis stock of \$553,925 due to the cash position of UMDA in 2010.

REPUBLIC OF PALAU

Notes to Financial Statements September 30, 2010

(2) Investments, Continued

Primary Government, Continued

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

As of September 30, 2010, the Compact Trust Fund investments in debt securities were as follows:

Investment Type	Fair Value	Investment Maturities (In Years)				Ratings
		Less than 1 year	1 - 5 years	6 - 10 years	more than 10 years	
US Treasury obligations	\$ 5,790,391	\$ -	\$ 1,655,507	\$ 2,421,979	\$ 1,712,905	Aaa
US Government agencies	1,872,925	8,361	590,533	1,078,831	195,200	Aaa
Mortgage pass throughs	11,769,314	-	73,152	510,290	11,185,872	Aaa
Mortgage Obligations	8,116,155	-	-	425,838	7,690,317	Aaa
Mortgage Obligations	431,786	-	40,334	-	391,452	Aa
Mortgage Obligations	307,033	-	-	52,082	254,951	A
Mortgage Obligations	493,883	-	-	-	493,883	B
Mortgage Obligations	1,111,911	-	-	-	1,111,911	Ccc
Mortgage Obligations	153,172	-	-	-	153,172	C
Mortgage Obligations	25,282	-	-	-	25,282	Not rated
State and Local Government	810,411	-	-	-	810,411	Aa
State and Local Government	146,733	-	-	-	146,733	A
State and Local Government	116,926	-	116,926	-	-	Not rated
Asset-backed securities	751,991	-	367,164	350,130	34,697	Aaa
Asset-backed securities	185,820	-	185,820	-	-	Aa
Asset-backed securities	619,032	-	392,702	175,270	51,060	A
Corporate Bonds	908,624	-	304,853	70,037	533,734	Aaa
Corporate Bonds	3,023,239	405,580	1,484,790	729,765	403,104	Aa
Corporate Bonds	8,925,095	20,705	4,745,758	2,576,230	1,582,402	A
Corporate Bonds	6,298,769	-	2,499,107	2,003,751	1,795,911	BBB
Corporate Bonds	385,028	-	-	294,778	90,250	Ba
Corporate Bonds	408,642	-	-	408,642	-	Not rated
	<u>\$ 52,652,162</u>	<u>\$ 434,646</u>	<u>\$ 12,456,646</u>	<u>\$ 11,097,623</u>	<u>\$ 28,663,247</u>	

Fiduciary Funds

Investments of the fiduciary funds are as follows:

Republic of Palau Social Security Retirement Fund:	
Fixed income securities	\$ 28,315,662
Equities	35,187,468
Money market funds	<u>2,390,546</u>
	<u>65,893,676</u>
Republic of Palau Civil Service Pension Trust Fund:	
Fixed income securities	12,271,367
Equities	23,509,960
Money market funds	<u>1,911,263</u>
	<u>37,692,590</u>
	<u>\$ 103,586,266</u>

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2010

(2) Investments, Continued

Fiduciary Funds, Continued

As of September 30, 2010, the Republic of Palau Social Security Retirement Fund investments in debt securities were as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (In Years)</u>				<u>Rating</u>
		<u>Less Than 1</u>	<u>1 - 5</u>	<u>6 - 10</u>	<u>More Than 10</u>	
U.S. Treasury notes	\$ 4,908,791	\$ -	\$ 2,181,362	\$ 1,628,229	\$ 1,099,200	AAA
Other U.S. government obligations	2,089,753	-	883,185	1,064,498	142,070	AAA
Mortgage pass throughs	9,207,973	-	42,721	105,993	9,059,259	AAA
Municipal obligations	502,565	-	-	-	502,565	AA
Corporate bonds	1,527,959	-	451,256	337,593	739,110	AAA
Corporate bonds	2,216,659	278,836	853,953	771,875	311,995	AA
Corporate bonds	5,469,877	20,705	2,692,485	1,746,787	1,009,900	A
Corporate bonds	<u>2,392,085</u>	<u>-</u>	<u>1,340,721</u>	<u>925,049</u>	<u>126,315</u>	BBB
	\$ <u>28,315,662</u>	\$ <u>299,541</u>	\$ <u>8,445,683</u>	\$ <u>6,580,024</u>	\$ <u>12,990,414</u>	

As of September 30, 2010, the Republic of Palau Civil Service Pension Trust Fund investments in debt securities were as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (In Years)</u>				<u>Rating</u>
		<u>Less Than 1</u>	<u>1 - 5</u>	<u>6 - 10</u>	<u>More Than 10</u>	
Mortgage and asset backed Securities	\$ 4,298,418	\$ -	\$ 28,285	\$ 205,153	\$ 4,064,980	AAA
Government bonds	1,991,342	-	945,302	422,427	623,613	AAA
Municipal bonds	199,262	-	-	-	199,262	AA
Corporate bonds	495,379	-	156,504	-	338,875	AAA
Corporate bonds	218,397	-	-	-	218,397	AA
Corporate bonds	228,430	-	-	228,430	-	AA-
Corporate bonds	479,763	-	282,834	196,929	-	AA+
Corporate bonds	1,112,828	-	114,535	545,333	452,960	A+
Corporate bonds	1,264,383	-	614,972	542,333	107,078	A
Corporate bonds	833,894	-	-	408,235	425,659	A-
Corporate bonds	634,840	-	354,272	280,568	-	BBB+
Corporate bonds	291,635	-	209,362	82,273	-	BBB
Corporate bonds	<u>222,796</u>	<u>-</u>	<u>222,796</u>	<u>-</u>	<u>-</u>	BBB-
	\$ <u>12,271,367</u>	\$ <u>-</u>	\$ <u>2,928,862</u>	\$ <u>2,911,681</u>	\$ <u>6,430,824</u>	

Discretely Presented Component Units

Investments of the discretely presented component units are as follows:

Palau Community College (PCC):	
Fixed income	\$ 559,323
Domestic equities	992,450
International equities	<u>289,576</u>
	\$ <u>1,841,349</u>

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2010

(2) Investments, Continued

Discretely Presented Component Units, Continued

As of September 30, 2010, the maturities of PCC's fixed income (money market funds) investments by percentage of its portfolio, are presented in the following table:

<u>Investment Maturities</u>	<u>Percentage of Portfolio</u>
Less than 1 year	17.0%
1 – 3 years	14.0%
4 – 5 years	19.0%
5 – 7 years	3.0%
7 – 9 years	26.0%
9 or more years	<u>21.0%</u>
	<u>100.0%</u>

PCC's fixed income investments at September 30, 2010, were rated as follows:

<u>Rating</u>	<u>Percentage of Portfolio</u>
Government Agency	55.8%
AA	14.0%
A	15.1%
BAA	<u>15.1%</u>
	<u>100.0%</u>

(3) Receivables

Primary Government

Receivables as of September 30, 2010, for the primary government's individual major funds, and nonmajor governmental funds and fiduciary funds in the aggregate, including applicable allowances for uncollectible accounts, are as follows:

	<u>General</u>	<u>Grants</u>	<u>Compact Section 211(f)</u>	<u>Nonmajor Governmental Funds</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Receivables:						
Taxes	\$ 3,344,500	\$ -	\$ -	\$ -	\$ -	\$ 3,344,500
General	1,670,258	1,277	-	13,742,091	5,825,118	21,238,744
Federal agencies	-	4,129,480	-	-	-	4,129,480
Loan	-	-	-	-	6,000,000	6,000,000
Accrued interest	4,326	-	522,958	19,430	361,657	908,371
Other	-	-	-	-	<u>50,282</u>	<u>50,282</u>
	<u>5,019,084</u>	<u>4,130,757</u>	<u>522,958</u>	<u>13,761,521</u>	<u>12,237,057</u>	<u>35,671,377</u>
Less: allowance for uncollectibles	<u>(867,000)</u>	<u>-</u>	<u>-</u>	<u>(13,732,510)</u>	<u>(1,371,034)</u>	<u>(15,970,544)</u>
Net receivables	<u>\$ 4,152,084</u>	<u>\$ 4,130,757</u>	<u>\$ 522,958</u>	<u>\$ 29,011</u>	<u>\$ 10,866,023</u>	<u>\$ 19,700,833</u>

REPUBLIC OF PALAU

Notes to Financial Statements September 30, 2010

(3) Receivables, Continued

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

Discretely Presented Component Units

	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
General	\$ 224,742	\$ 1,489,111	\$ 4,054,771	\$84,925	\$ 4,512	\$ 3,039,466	\$ 36,431	\$ 8,933,958
Primary government Loans	-	779,607	270,953	-	180,253	5,341,536	-	6,572,349
Grantor agency Accrued interest	28,612,086	-	-	-	-	-	1,839,988	30,452,074
	-	667,671	-	15,438	-	27,756	30,375	741,240
	416,457	-	-	-	-	-	9,590	426,047
	29,253,285	2,936,389	4,325,724	100,363	184,765	8,408,758	1,916,384	47,125,668
Less allowance for uncollectible	(2,601,820)	(703,167)	(3,195,114)	(56,949)	(3,041)	(2,576,000)	(87,994)	(9,224,085)
	<u>\$ 26,651,465</u>	<u>\$ 2,233,222</u>	<u>\$ 1,130,610</u>	<u>\$ 43,414</u>	<u>\$ 181,724</u>	<u>\$ 5,832,758</u>	<u>\$ 1,828,390</u>	<u>\$ 37,901,583</u>

Differences in component unit receivables due from the primary government of \$6,572,349 and the primary government's liability due to component units of \$4,894,575 results primarily from timing differences and the difference in year-end for the Palau National Communications Corporation.

(4) Fixed Assets

Capital asset activities for the year ended September 30, 2010, are as follows:

Governmental Activities

	Balance at October 1, 2009	Additions	Deletions and Transfers	Balance at September 30, 2010
Depreciable capital assets:				
Buildings and other improvements	\$ 124,403,745	\$ 12,853,476	\$ -	\$ 137,257,221
Machinery and equipment	21,615,072	85,241	(100,000)	21,600,313
Vehicles	4,726,128	740,637	(91,091)	5,375,674
Infrastructure	239,126,032	1,910,568	(10,296,000)	230,740,600
Total capital assets being depreciated	389,870,977	15,589,922	(10,487,091)	394,973,808
Accumulated depreciation:				
Buildings and other improvements	(34,859,312)	(6,493,116)	-	(41,352,428)
Machinery and equipment	(10,793,492)	(2,859,781)	100,000	(13,553,273)
Vehicles	(4,165,395)	(299,019)	88,352	(4,376,062)
Infrastructure	(76,080,441)	(20,274,678)	3,088,800	(93,266,319)
Total accumulated depreciation	(125,898,640)	(29,926,594)	3,277,152	(152,548,082)
Total depreciable capital assets, net	263,972,337	(14,336,672)	(7,209,939)	242,425,726

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2010

(4) Fixed Assets, Continued

	Balance at October 1, 2009	<u>Additions</u>	Deletions and Transfers	Balance at September 30, 2010
Non-depreciable capital assets:				
Land	4,238,850	-	(547,000)	3,691,850
Construction in progress	<u>5,815,774</u>	<u>19,039,231</u>	<u>(14,558,563)</u>	<u>10,296,442</u>
Total non-depreciable capital assets	<u>10,054,624</u>	<u>19,039,231</u>	<u>(15,105,563)</u>	<u>13,988,292</u>
Capital assets, net	\$ <u>274,026,961</u>	\$ <u>4,702,559</u>	\$ <u>(22,315,502)</u>	\$ <u>256,414,018</u>

During the year ended September 30, 2010, the Republic disposed of land and recognized proceeds in the amount of \$440,478.

Functions/programs expenses of the primary government include impairment loss of \$7,207,200 due to defects on the Compact Road.

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

Ministry of Health	\$ 1,563,650
Ministry of Education	200,192
Ministry of Infrastructure, Industry and Commerce	25,535,060
Ministry of Finance	47,073
Ministry of Justice	309,636
Legislative Branch	28,926
Ministry of State	24,205
Judicial Branch	34,361
Ministry of Natural Resources, Environment and Tourism	311,644
Office of the President	990
Ministry of Community and Cultural Affairs	235,343
Independent Agencies	85,577
Boards, Commissions, Authorities	12,306
Other Agencies and Activities	5,639
Unallocated	<u>1,531,992</u>
Total depreciation expense	\$ <u>29,926,594</u>

Fiduciary Funds

	Balance at October 1, 2009	<u>Additions</u>	Deletions	Balance at September 30, 2010
Depreciable capital assets:				
Office equipment and furniture	\$ 359,103	\$ 35,056	\$ -	\$ 394,159
Building and improvements	132,315	-	-	132,315
Vehicles	<u>107,401</u>	<u>18,893</u>	<u>(15,950)</u>	<u>110,344</u>
	598,819	53,949	(15,950)	636,818
Less accumulated depreciation	<u>(404,845)</u>	<u>(56,115)</u>	<u>15,950</u>	<u>(445,010)</u>
Total depreciable capital assets, net	193,974	(2,166)	-	191,808
Non-depreciable capital assets:				
Land	<u>207,018</u>	-	-	<u>207,018</u>
	\$ <u>400,992</u>	\$ <u>(2,166)</u>	\$ -	\$ <u>398,826</u>

REPUBLIC OF PALAU

Notes to Financial Statements September 30, 2010

(5) Notes Payable

Primary Government

On June 28, 2002, the Republic's Washington Embassy entered into a loan agreement with a bank in the amount of \$160,000 for the purpose of funding overdraft facilities. Although the loan was due on May 20, 2004, including interest at 7% per annum, \$198,142 remains outstanding at September 30, 2010. 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 (NDBP)

NDBP entered into a \$300,000 revolving credit line on October 27, 2007, for the purpose of supplementing disbursements of approved loans and temporary cash requirements for operations. On October 21, 2008, NDBP renewed the credit line under essentially the same terms and conditions. The loan is payable one year from initial drawdown with interest at the time certificate of deposit (TCD) rate plus 1.50%. The loan is collateralized by assignment of \$449,520 in TCDs.

Changes in short-term loan payable of NDBP for the year ended September 30, 2010, is as follows:

	Balance at October <u>1, 2009</u>	<u>Additions</u>	<u>Reductions</u>	Balance at September <u>30, 2010</u>
Short-term loan payable	\$ <u> -</u>	\$ <u>600,000</u>	\$ <u>(300,000)</u>	\$ <u>300,000</u>

Public Utilities Corporation (PUC)

PUC entered into a portfolio credit line agreement in March 2008 under which a commercial bank will extend credit to PUC in the form of drawings from time to time in such sums as PUC may request for the purpose of financing short-term working capital. Interest is 3.75% per annum as of September 30, 2010. The loan is collateralized with PUC's unrestricted investments of \$4,814,319.

Changes in short-term loan payable of PUC for the year ended September 30, 2010, is as follows:

	Balance at October <u>1, 2009</u>	<u>Additions</u>	<u>Repayments</u>	Balance at September <u>30, 2010</u>
Portfolio credit line	\$ <u>2,667,132</u>	\$ <u>440,000</u>	\$ <u>(3,107,132)</u>	\$ <u> -</u>

REPUBLIC OF PALAU

Notes to Financial Statements September 30, 2010

(6) Long-Term Obligations

Primary Government

As of September 30, 2010, the primary government had the following long-term debt outstanding:

Loan payable to the Mega International Commercial Bank (MICB, formerly the International Commercial Bank of China) in the amount of \$20,000,000, interest at 3.5% per annum, principal payable in semi-annual installments of \$571,429 plus interest, due June 21, 2020. This loan was used for construction of a new national capital in Melekeok State and is uncollateralized. \$ 11,428,565

Loan payable to the MICB in the amount of \$8,000,000, interest at 3.5% per annum, principal payable in semi-annual installments of \$228,570 plus interest, due October 28, 2024. This loan was used to fund the Palau International Airport Repaving Project and is uncollateralized. 6,628,578

\$ 18,057,143

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

<u>Year Ending</u> <u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 1,599,998	\$ 600,340	\$ 2,200,338
2012	1,599,998	544,395	2,144,393
2013	1,599,998	488,395	2,088,393
2014	1,599,998	432,395	2,032,393
2015	1,599,998	378,148	1,978,146
2016 - 2020	7,999,975	1,105,011	9,104,986
2021 - 2025	<u>2,057,178</u>	<u>176,818</u>	<u>2,233,996</u>
	\$ <u>18,057,143</u>	\$ <u>3,725,502</u>	\$ <u>21,782,645</u>

As provided for in the Compact of Free Association, the Republic was awarded \$3,000,000, which it had agreed to repay in financial year 2005. On May 8, 2008, the U.S. Congress approved the forgiveness of the debt. The terms and conditions require the Republic to establish a trust fund wherein the Republic agrees to utilize the earnings of the trust fund solely for maintenance and upkeep of the Compact Road. The Republic has not established a trust fund as of September 30, 2010 and therefore has restricted assets of \$3,000,000 in the Compact Section 211(b) Energy special reserve fund to fund this repayment in the event the terms and conditions of the forgiveness of the debt are not met. This debt of \$3,000,000 is presented as a long-term liability at the government-wide level until the terms and conditions are met (see note 7).

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2010

(6) Long-Term Obligations, Continued

Primary Government, Continued

Changes in long-term liabilities of the primary government for the year ended September 30, 2010, are as follows:

	Balance October <u>1, 2009</u>	<u>Additions</u>	<u>Reductions</u>	Balance September <u>30, 2010</u>	Due Within <u>One Year</u>
Loans payable:					
MICB loans	\$ 19,657,141	\$ -	\$ (1,599,998)	\$ 18,057,143	\$ 1,599,998
Other:					
Compensated absences	3,546,207	2,454,538	(2,368,828)	3,631,917	2,290,734
Due to U.S. Government	<u>3,000,000</u>	<u>-</u>	<u>-</u>	<u>3,000,000</u>	<u>-</u>
	<u>\$ 26,203,348</u>	<u>\$ 2,454,538</u>	<u>\$ (3,968,826)</u>	<u>\$ 24,689,060</u>	<u>\$ 3,890,732</u>

Discretely Presented Component Units

National Development Bank of Palau (NDBP)

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

\$ 3,999,553

Loan payable to the Republic of Palau Social Security Retirement Fund (the Fund) with interest at a variable annual rate equal to the Fund's Fixed Income Fund Return Rate as reported monthly by the Fund's investment consultant, plus 0.5%, provided it is not less than 4.5% per annum or more than 7.5% per annum. Interest and outstanding principal are to be paid semi-annually, on or before June 30 and December 31 of each year, effective June 30, 2011 up to December 31, 2025. The loan is collateralized by the full faith and credit of the Republic.

6,000,000

Loan payable to the European Investment Bank (EIB) in two tranches of \$3,016,465 and \$1,391,285 with interest at 3.679% per annum and 5.175% per annum, respectively. Interest and principal are payable semi-annually until October 9, 2021. The loan is collateralized by the full faith and credit of the Republic.

4,117,477

\$ 14,117,030

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2010

(6) Long-Term Obligations, Continued

Discretely Presented Component Units, Continued

National Development Bank of Palau (NDBP), Continued

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

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 788,084	\$ 569,956	\$ 1,358,040
2012	1,000,698	532,272	1,532,970
2013	1,013,852	490,396	1,504,248
2014	1,027,572	448,644	1,476,216
2015	1,041,881	406,301	1,448,182
2016 - 2020	5,446,590	1,374,546	6,821,136
2021 - 2025	<u>3,798,353</u>	<u>362,034</u>	<u>4,160,387</u>
	<u>\$ 14,117,030</u>	<u>\$ 4,184,149</u>	<u>\$ 18,301,179</u>

Palau National Communications Corporation (PNCC)

Loan payable to the Rural Utilities Services (RUS), interest at 4.59% per annum, due October 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.

\$ 28,450,860

Loan payable to Chunghwa Telecom Company, in monthly installments of \$34,087, non-interest bearing (discounted at imputed interest rate of 4.9% at December 31, 2010), due July 2017. The loan is collateralized by earth station and ground common equipment.

2,273,026

\$ 30,723,886

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>
2011	\$ 1,326,034	\$ 1,389,181	\$ 2,715,215
2012	1,389,182	1,326,034	2,715,216
2013	1,455,339	1,259,877	2,715,216
2014	1,524,649	1,190,567	2,715,216
2015	1,597,263	1,117,953	2,715,216
2016 - 2020	7,644,326	4,500,101	12,144,427
2021 - 2025	8,869,750	2,661,110	11,530,860
2026 - 2029	<u>6,917,343</u>	<u>539,242</u>	<u>7,456,585</u>
	<u>\$ 30,723,886</u>	<u>\$ 13,984,065</u>	<u>\$ 44,707,951</u>

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2010

(6) Long-Term Obligations, Continued

Discretely Presented Component Units, Continued

Public Utilities Corporation (PUC)

On September 4, 2006, PUC entered into a loan agreement with a foreign bank not to exceed \$7,000,000 with interest at 3.5% per annum to finance the purchase of portable generators, a crankshaft assembly and other necessary equipment to facilitate the overhaul of aging generators. The loan is guaranteed by the Republic and is to be repaid in thirty-five consecutive semi-annual installments in the principal amount of \$200,000 plus interest; the first installment being repaid on the last day of the thirty-sixth month from the date of the initial advance and thereafter semi-annually on the last day of each successive six-month period, until fully paid.

On April 21, 2010, PUC entered into a loan with the National Development Bank of Palau for \$3,000,000 to finance the purchase of two generator sets. The loan is collateralized by the generator sets inclusive of auxiliary equipment. The loan bears interest of 7.5% per annum and is to be repaid monthly beginning January 30, 2011 in principal payments of \$27,810 plus accrued interest. Payment of interest during the eight month grace period will be spread over twelve months with an equal payment of \$12,500 per month starting January 30, 2011.

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

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 483,491	\$ 505,655	\$ 989,146
2012	518,449	459,271	977,720
2013	528,262	403,426	931,688
2014	538,219	379,275	917,494
2015	548,950	354,350	903,300
2016 - 2020	2,936,214	1,368,067	4,304,281
2021 - 2025	3,361,472	587,364	3,948,836
2026 - 2027	<u>684,943</u>	<u>15,930</u>	<u>700,873</u>
	<u>\$ 9,600,000</u>	<u>\$ 4,073,338</u>	<u>\$ 13,673,338</u>

Changes in long-term liabilities of the discretely presented component units for the year ended September 30, 2010, are as follows:

	<u>Balance October 1, 2009</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance September 30, 2010</u>	<u>Due Within One Year</u>
Loans payable:					
NDBP	\$ 13,193,490	\$ 1,500,000	\$ (576,460)	\$ 14,117,030	\$ 788,084
PNCC	32,009,807	-	(1,285,921)	30,723,886	1,326,034
PUC	7,000,000	3,000,000	(400,000)	9,600,000	483,491
Other:					
Customer deposits	505,103	69,741	(43,518)	531,326	-
Deferred credit	<u>16,147</u>	<u>-</u>	<u>(16,147)</u>	<u>-</u>	<u>-</u>
	<u>\$ 52,724,547</u>	<u>\$ 4,569,741</u>	<u>\$ (2,322,046)</u>	<u>\$ 54,972,242</u>	<u>\$ 2,597,609</u>

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2010

(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, 2010, the Republic made no payments under this agreement. Please refer to note 6 for matters involving potential release of this liability.

(8) Interfund Receivables and Payables

Receivables and payables between funds reflected as due to/from other funds in the governmental fund balance sheet at September 30, 2010, are summarized as follows:

Receivable Fund	Payable Fund	Amount
General	Nonmajor governmental funds	\$ 4,709
General	Grants	1,335,842
Compact Section 211(f) Fund	General	41,422
Grants	General	6,821,987
Nonmajor governmental funds	General	<u>2,400,286</u>
		<u>\$ 10,604,246</u>

(9) Transfers In/Out

Operating Fund Transfers

Operating transfers in/out for each major fund and nonmajor governmental funds in the aggregate, for the year ended September 30, 2010, are as follows:

	<u>Transfer Out</u>	<u>Transfer In</u>
General Fund:		
Grants Fund	\$ 736,293	\$ -
Compact Section 211(f) Fund	-	5,000,000
Other Governmental Funds	<u>3,624,712</u>	<u>4,853,765</u>
	<u>4,361,005</u>	<u>9,853,765</u>
Grants Fund:		
General Fund	-	<u>736,293</u>
Compact Section 211(f) Fund:		
General Fund	<u>5,000,000</u>	-
Other Governmental Funds:		
General Fund	<u>4,853,765</u>	<u>3,624,712</u>
	<u>\$ 14,214,770</u>	<u>\$ 14,214,770</u>

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2010

(9) Transfers In/Out, Continued

Operating Fund Transfers, 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. During the year ended September 30, 2010, the Republic made a one-time transfer of \$1,205,346 from other governmental funds representing budgetary support for General Fund operations. In addition, the Republic made a one-time transfer of \$736,293 from the General Fund to the Grants Fund representing the elimination of certain net equity deficiencies.

(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, 2010, amounted to \$8,385,331.

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, 2010, 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 \$3,457,810 have been set forth in the Republic's Single Audit Report for the year ended September 30, 2010. 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.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2010

(10) Commitments and Contingencies, Continued

D. Insurance Coverage

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

E. Unfunded Liability

An actuarial valuation of the Republic of Palau Social Security Retirement Fund has determined that the Fund has an actuarial deficiency of approximately \$63,311,000 as of October 1, 2008. 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, 2010 to correct this funding deficiency. No recognition is given in the accompanying financial statements to the present value of liabilities of prospective benefit payments or the present value of future contributions required from employees or employers.

F. Litigation

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

G. Other

In the normal course of business, the Republic periodically engages in disputes with its vendors. Management of the Republic is of the opinion that resolution of such disputes existing as of September 30, 2010, will not have a material impact on the accompanying financial statements.

H. Going Concern

The Republic's general fund has sustained operating deficits and has an unreserved fund deficit of \$15,045,947. Due to this condition, management of the Republic reduced the budget in fiscal years 2010 and 2011 to gradually reduce expenditures and better manage the deficit. The U.S. Government has agreed to offer assistance to reduce the deficit and retire arrears in fiscal year 2012 with \$10,000,000. Such assistance is dependent upon its successful passage in the U.S. Congress. Management of the Republic believes that actions presently being taken and considered provide an opportunity to commence the process of reducing the abovementioned General Fund deficit position.

REPUBLIC OF PALAU

Notes to Financial Statements September 30, 2010

(11) Republic of Palau Civil Service Pension Trust Fund

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

The Pension Fund provides retirement, security and other benefits to employees, and their spouses and dependents, of the Republic, Republic State Governments and Republic agencies, funds and public corporations, which are paid monthly and are two percent of each member's average monthly salary. Normal benefits are of credited total service up to a maximum of thirty years total service. Generally, benefits vest after three years of credited service. Members who retire at or after age 60, or with 25 years of vesting service, are entitled to retirement benefits. RPPL No. 2-26 is the authority under which benefit provisions are established. Member contribution rates are established by RPPL No. 2-26 at six percent (6%) of total payroll and matched dollar for dollar by the employer. The Republic contributed \$2,461,486, \$2,510,211 and \$2,464,953 to the Pension Fund during the years ended September 30, 2008, 2009 and 2010, 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 2010 was covered in total by the Pension Fund's pension plan.

The Pension Fund utilizes the actuarial cost method termed "aggregate cost method" with actuarial assumptions used to compute the pension benefit obligation as follows: (a) a rate of return of 10% per year on the investment of present and future assets, (b) a 3% increase in employee salaries until retirement, and (c) members are assumed to retire at their normal retirement date.

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

RPPL No. 5-45 earmarked \$1,000,000 to the Fund, to be derived from revenues generated from a Virtual Pachinko Business. Of this \$1,000,000, RPPL No. 6-12, passed into law on September 30, 2002, allocated \$500,000 to the Pension Fund for the employer contribution of the Palau Community College (PCC) for employees of PCC electing to participate. PCC employees opting to retroactively participate shall be enrolled in the Pension Fund effective as of their start date with PCC or October 1, 1987, whichever is later. These employees are required to pay into the Pension Fund their proportionate contribution for each year of retroactive participation. The Pension Fund did not receive funds related to RPPL No. 6-12 from the Republic during the year ended September 30, 2010.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2010

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

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

As a result of the provisions of RPPL No. 6-12, PCC employees who opted to claim prior year's service executed payment agreements with the Pension Fund totaling \$978,907 for prior year's service claimed. As these employees are not mandated to continue payment agreements and can elect to have contributions refunded upon termination of payment agreements, and due to the uncertainty of collection of the employee's share through RPPL No. 6-12, the Pension Fund has elected not to record PCC employee receivables for prior year service. The Pension Fund received \$53,695 from PCC employees during the year ended September 30, 2010.

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

Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age Cost Method (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b - a / c)
\$ 41,254,319	\$ 105,507,385	\$ 64,253,066	39.10%	\$ 33,027,394	194.5%

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits. The Plan uses the aggregate actuarial cost method which does not identify or separately amortize unfunded actuarial liabilities. As such, information about the Plan's funded status and funding progress has been prepared using the entry age actuarial cost method for that purpose, and the information presented is intended to serve as a surrogate for the funded status and funding progress of the plan.

Additional information as of the latest actuarial valuation follows:

Valuation Date:	October 1, 2009
Actuarial Cost Method:	Aggregate cost method
Amortization Method:	Level percent open
Remaining Amortization Period:	30 years
Asset Valuation Method:	Market value, including accrued but unpaid contributions

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2010

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

Actuarial Assumptions:

Investment rate of return:	8.5% per year
Projected salary increases:	3% per annum
COLAS:	0%

(12) Subsequent Event

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

REPUBLIC OF PALAU

REQUIRED SUPPLEMENTARY INFORMATION
- BUDGETARY REPORTING

YEAR ENDED SEPTEMBER 30, 2010

REPUBLIC OF PALAU

Schedule of Revenues, Expenditures, and Changes
in Deficit - Budget and Actual - General Fund
Year Ended September 30, 2010

	Original Budget	Final Budget	Actual - Budgetary Basis (see note 1)	Variance
Revenues:				
Local revenue	\$ 37,009,000	\$ 36,695,288	\$ 35,493,640	\$ (1,201,648)
Compact funding - Section 211(a)	-	6,000,000	6,000,000	-
Compact funding - Section 215 inflation adjustment	-	5,349,900	4,260,000	(1,089,900)
Indirect cost recoveries	-	136,754	136,754	-
Net change in the fair value of investments	-	15,420	15,420	-
Total revenues	37,009,000	48,197,362	45,905,814	(2,291,548)
Expenditures - budgetary basis:				
Office of the President	786,100	1,029,600	1,025,860	3,740
Office of the Vice-President	308,231	343,400	337,729	5,671
Ministry of Finance/Administration	1,957,350	2,423,143	2,398,662	24,481
Ministry of State	2,016,250	2,250,900	2,249,000	1,900
Ministry of Community and Cultural Affairs	904,200	959,500	958,395	1,105
Ministry of Education	5,906,100	6,318,000	6,290,840	27,160
Ministry of Infrastructure, Industry and Commerce	7,257,400	8,041,599	7,978,319	63,280
Ministry of Justice	3,837,200	3,851,300	3,758,384	92,916
Ministry of Health	6,551,500	7,552,019	7,532,158	19,861
Ministry of Natural Resources, Environment and Tourism	1,180,800	1,236,243	1,234,401	1,842
Boards, Commissions and Authorities	660,800	831,857	647,765	184,092
Judicial Branch	2,007,100	2,067,100	2,059,009	8,091
Legislative Branch	3,727,200	4,022,200	3,959,557	62,643
State Block Grants	4,570,550	4,891,000	4,811,052	79,948
Independent Agencies	1,956,900	1,969,164	1,943,515	25,649
Other Agencies and Activities	1,520,600	2,618,456	2,548,238	70,218
Green Fee Collection for PAN	-	1,142,948	-	1,142,948
PSB Investigation	-	106,325	57,557	48,768
Compact Review Fund	150,000	440,408	423,649	16,759
Education Assistance	2,735,719	3,016,719	3,016,719	-
Total expenditures	48,034,000	55,111,881	53,230,809	1,881,072
Deficiency of revenues under expenditures	(11,025,000)	(6,914,519)	(7,324,995)	(410,476)
Other financing sources (uses):				
Proceeds from sale of assets	-	-	440,478	440,478
Operating transfers in	15,000,000	8,822,919	9,853,765	1,030,846
Operating transfers out	(3,975,000)	(4,058,058)	(4,361,005)	(302,947)
Total other financing sources (uses), net	11,025,000	4,764,861	5,933,238	1,168,377
Net change in unreserved fund deficit	-	(2,149,658)	(1,391,757)	757,901
Other changes in unreserved deficit:				
Increase in reserve for continuing appropriations	-	2,149,658	(784,173)	(2,933,831)
Decrease in reserve for related assets	-	-	552,344	552,344
Investment loss on cost basis stock	-	-	(553,925)	(553,925)
Unreserved deficit at the beginning of the year	(12,868,436)	(12,868,436)	(12,868,436)	-
Unreserved deficit at the end of the year	\$ (12,868,436)	\$ (12,868,436)	\$ (15,045,947)	\$ (2,177,511)

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

Notes to Required Supplementary Information - Budgetary Reporting
September 30, 2010

(1) Budgetary Information

Budgets are adopted on a basis consistent with GAAP. The OEK enacts budgets for the General Fund and certain Special Revenue and Capital Project Funds. Before signing the Appropriations Act, the President of the Republic may veto or reduce any specific appropriation, subject to legislative override. If the veto or reduction is overridden, the President is constitutionally empowered to "impound" the subject funds. Impounding provides for recognition of the appropriation, but allows the President to withhold allotment of the funds for as long as deemed appropriate. Once passed and signed, the budget becomes the National Government's financial plan for the ensuing fiscal year.

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

The Republic does not establish budgets for the operations of its Special Revenue Funds, except for Compact-related Program Funds. Accordingly, a budget to actual presentation for Special Revenue Funds, except for Compact Program Funds, is not required or presented. Project-length financial plans are adopted for some Capital Project Funds.

The Republic receives annual appropriations from the United States Congress to partially fund its operations. The OEK approves the allotment of these appropriations with budgetary control set at the departmental level. Supplemental appropriations are made during the fiscal year. Unless specifically required by the OEK, appropriations generally lapse as of the end of each fiscal year. Continuing appropriations are usually made only for allotments to the State governments, scholarship funding, and certain specific projects.

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

(2) Reconciliation – GAAP and Budgetary Bases of Accounting

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

Net change in fund deficit	\$ (2,024,336)
Investment loss on cash basis stock	553,925
Decrease in reserve for encumbrances	<u>78,654</u>
Net change in unreserved fund deficit	\$ <u>(1,391,757)</u>

REPUBLIC OF PALAU

OTHER SUPPLEMENTARY INFORMATION

YEAR ENDED SEPTEMBER 30, 2010

REPUBLIC OF PALAU

Combining Schedule of Expenditures by Account
Governmental Funds
Year Ended September 30, 2010

	Major Governmental Funds			Nonmajor Governmental Funds			Total
	General	Grants Fund	Permanent Compact Section 211(f)	Special Revenue	Capital Projects	Debt Service	
Salaries and wages	\$ 29,962,782	\$ 3,665,449	\$ -	\$ 54,435	\$ -	\$ -	\$ 33,682,666
Construction	92,982	15,335,882	-	-	290,959	-	15,719,823
Payments of allotments/benefits	10,910,611	826,062	-	-	-	-	11,736,673
Utilities	3,961,324	555,663	-	3,752	-	-	4,520,739
Professional and contractual services	387,040	2,339,519	-	5,869	22,377	-	2,754,805
Medical supplies	1,223,724	272,512	-	1,130,720	-	-	2,626,956
Travel	1,055,350	1,525,704	-	9,439	-	-	2,590,493
Equipment	151,313	2,607,678	-	10,443	-	-	2,769,434
Supplies and materials	1,024,333	789,618	-	115,045	8,712	-	1,937,708
Scholarships and student loans	-	310,150	-	1,498,398	-	-	1,808,548
Principal retirement	-	-	-	-	-	1,599,998	1,599,998
Rentals	530,840	526,358	-	16,820	-	-	1,074,018
Investment management fees	1,597	-	919,100	11,910	55	-	932,662
Petroleum products	741,948	184,703	-	555	-	-	927,206
Communications and postage	532,968	256,381	-	1,746	-	-	791,095
Vehicles	322,394	377,470	-	-	-	-	699,864
Improvements	-	695,987	-	-	-	-	695,987
Interest	-	-	-	-	-	683,456	683,456
Foodstuffs	629,300	53,518	-	58	-	-	682,876
Compensation and stipends	184,095	486,164	-	5,460	-	-	675,719
Building	-	634,640	-	-	-	-	634,640
Repairs and maintenance	350,173	172,697	-	38,459	-	-	561,329
Investment loss on cost basis stock	553,925	-	-	-	-	-	553,925
Medical referrals	483,442	-	-	-	-	-	483,442
Donations	308,750	983	-	-	-	-	309,733
Dues, fees and registrations	240,978	48,107	-	4,140	25	-	293,250
Books and library materials	11,102	159,514	-	-	-	-	170,616
Indirect costs	-	147,153	-	-	-	-	147,153
Advertising	16,946	98,405	-	(1,768)	-	-	113,583
Allowances	91,184	-	-	-	-	-	91,184
Freight	5,517	31,472	-	968	-	-	37,957
Training	(17,427)	43,468	-	-	-	-	26,041
Insurance	19,521	504	-	-	-	-	20,025
Computer software	13,995	-	-	-	-	-	13,995
Employee incentive awards	-	9,225	-	-	-	-	9,225
Representation and entertainment	775	1,000	-	-	-	-	1,775
Furniture and fixtures	1,566	-	-	-	-	-	1,566
Machinery	600	-	-	-	-	-	600
Other/Miscellaneous	69,740	64,379	-	10,761	-	-	144,880
	<u>\$ 53,863,388</u>	<u>\$ 32,220,365</u>	<u>\$ 919,100</u>	<u>\$ 2,917,210</u>	<u>\$ 322,128</u>	<u>\$ 2,283,454</u>	<u>\$ 92,525,645</u>

See Accompanying Independent Auditors' Report.

**REPUBLIC OF PALAU
GENERAL FUND**

September 30, 2010

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, 2010
(With comparative totals for the year ended September 30, 2009)

	<u>2010</u>	<u>2009</u>
Compact funding:		
Section 211(a)	\$ 6,000,000	\$ 6,000,000
Section 215 inflation adjustment	<u>4,260,000</u>	<u>4,260,000</u>
Total compact funding	<u>10,260,000</u>	<u>10,260,000</u>
Taxes:		
Gross receipts	9,187,669	9,312,124
Salary and wage	6,674,973	6,643,962
Alcohol and tobacco	4,720,971	4,501,187
General import	1,607,170	1,661,313
Travelers head	1,815,508	1,525,761
Hotel occupancy	2,205,031	2,086,704
Fuel Excise	726,178	574,965
Road Use	429,920	428,932
Fish export	701,828	774,074
Penalties, interest and delinquencies	626,620	693,479
Vessel cabin and foreign water vessel	97,476	116,217
Other	<u>218</u>	<u>520</u>
Total taxes	<u>28,793,562</u>	<u>28,319,238</u>
Licenses and permits:		
Foreign labor permits	1,186,033	932,021
Business licenses	203,956	200,127
Foreign investment permits and fees	211,433	223,480
Fishing rights fees	157,872	207,276
Corporate filing fees	27,979	28,272
Other licenses and permits	<u>209,274</u>	<u>220,577</u>
Total licenses and fees	<u>1,996,547</u>	<u>1,811,753</u>
Fees and charges:		
Airport fees and rentals	1,734,581	1,573,667
Green fees	1,142,948	-
Water utility charges	665,004	649,179
Postal service	372,842	359,893
Court fines and fees	216,917	197,319
Seaport fees	27,174	42,200
Palau passport fees	88,341	76,524
Banking fees	77,186	89,260
Other	<u>284,875</u>	<u>225,096</u>
Total fees and charges	<u>4,609,868</u>	<u>3,213,138</u>
Net change in the fair value of investments	<u>15,420</u>	<u>23,776</u>
Contributions from component unit	<u>-</u>	<u>2,323,871</u>
Other:		
Indirect cost recoveries	136,754	118,582
Belau Mariculture Demonstration Center sales	3,827	6,249
Other	<u>89,836</u>	<u>257,512</u>
Total other	<u>230,417</u>	<u>382,343</u>
Total revenues	<u>\$ 45,905,814</u>	<u>\$ 46,334,119</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, 2010

	Budget	Actual	Variance
Revenues:			
Local revenue	\$ 36,695,288	\$ 35,493,640	\$ (1,201,648)
Compact funding - Section 211(a)	6,000,000	6,000,000	-
Compact funding - Section 215 inflation adjustment	5,349,900	4,260,000	(1,089,900)
Indirect cost recoveries	136,754	136,754	-
Net change in the fair value of investments	15,420	15,420	-
Total revenues	<u>48,197,362</u>	<u>45,905,814</u>	<u>(2,291,548)</u>
Expenditures - budgetary basis:			
Office of the President:			
President's Office	787,700	785,105	2,595
Official expense	40,000	39,223	777
Grants Coordinator Office	89,400	89,357	43
Council of chiefs	112,500	112,175	325
Total Office of the President	<u>1,029,600</u>	<u>1,025,860</u>	<u>3,740</u>
Office of the Vice-President:			
Vice-President's Office	246,500	242,386	4,114
National Emergency Management Office	96,900	95,343	1,557
Total Office of the Vice-President	<u>343,400</u>	<u>337,729</u>	<u>5,671</u>
Ministry of Finance/Administration:			
Minister of Finance/Administration	6,250	6,178	72
Information Systems Support Services	157,200	156,945	255
Bureau of National Treasury	657,762	656,819	943
Bureau of Budget and Planning	177,057	176,860	197
Bureau of Public Service System	113,200	112,882	318
Workmen's Compensation	41,000	40,279	721
Bureau of Revenue, Customs and Taxation	1,118,500	1,114,629	3,871
Investment Management Fees	15,420	1,597	13,823
Indirect cost collection	136,754	132,473	4,281
Total Ministry of Finance	<u>2,423,143</u>	<u>2,398,662</u>	<u>24,481</u>
Ministry of State:			
Office of the Minister	36,000	35,958	42
Consulate Office in Guam	94,800	94,678	122
Embassy in Washington D.C.	283,800	283,767	33
Embassy in Tokyo, Japan	373,800	373,771	29
Embassy in Taipei, Taiwan	89,500	89,489	11
Consulate Office in Saipan, CNMI	35,000	34,891	109
Embassy in Manila, Philippines	127,000	126,982	18
United Nations Representation Office	195,700	195,690	10
Office of the Public Defender	142,300	141,866	434
Bureau of Asia and Pacific Affairs	94,400	94,229	171
Bureau of UN and the Americas Affairs	82,900	82,702	198
Bureau of EU, Mid East, Africa & Other States	65,100	64,989	111
Bureau of International Trade and Technical Assistance	60,600	60,533	67
Bureau of Domestic Affairs	286,400	285,982	418
European Union Representation	24,000	23,957	43
Passport Office	39,600	39,595	5
International Organizations Obligations	220,000	219,921	79
Total Ministry of State	<u>2,250,900</u>	<u>2,249,000</u>	<u>1,900</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, 2010

	Budget	Actual	Variance
Ministry of Community and Cultural Affairs:			
Office of the Minister	39,200	39,190	10
Bureau of the National Archives	61,000	60,902	98
Bureau of Youth, Sports & Recreation	155,500	155,472	28
Bureau of Aging & Gender	246,700	245,960	740
Sports Facilities Maintenance and Utilities	81,000	80,814	186
Bureau of Arts and Culture	158,100	158,098	2
Palau Severely Disabled Assistance Fund	218,000	217,959	41
Total Ministry of Community and Cultural Affairs	<u>959,500</u>	<u>958,395</u>	<u>1,105</u>
Ministry of Education:			
Office of the Minister	40,000	39,924	76
School Books, Supplies and Instructional Equipment	300,000	273,827	26,173
Bureau of Curriculum and Instruction	810,000	809,290	710
Bureau of School Administration	4,568,000	4,567,813	187
Food Services Program	600,000	599,986	14
Total Ministry of Education	<u>6,318,000</u>	<u>6,290,840</u>	<u>27,160</u>
Ministry of Infrastructure, Industry and Commerce			
Office of the Minister	38,000	37,978	22
OMP, UNDP & Other Match	56,113	-	56,113
PALARIS	129,800	129,657	143
Bureau of Commercial Development	228,300	228,183	117
Palau Small Business Development Center (UOG)	29,900	29,900	-
Pacific Business Center Program (UH)	20,000	20,000	-
Bureau of Aviation	1,222,600	1,222,109	491
Bureau of Lands and Survey	819,000	818,075	925
Bureau of Public Works	1,480,200	1,479,826	374
Water and Sewer Operations	2,988,286	2,984,806	3,480
Melekeok/Capitol Sewer System	86,800	86,724	76
Landfill Operations	40,400	40,236	164
National Capitol Electricity/Maintenance	639,000	638,011	989
CIP Office Operations	134,300	134,036	264
Rural and Sanitation Project	128,900	128,778	122
Total Ministry of Infrastructure, Industry and Commerce	<u>8,041,599</u>	<u>7,978,319</u>	<u>63,280</u>
Ministry of Justice:			
Office of the Minister	37,700	36,914	786
Office of the Attorney General	420,600	391,584	29,016
Bureau of Immigration	250,200	243,482	6,718
Bureau of Public Safety	2,429,200	2,393,524	35,676
Division of Marine Law Enforcement	713,600	692,880	20,720
Total Ministry of Justice	<u>3,851,300</u>	<u>3,758,384</u>	<u>92,916</u>
Ministry of Health:			
Office of the Minister	40,000	39,988	12
Bureau of Public Health	1,174,800	1,174,647	153
Health Administration	1,905,000	1,902,463	2,537
Manila Medical Referral	81,100	79,719	1,381
Hawaii Medical Referral	117,900	114,476	3,424
Medical Supplies and Drugs	634,100	634,033	67
Medical Referrals	538,600	538,534	66
Bureau of Clinical Services	2,472,400	2,464,058	8,342
Hemodialysis	466,200	464,562	1,638
Recruitment of nurses	121,919	119,678	2,241
Total Ministry of Health	<u>7,552,019</u>	<u>7,532,158</u>	<u>19,861</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, 2010

	Budget	Actual	Variance
Ministry of Natural Resources, Environment, and Tourism:			
Office of the Minister	40,000	39,960	40
Protected Areas Network	106,543	104,901	1,642
Bureau of Marine Resources	461,000	460,992	8
Bureau of Agriculture	371,500	371,480	20
Bureau of Labor and Human Resources	257,200	257,068	132
Total Ministry of Natural Resources, Environment, and Tourism	1,236,243	1,234,401	1,842
Total Executive Branch	34,005,704	33,763,748	241,956
Boards, Commissions and Authorities:			
Foreign Investment Board	72,600	66,789	5,811
Palau Election Commission	161,100	90,499	70,601
Palau Code Commission	37,500	34,960	2,540
Palau Public Lands Authority	132,800	132,654	146
Parole Board	22,600	19,774	2,826
Palau Housing Authority	60,000	60,000	-
Ethics Commission	36,300	26,329	9,971
Financial Institutions Commission	268,457	198,760	69,697
Ngardmau Free Trade Zone Authority	18,000	18,000	-
Language Commission	22,500	-	22,500
Total Boards, Commissions and Authorities	831,857	647,765	184,092
Judicial Branch:			
Judiciary	2,067,100	2,059,009	8,091
Total Judicial Branch	2,067,100	2,059,009	8,091
Legislative Branch:			
Senate	1,665,500	1,655,462	10,038
Senate Legal Staff	150,500	139,451	11,049
House of Delegates	1,767,200	1,732,276	34,924
House Legal Staff	176,500	171,796	4,704
Joint Staff	232,500	230,572	1,928
Asia-Pacific IPU Hosting (earmarked)	20,000	20,000	-
Association of Pacific Island Legislatures (APIL)	10,000	10,000	-
Total Legislative Branch	4,022,200	3,959,557	62,643
State Block Grants	4,891,000	4,811,052	79,948
Independent Agencies:			
Office of the Public Auditor	315,700	313,381	2,319
Office of the Special Prosecutor	269,464	258,140	11,324
Palau Environmental Quality Protection Board (EQPB)	334,100	326,570	7,530
National Postal Service	292,100	287,624	4,476
Palau Visitors Authority	627,500	627,500	-
National Aviation Administration	130,300	130,300	-
Total Independent Agencies	1,969,164	1,943,515	25,649

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, 2010

	Budget	Actual	Variance
Other Agencies and Activities:			
Palau National Museum	157,600	156,778	822
Micronesia Legal Services	129,300	129,300	-
Palau Community Action Agency	221,900	221,900	-
Head Start Program	103,500	103,500	-
Palau Red Cross	9,000	9,000	-
WIA Grant Contribution	99,500	99,500	-
Civic Action Team Share	250,000	250,000	-
Peace Corps Contribution	25,000	17,703	7,297
PNOC & Sports Organizations	134,300	134,300	-
Palau International Coral Reef Center	382,500	382,500	-
2010 Micro Games	700,000	700,000	-
Others	405,856	343,757	62,099
Total Other Agencies and Activities	<u>2,618,456</u>	<u>2,548,238</u>	<u>70,218</u>
Green Fee Collection for PAN	1,142,948	-	1,142,948
Compact Review	440,408	423,649	16,759
PSB Investigation	106,325	57,557	48,768
Education Assistance:			
Palau Community College Operations	2,309,500	2,309,500	-
PCC Board of Trustees	39,500	39,500	-
PCC CRE Program (earmarked)	35,100	35,100	-
COM Board of Regents	25,000	25,000	-
Aid to Non-Public Schools	607,619	607,619	-
Total Education Assistance	<u>3,016,719</u>	<u>3,016,719</u>	<u>-</u>
Total expenditures	<u>55,111,881</u>	<u>53,230,809</u>	<u>1,881,072</u>
Deficiency of revenues under expenditures	<u>(6,914,519)</u>	<u>(7,324,995)</u>	<u>(410,476)</u>
Other financing sources (uses):			
Proceeds from sales of assets	-	440,478	440,478
Operating transfers in:			
Compact Section 211(b) Trust Fund	125,500	125,500	-
Compact Section 211(f) Trust Fund	5,000,000	5,000,000	-
Compact Section 211(c) Communications Fund	431,000	256,500	(174,500)
Compact Section 211(d) Maritime, Health and Scholarship Fund	631,000	631,000	-
Compact Section 221(b) Special Block Grants Fund	2,000,000	2,000,000	-
Other Funds	635,419	1,840,765	1,205,346
Total other financing sources	<u>8,822,919</u>	<u>10,294,243</u>	<u>1,471,324</u>
Operating transfers out:			
Debt Service Fund	(2,713,000)	(2,283,454)	429,546
National Scholarship Fund	(1,265,800)	(1,262,000)	3,800
Grants Fund	-	(736,293)	(736,293)
Other Grants Fund	(79,258)	(79,258)	-
Total other financing uses	<u>(4,058,058)</u>	<u>(4,361,005)</u>	<u>(302,947)</u>
Total other financing sources (uses), net	<u>4,764,861</u>	<u>5,933,238</u>	<u>1,168,377</u>
Deficiency of revenues and other financing sources under expenditures and other financing uses	<u>(2,149,658)</u>	<u>(1,391,757)</u>	<u>757,901</u>
Other changes in deficit:			
Increase in reserve for continuing appropriations	2,149,658	(784,173)	(2,933,831)
Decrease in reserve for related assets	-	552,344	552,344
Investment loss on cost basis stock	-	(553,925)	(553,925)
Unreserved deficit at the beginning of the year	<u>(12,868,436)</u>	<u>(12,868,436)</u>	<u>-</u>
Unreserved deficit at the end of the year	<u>\$ (12,868,436)</u>	<u>\$ (15,045,947)</u>	<u>\$ (2,177,511)</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU
NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS

September 30, 2010

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

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

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

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

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

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

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

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

Agrifund - This fund accounts for sales and purchase of agriculture items.

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

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

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

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

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

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

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

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU
 Combined Balance Sheet
 Nonmajor Governmental Funds
 September 30, 2010

	<u>Other Special Revenue</u>	<u>Other Capital Projects</u>	<u>Other Debt Service</u>	<u>Total</u>
<u>ASSETS</u>				
Investments	\$ 2,672,172	\$ 115,318	\$ -	\$ 2,787,490
Investments - restricted	3,000,000	-	-	3,000,000
Receivables, net:				
General	-	9,581	-	9,581
Accrued interest	19,430	-	-	19,430
Due from other funds	1,163,713	1,236,573	-	2,400,286
Prepaid items	23,489	-	-	23,489
Advances	1,267	-	-	1,267
Total assets	<u>\$ 6,880,071</u>	<u>\$ 1,361,472</u>	<u>\$ -</u>	<u>\$ 8,241,543</u>
<u>LIABILITIES AND FUND BALANCES</u>				
Liabilities:				
Accounts payable	\$ 484,156	\$ 9,332	\$ -	\$ 493,488
Due to component unit	150,000	-	-	150,000
Deferred revenue	-	180,453	-	180,453
Other liabilities and accruals	835	-	-	835
Due to other funds	4,709	-	-	4,709
Total liabilities	<u>639,700</u>	<u>189,785</u>	<u>-</u>	<u>829,485</u>
Fund balances:				
Reserved for:				
Related assets	3,009,000	-	-	3,009,000
Encumbrances	191,108	-	-	191,108
Unreserved:				
Special revenue funds	3,040,263	-	-	3,040,263
Capital projects funds	-	1,171,687	-	1,171,687
Total fund balances	<u>6,240,371</u>	<u>1,171,687</u>	<u>-</u>	<u>7,412,058</u>
Total liabilities and fund balances	<u>\$ 6,880,071</u>	<u>\$ 1,361,472</u>	<u>\$ -</u>	<u>\$ 8,241,543</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, 2010

	Other <u>Special Revenue</u>	Other <u>Capital Projects</u>	Other <u>Debt Service</u>	<u>Total</u>
Revenues:				
Compact funding	\$ 2,887,500	\$ -	\$ -	\$ 2,887,500
Fees and charges	1,587,313	138,000	-	1,725,313
Net change in the fair value of investments	142,537	551	-	143,088
Other	71,737	-	-	71,737
Total revenues	<u>4,689,087</u>	<u>138,551</u>	<u>-</u>	<u>4,827,638</u>
Expenditures:				
Current:				
Ministry of Health	1,264,124	-	-	1,264,124
Ministry of Justice	45,759	-	-	45,759
Investment management fees	11,911	55	-	11,966
Education assistance	1,571,891	-	-	1,571,891
Other	23,525	-	-	23,525
Capital projects	-	322,073	-	322,073
Debt service:				
Principal retirement	-	-	1,599,998	1,599,998
Interest	-	-	683,456	683,456
Total expenditures	<u>2,917,210</u>	<u>322,128</u>	<u>2,283,454</u>	<u>5,522,792</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,771,877</u>	<u>(183,577)</u>	<u>(2,283,454)</u>	<u>(695,154)</u>
Other financing sources (uses), net:				
Operating transfers in	1,262,000	79,258	2,283,454	3,624,712
Operating transfers out	(4,218,346)	(635,419)	-	(4,853,765)
Total other financing sources (uses), net	<u>(2,956,346)</u>	<u>(556,161)</u>	<u>2,283,454</u>	<u>(1,229,053)</u>
Net change in fund balances	(1,184,469)	(739,738)	-	(1,924,207)
Fund balances at the beginning of the year	<u>7,424,840</u>	<u>1,911,425</u>	<u>-</u>	<u>9,336,265</u>
Fund balances at the end of the year	<u>\$ 6,240,371</u>	<u>\$ 1,171,687</u>	<u>\$ -</u>	<u>\$ 7,412,058</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU
NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS

Combining Balance Sheet
September 30, 2010

	Palauan Ed Textbook Development and Sales	Public and Law Access Unit	Drug Fine Collection	Sports Facilities Trust	Scholarship	Hospital Trust	EQPB Trust	Agrifund
ASSETS								
Investments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Investments - restricted	-	-	-	-	-	-	-	-
Receivables, net:								
Accrued interest	-	-	-	-	-	661	-	-
Due from other funds	21,178	104,002	22,119	1,524	536,991	192,673	100,199	-
Advances	-	-	-	-	-	1,267	-	-
Prepaid items	-	-	-	-	-	23,489	-	-
Total assets	<u>\$ 21,178</u>	<u>\$ 104,002</u>	<u>\$ 22,119</u>	<u>\$ 1,524</u>	<u>\$ 536,991</u>	<u>\$ 218,090</u>	<u>\$ 100,199</u>	<u>\$ -</u>
LIABILITIES AND FUND BALANCES								
(DEFICITS)								
Liabilities:								
Accounts payable	\$ -	\$ 10,530	\$ 606	\$ -	\$ 324,960	\$ 125,728	\$ 1,239	\$ -
Due to component unit	-	-	-	-	150,000	-	-	-
Other liabilities and accruals	-	-	-	-	835	-	-	-
Due to other funds	-	-	-	-	-	-	-	4,709
Total liabilities	<u>-</u>	<u>10,530</u>	<u>606</u>	<u>-</u>	<u>475,795</u>	<u>125,728</u>	<u>1,239</u>	<u>4,709</u>
Fund balances (deficit):								
Reserved for:								
Related assets	-	-	-	-	-	9,000	-	-
Encumbrances	-	-	-	-	111	190,595	-	-
Unreserved (deficit)	<u>21,178</u>	<u>93,472</u>	<u>21,513</u>	<u>1,524</u>	<u>61,085</u>	<u>(107,233)</u>	<u>98,960</u>	<u>(4,709)</u>
Total fund balances (deficit)	<u>21,178</u>	<u>93,472</u>	<u>21,513</u>	<u>1,524</u>	<u>61,196</u>	<u>92,362</u>	<u>98,960</u>	<u>(4,709)</u>
Total liabilities and fund balances	<u>\$ 21,178</u>	<u>\$ 104,002</u>	<u>\$ 22,119</u>	<u>\$ 1,524</u>	<u>\$ 536,991</u>	<u>\$ 218,090</u>	<u>\$ 100,199</u>	<u>\$ -</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU
NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS

Combining Balance Sheet, Continued
September 30, 2010

	Operator License	Compact Section 211(b) Energy	Compact Section 211(c) Communications	Compact Section 211(d) Maritime, Health and Scholarship	Compact Section 211(e) Maritime	Compact Section 213 Defense	Compact Section 221(b) Special Block Grants	Total
ASSETS								
Investments	\$ -	\$ 33,512	\$ 87,912	\$ 48,149	\$ 448,195	\$ 1,839,506	\$ 214,898	\$ 2,672,172
Investments - restricted	-	3,000,000	-	-	-	-	-	3,000,000
Receivables, net:								
Accrued interest	-	-	-	-	-	18,769	-	19,430
Due from other funds	170,027	-	15,000	-	-	-	-	1,163,713
Advances	-	-	-	-	-	-	-	1,267
Prepaid items	-	-	-	-	-	-	-	23,489
Total assets	<u>\$ 170,027</u>	<u>\$ 3,033,512</u>	<u>\$ 102,912</u>	<u>\$ 48,149</u>	<u>\$ 448,195</u>	<u>\$ 1,858,275</u>	<u>\$ 214,898</u>	<u>\$ 6,880,071</u>
LIABILITIES AND FUND BALANCES								
(DEFICITS)								
Liabilities:								
Accounts payable	\$ 21,093	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 484,156
Due to component unit	-	-	-	-	-	-	-	150,000
Other liabilities and accruals	-	-	-	-	-	-	-	835
Due to other funds	-	-	-	-	-	-	-	4,709
Total liabilities	<u>21,093</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>639,700</u>
Fund balances (deficit):								
Reserved for:								
Related assets	-	3,000,000	-	-	-	-	-	3,009,000
Encumbrances	402	-	-	-	-	-	-	191,108
Unreserved (deficit)	<u>148,532</u>	<u>33,512</u>	<u>102,912</u>	<u>48,149</u>	<u>448,195</u>	<u>1,858,275</u>	<u>214,898</u>	<u>3,040,263</u>
Total fund balances (deficit)	<u>148,934</u>	<u>3,033,512</u>	<u>102,912</u>	<u>48,149</u>	<u>448,195</u>	<u>1,858,275</u>	<u>214,898</u>	<u>6,240,371</u>
Total liabilities and fund balances	<u>\$ 170,027</u>	<u>\$ 3,033,512</u>	<u>\$ 102,912</u>	<u>\$ 48,149</u>	<u>\$ 448,195</u>	<u>\$ 1,858,275</u>	<u>\$ 214,898</u>	<u>\$ 6,880,071</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU
NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficit)
Year Ended September 30, 2010

	Palauan Ed Textbook Development and Sales	Public and Law Access Unit	Drug Fine Collection	Sports Facilities Trust	Scholarship	Hospital Trust	EQPB Trust	Agrifund
Revenues:								
Compact funding	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Fees and charges	-	15,509	25,275	-	-	1,486,285	8,626	-
Net change in the fair value of investments	-	-	-	-	-	-	-	-
Other	-	-	-	-	71,737	-	-	-
Total revenues	-	15,509	25,275	-	71,737	1,486,285	8,626	-
Expenditures:								
Ministry of Health	-	-	-	-	-	1,264,124	-	-
Ministry of Justice	-	-	8,448	-	-	-	-	-
Investment management fees	-	-	-	-	-	-	-	-
Education assistance	-	-	-	-	1,571,891	-	-	-
Other	-	22,286	-	-	-	-	1,239	-
Total expenditures	-	22,286	8,448	-	1,571,891	1,264,124	1,239	-
Excess (deficiency) of revenues over (under) expenditures	-	(6,777)	16,827	-	(1,500,154)	222,161	7,387	-
Other financing sources (uses):								
Operating transfers in	-	-	-	-	1,262,000	-	-	-
Operating transfers out	-	-	-	-	-	(1,205,346)	-	-
Total other financing sources (uses), net	-	-	-	-	1,262,000	(1,205,346)	-	-
Net change in fund balances (deficit)	-	(6,777)	16,827	-	(238,154)	(983,185)	7,387	-
Fund balances (deficit) at the beginning of the year	21,178	100,249	4,686	1,524	299,350	1,075,547	91,573	(4,709)
Fund balances (deficit) at the end of the year	<u>\$ 21,178</u>	<u>\$ 93,472</u>	<u>\$ 21,513</u>	<u>\$ 1,524</u>	<u>\$ 61,196</u>	<u>\$ 92,362</u>	<u>\$ 98,960</u>	<u>\$ (4,709)</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU
NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficit), Continued
Year Ended September 30, 2010

	Operator License Fund	Compact Section 211(b) Energy	Compact Section 211(c) Communications	Compact Section 211(d) Maritime, Health and Scholarship	Compact Section 211(e) Maritime	Compact Section 213 Defense	Compact Section 221(b) Special Block Grants	Total
Revenues:								
Compact funding	\$ -	\$ -	\$ 256,500	\$ 631,000	\$ -	\$ -	\$ 2,000,000	\$ 2,887,500
Fees and charges	51,618	-	-	-	-	-	-	1,587,313
Net change in the fair value of investments	-	12,523	(4,026)	(1,382)	568	133,981	873	142,537
Other	-	-	-	-	-	-	-	71,737
Total revenues	51,618	12,523	252,474	629,618	568	133,981	2,000,873	4,689,087
Expenditures:								
Ministry of Health	-	-	-	-	-	-	-	1,264,124
Ministry of Justice	37,311	-	-	-	-	-	-	45,759
Investment management fees	-	1,499	64	93	213	9,722	320	11,911
Education assistance	-	-	-	-	-	-	-	1,571,891
Other	-	-	-	-	-	-	-	23,525
Total expenditures	37,311	1,499	64	93	213	9,722	320	2,917,210
Excess (deficiency) of revenues over (under) expenditures	14,307	11,024	252,410	629,525	355	124,259	2,000,553	1,771,877
Other financing sources (uses):								
Operating transfers in	-	-	-	-	-	-	-	1,262,000
Operating transfers out	-	(125,500)	(256,500)	(631,000)	-	-	(2,000,000)	(4,218,346)
Total other financing sources (uses), net	-	(125,500)	(256,500)	(631,000)	-	-	(2,000,000)	(2,956,346)
Net change in fund balances (deficit)	14,307	(114,476)	(4,090)	(1,475)	355	124,259	553	(1,184,469)
Fund balances (deficit) at the beginning of the year	134,627	3,147,988	107,002	49,624	447,840	1,734,016	214,345	7,424,840
Fund balances (deficit) at the end of the year	\$ 148,934	\$ 3,033,512	\$ 102,912	\$ 48,149	\$ 448,195	\$ 1,858,275	\$ 214,898	\$ 6,240,371

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU
NONMAJOR GOVERNMENTAL FUNDS - CAPITAL PROJECTS FUNDS

September 30, 2010

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

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

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

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

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU
NONMAJOR GOVERNMENTAL FUNDS
CAPITAL PROJECTS FUNDS

Combining Balance Sheet
September 30, 2010

	DOI Capital Projects	Local Capital Projects	Compact Section 212(b) Capital Account	Total
<u>ASSETS</u>				
Investments	\$ -	\$ -	\$ 115,318	\$ 115,318
Receivables, net:				
General	-	9,581	-	9,581
Due from other funds	263,592	972,981	-	1,236,573
Total assets	<u>\$ 263,592</u>	<u>\$ 982,562</u>	<u>\$ 115,318</u>	<u>\$ 1,361,472</u>
<u>LIABILITIES AND FUND BALANCES</u>				
Liabilities:				
Accounts payable	\$ -	\$ 9,332	\$ -	\$ 9,332
Deferred revenue	180,453	-	-	180,453
Total liabilities	<u>180,453</u>	<u>9,332</u>	<u>-</u>	<u>189,785</u>
Fund balances:				
Unreserved	83,139	973,230	115,318	1,171,687
Total fund balances	<u>83,139</u>	<u>973,230</u>	<u>115,318</u>	<u>1,171,687</u>
Total liabilities and fund balances	<u>\$ 263,592</u>	<u>\$ 982,562</u>	<u>\$ 115,318</u>	<u>\$ 1,361,472</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU
NONMAJOR GOVERNMENTAL FUNDS
CAPITAL PROJECTS FUNDS

Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances
Year Ended September 30, 2010

	DOI Capital Projects	Local Capital Projects	Compact Section 212(b) Capital Account	Total
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Revenues:				
Fees and charges	\$ -	\$ 138,000	\$ -	\$ 138,000
Net change in the fair value of investments	<u>-</u>	<u>352</u>	<u>199</u>	<u>551</u>
Total revenues	<u>-</u>	<u>138,352</u>	<u>199</u>	<u>138,551</u>
Expenditures:				
Management fee	-	-	55	55
Capital projects	<u>-</u>	<u>322,073</u>	<u>-</u>	<u>322,073</u>
Total expenditures	<u>-</u>	<u>322,073</u>	<u>55</u>	<u>322,128</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>(183,721)</u>	<u>144</u>	<u>(183,577)</u>
Other financing sources (uses):				
Operating transfers in	-	79,258	-	79,258
Operating transfers out	<u>-</u>	<u>(635,419)</u>	<u>-</u>	<u>(635,419)</u>
Total other financing sources	<u>-</u>	<u>(556,161)</u>	<u>-</u>	<u>(556,161)</u>
Net change in fund balances	-	(739,882)	144	(739,738)
Fund balances at the beginning of the year	<u>83,139</u>	<u>1,713,112</u>	<u>115,174</u>	<u>1,911,425</u>
Fund balances at the end of the year	<u>\$ 83,139</u>	<u>\$ 973,230</u>	<u>\$ 115,318</u>	<u>\$ 1,171,687</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU
NONMAJOR GOVERNMENTAL FUNDS - DEBT SERVICE FUND

September 30, 2010

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

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

Combined Balance Sheet
Grants Fund
September 30, 2010

	U.S. Federal Grants	Other Country Grants	Non-DOI Capital Projects	Other Grants	OTIA Direct Grants	Total
<u>ASSETS</u>						
Receivables, net:						
General	\$ 1,277	\$ -	\$ -	\$ -	\$ -	\$ 1,277
Federal agencies	1,515,240	-	2,182,742	-	431,498	4,129,480
Due from other funds	-	5,420,002	82,348	1,319,637	-	6,821,987
Advances	183,928	-	-	54,785	5,982	244,695
Prepaid items	278,618	669,624	-	20,109	30	968,381
Total assets	<u>\$ 1,979,063</u>	<u>\$ 6,089,626</u>	<u>\$ 2,265,090</u>	<u>\$ 1,394,531</u>	<u>\$ 437,510</u>	<u>\$ 12,165,820</u>
<u>LIABILITIES AND FUND BALANCES</u>						
Liabilities:						
Accounts payable	\$ 963,332	\$ 35,735	\$ -	\$ 128,518	\$ 40,919	\$ 1,168,504
Contract payable	-	2,458,616	2,263,388	-	-	4,722,004
Deferred revenues	-	3,592,698	-	1,261,955	-	4,854,653
Other liabilities and accruals	58,676	2,577	81	4,058	-	65,392
Due to other funds	957,055	-	-	-	378,787	1,335,842
Total liabilities	<u>1,979,063</u>	<u>6,089,626</u>	<u>2,263,469</u>	<u>1,394,531</u>	<u>419,706</u>	<u>12,146,395</u>
Fund balances:						
Reserved for:						
Related assets	368,225	-	-	47,554	30	415,809
Encumbrances	665,850	7,960,509	89,050	219,623	172,058	9,107,090
Unreserved (deficits):						
Special revenue funds	(1,034,075)	(7,960,509)	(87,429)	(267,177)	(154,284)	(9,503,474)
Total fund balances	<u>-</u>	<u>-</u>	<u>1,621</u>	<u>-</u>	<u>17,804</u>	<u>19,425</u>
Total liabilities and fund balances	<u>\$ 1,979,063</u>	<u>\$ 6,089,626</u>	<u>\$ 2,265,090</u>	<u>\$ 1,394,531</u>	<u>\$ 437,510</u>	<u>\$ 12,165,820</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

Combined Statement of Revenues, Expenditures, and
Changes in Fund Balances
Grants Fund
Year Ended September 30, 2010

	U.S. Federal Grants	Other Country Grants	Non-DOI Capital Projects	Other Grants	OTIA Direct Grants	Total
Revenues:						
Federal contributions	\$ 10,057,329	\$ -	\$ 6,564,763	\$ -	\$ 678,120	\$ 17,300,212
Other grants	-	13,548,086	-	635,774	-	14,183,860
Total revenues	10,057,329	13,548,086	6,564,763	635,774	678,120	31,484,072
Expenditures:						
Ministry of Health	6,029,331	-	-	122,644	1,515	6,153,490
Ministry of Education	2,982,425	-	-	10,858	-	2,993,283
Ministry of Finance	-	-	-	-	87,431	87,431
Ministry of Community and Cultural Affairs	-	-	-	2,461	-	2,461
Ministry of Infrastructure, Industry and Commerce	161,297	-	-	257,865	142,144	561,306
Ministry of Natural Resources, environment and tou	16,408	-	-	55,812	-	72,220
Ministry of State	-	-	-	11,575	-	11,575
Ministry of Justice	137,352	-	-	-	-	137,352
Office of the President	453,062	-	-	194,429	-	647,491
Office of the Public Auditor	-	-	-	-	412,351	412,351
Environmental Quality Protection Board	61,419	-	-	51,181	-	112,600
Other Agencies and Activities	293,585	-	-	72,020	34,679	400,284
Capital projects	-	14,063,758	6,564,763	-	-	20,628,521
Total expenditures	10,134,879	14,063,758	6,564,763	778,845	678,120	32,220,365
Excess (deficiency) of revenues over (under) expenditures	(77,550)	(515,672)	-	(143,071)	-	(736,293)
Other financing sources (uses):						
Operating transfers in	77,550	515,672	-	143,071	-	736,293
Total other financing sources	77,550	515,672	-	143,071	-	736,293
Net change in fund balances	-	-	-	-	-	-
Fund balances at the beginning of the year	-	-	1,621	-	17,804	19,425
Fund balances at the end of the year	\$ -	\$ -	\$ 1,621	\$ -	\$ 17,804	\$ 19,425

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(b) - Energy Fund
Year Ended September 30, 2010

	Fiscal Year 2010 Budget	Continuing Appropriation	Total Available Budget	Actual	Variance
Revenues:					
Net change in the fair value of investments	\$ -	\$ -	\$ -	\$ 12,523	\$ 12,523
Total revenues	-	-	-	12,523	12,523
Expenditures:					
Investment management fees	-	-	-	1,499	(1,499)
Total expenditures	-	-	-	1,499	(1,499)
Excess of revenues over expenditures	-	-	-	11,024	11,024
Other financing uses:					
Transfer to General Fund	(125,500)	-	(125,500)	(125,500)	-
Total other financing sources (uses)	(125,500)	-	(125,500)	(125,500)	-
Net change in unreserved fund balance	(125,500)	-	(125,500)	(114,476)	11,024
Unreserved fund balance at the beginning of the year	147,988	-	147,988	147,988	-
Unreserved fund balance at the end of the year	<u>\$ 22,488</u>	<u>\$ -</u>	<u>\$ 22,488</u>	<u>\$ 33,512</u>	<u>\$ 11,024</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU
SPECIAL REVENUE FUNDS

Statement of Revenues, Expenditures and Changes in
Fund Balance - Budget and Actual - Compact Section 211(c) - Communications Fund
Year Ended September 30, 2010

	Fiscal Year 2010 Budget	Continuing Appropriation	Total Available Budget	Actual	Variance
Revenues:					
Compact funding	\$ 256,500	\$ -	\$ 256,500	\$ 256,500	\$ -
Net change in the fair value of investments	-	-	-	(4,026)	(4,026)
Total revenues	256,500	-	256,500	252,474	(4,026)
Expenditures:					
Investment management fees	-	-	-	64	(64)
Total expenditures	-	-	-	64	(64)
Excess of revenues over expenditures	256,500	-	256,500	252,410	(4,090)
Other financing uses:					
Transfers to General Fund	(256,500)	-	(256,500)	(256,500)	-
Total other financing sources (uses), net	(256,500)	-	(256,500)	(256,500)	-
Net change in unreserved fund balance	-	-	-	(4,090)	(4,090)
Unreserved fund balance at the beginning of the year	107,002	-	107,002	107,002	-
Unreserved fund balance at the end of the year	\$ 107,002	\$ -	\$ 107,002	\$ 102,912	\$ (4,090)

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, 2010

	Fiscal Year 2010 Budget	Continuing Appropriation	Total Available Budget	Actual	Variance
Revenues:					
Compact funding	\$ 631,000	\$ -	\$ 631,000	\$ 631,000	\$ -
Net change in the fair value of investments	-	-	-	(1,382)	(1,382)
Total revenues	<u>631,000</u>	<u>-</u>	<u>631,000</u>	<u>629,618</u>	<u>(1,382)</u>
Expenditures:					
Investment management fees	-	-	-	93	(93)
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>93</u>	<u>(93)</u>
Excess of revenues over expenditures	<u>631,000</u>	<u>-</u>	<u>631,000</u>	<u>629,525</u>	<u>(1,475)</u>
Other financing uses:					
Transfers to General Fund	(631,000)	-	(631,000)	(631,000)	-
Net change in unreserved fund balance	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,475)</u>	<u>(1,475)</u>
Unreserved fund balance at the beginning of the year	<u>49,624</u>	<u>-</u>	<u>49,624</u>	<u>49,624</u>	<u>-</u>
Unreserved fund balance at the end of the year	<u>\$ 49,624</u>	<u>\$ -</u>	<u>\$ 49,624</u>	<u>\$ 48,149</u>	<u>\$ (1,475)</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU
SPECIAL REVENUE FUNDS

Statement of Revenues, Expenditures and Changes in
Fund Balance - Budget and Actual - Compact Section 211(e) - Maritime Fund
Year Ended September 30, 2010

	Fiscal Year 2010 Budget	Continuing Appropriation	Total Available Budget	Actual	Variance
Revenues:					
Net change in the fair value of investments	\$ -	\$ -	\$ -	\$ 568	\$ 568
Total revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>568</u>	<u>568</u>
Expenditures:					
Investment management fees	-	-	-	213	(213)
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>213</u>	<u>(213)</u>
Net change in unreserved fund balance	-	-	-	355	355
Unreserved fund balance at the beginning of the year	<u>447,840</u>	<u>-</u>	<u>447,840</u>	<u>447,840</u>	<u>-</u>
Unreserved fund balance at the end of the year	<u>\$ 447,840</u>	<u>\$ -</u>	<u>\$ 447,840</u>	<u>\$ 448,195</u>	<u>\$ 355</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU
SPECIAL REVENUE FUNDS

Statement of Revenues, Expenditures and Changes in
Fund Balance - Budget and Actual - Compact Section 213 - Defense
Year Ended September 30, 2010

	<u>Fiscal Year 2010 Budget</u>	<u>Continuing Appropriation</u>	<u>Total Available Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:					
Net change in the fair value of investments	\$ -	\$ -	\$ -	\$ 133,981	\$ 133,981
Total revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>133,981</u>	<u>133,981</u>
Expenditures:					
Investment management fees	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,722</u>	<u>(9,722)</u>
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,722</u>	<u>(9,722)</u>
Net change in unreserved fund balance	-	-	-	124,259	124,259
Unreserved fund balance at the beginning of the year	<u>1,734,016</u>	<u>-</u>	<u>1,734,016</u>	<u>1,734,016</u>	<u>-</u>
Unreserved fund balance at the end of the year	<u>\$ 1,734,016</u>	<u>\$ -</u>	<u>\$ 1,734,016</u>	<u>\$ 1,858,275</u>	<u>\$ 124,259</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU
SPECIAL REVENUE FUNDS

Statement of Revenues, Expenditures and Changes in
Fund Balance - Budget and Actual - Compact Section 221(b) - Special Block Grants
Year Ended September 30, 2010

	Fiscal Year 2010 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	<u>-</u>	<u>-</u>	<u>-</u>	<u>873</u>	<u>873</u>
Total revenues	<u>2,000,000</u>	<u>-</u>	<u>2,000,000</u>	<u>2,000,873</u>	<u>873</u>
Expenditures:					
Investment management fees	<u>-</u>	<u>-</u>	<u>-</u>	<u>320</u>	<u>320</u>
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>320</u>	<u>320</u>
Excess of revenues over expenditures	<u>2,000,000</u>	<u>-</u>	<u>2,000,000</u>	<u>2,000,553</u>	<u>553</u>
Other financing uses:					
Transfers to General Fund	<u>(2,000,000)</u>	<u>-</u>	<u>(2,000,000)</u>	<u>(2,000,000)</u>	<u>-</u>
Net change in unreserved fund balance	<u>-</u>	<u>-</u>	<u>-</u>	<u>553</u>	<u>553</u>
Unreserved fund balance at the beginning of the year	<u>214,345</u>	<u>-</u>	<u>214,345</u>	<u>214,345</u>	<u>-</u>
Unreserved fund balance at the end of the year	<u>\$ 214,345</u>	<u>\$ -</u>	<u>\$ 214,345</u>	<u>\$ 214,898</u>	<u>\$ 553</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU
CAPITAL PROJECTS FUNDS

Statement of Revenues, Expenditures, and Changes in
Fund Balance - Budget and Actual - Compact Section 212(b) - Capital Account
Year Ended September 30, 2010

	Fiscal Year 2010 Budget	Continuing Appropriation	Total Available Budget	Actual	Variance
Revenues:					
Net change in the fair value of investments	\$ -	\$ -	\$ -	\$ 199	\$ 199
Total revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>199</u>	<u>199</u>
Expenditures:					
Investment management fees	-	-	-	55	(55)
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>55</u>	<u>(55)</u>
Net change in unreserved fund balance	-	-	-	144	254
Unreserved fund balance at beginning of year	<u>115,318</u>	<u>-</u>	<u>115,318</u>	<u>115,174</u>	<u>(144)</u>
Unreserved fund balance at end of year	<u>\$ 115,318</u>	<u>\$ -</u>	<u>\$ 115,318</u>	<u>\$ 115,318</u>	<u>\$ 110</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU
OTHER GRANTS FUND

Schedule of Expenditures of Other Grants
Year Ended September 30, 2010

Fund 360100 Grantor Account Title	Cost Center	Authorization	Receivable from Grantor (Deferred Revenue) at 10/01/09	(revenues) Cash Receipts FY 2010	Expenditures FY 2010	Receivable from Grantor (Deferred Revenue) at 9/30/10
<u>UNFPA Grant</u>						
UNFPA FY 1996	H63920	\$ 57,889	\$ 1,058	\$ -	\$ -	\$ 1,058
<u>UN Pop Education Program</u>						
UN Pop Education Program 1995	E53921	22,940	(1,188)	-	-	(1,188)
Population Education Grants 1996	E63921	27,295	(1,894)	-	-	(1,894)
Population Education Grants 1998	E83921	9,180	(7,239)	-	-	(7,239)
UNFPA - Census Relates 1996	S63921	16,000	(606)	-	-	(606)
Total UN Pop Education Program		<u>75,415</u>	<u>(10,927)</u>	<u>-</u>	<u>-</u>	<u>(10,927)</u>
<u>UNCCD Grant Committee</u>						
UNCCD 4th National Report	A03923	4,000	-	4,000	25	(3,975)
Solar Energy MGMT Demo	A83923	90,000	(5,000)	-	-	(5,000)
UNCCD Gran Committee	S03923	22,950	(4,851)	-	-	(4,851)
Total UNCCD		<u>116,950</u>	<u>(9,851)</u>	<u>4,000</u>	<u>25</u>	<u>(13,826)</u>
<u>UNESCO-PALAU PUBLIC LIBRARY</u>						
Unesco-Pal Public Library	E33924	15,000	(546)	-	-	(546)
<u>WHO APW HEALTH CAREER TRNG</u>						
WHO APW HLTH CAREER TRNG	H43927	32,250	(958)	-	-	(958)
WHO APW HLTH CAREER TRNG	H63927	15,200	(830)	-	-	(830)
WHO PHARMACY MIS	H0WHO1	6,790	-	6,790	4,208	(2,582)
WHO OTHERS	H0WHO2	10,000	-	13,848	9,515	(4,333)
PHARMACY TECH ONLINE TRNG	H0WHO3	6,000	-	-	-	-
CE RESIDENCY PROG FY10	H0WHO4	15,200	-	23,200	-	(23,200)
HRD PROGRAMS	H9WHO1	16,000	(11,375)	-	11,818	443
QA PROGRAMS	H9WHO2	9,000	(9,000)	-	9,125	125
BHCS STRATEGIC PLAN	H9WHO3	14,000	(9,648)	-	9,216	(432)
BPHS STRATEGIC PLAN	H9WHO4	24,000	(24,000)	-	20,252	(3,748)
TOBACCO	H9WHO5	3,000	(3,000)	-	3,000	-
WHO HEALTHY WORK PLACE	H9WHO6	7,000	(7,000)	-	6,995	(5)
WHO INJURY PREVENTION	H9WHO7	12,500	(12,500)	-	9,680	(2,820)
POLHN	H9WHO8	26,000	(26,000)	-	26,071	71
Gender Tobacco	H9WHO9	15,000	-	15,000	12,740	(2,260)
Total WHO APW health Career Trng		<u>211,940</u>	<u>(104,311)</u>	<u>58,838</u>	<u>122,620</u>	<u>(40,529)</u>
<u>UNDP Public Sector Program</u>						
UNDP Public Sector Program	A73929	447,642	9,961	9,961	-	-
PAL Capacity Dev for NPP	F83929	45,000	(4,024)	-	-	(4,024)
UN DEVEL PROGRAMME (UNDP)	F53929	161,000	133,110	133,110	-	-
Total UNDP		<u>653,642</u>	<u>139,047</u>	<u>143,071</u>	<u>-</u>	<u>(4,024)</u>

REPUBLIC OF PALAU
OTHER GRANTS FUND

Schedule of Expenditures of Other Grants, Continued
Year Ended September 30, 2010

Fund 360100 Grantor Account Title	Cost Center	Authorization	Receivable from Grantor (Deferred Revenue) at 10/01/09	(revenues) Cash Receipts FY 2010	Expenditures FY 2010	Receivable from Grantor (Deferred Revenue) at 9/30/10
<u>Climate Change (UN) GET</u>						
National Biodiversity Plan	A23930	330,000	(11,870)	-	-	(11,870)
Climate Change Interim	A43930	15,000	(313)	-	-	(313)
2ND National Comm. UNFCCC	A63930	405,000	118,910	-	11,100	130,010
PAC ADAPT TO CLIMATE CHNG	A93930	800,000	(9,970)	67,970	28,938	(49,002)
Total Climate Change (UN) GET		1,550,000	96,757	67,970	40,038	68,825
<u>National Biosafety Framework</u>						
National Biosafety Framework	A23931	131,000	42,350	-	-	42,350
<u>GEF Operational Focal Point</u>						
GEF Operational Plan	A23932	8,500	2,070	-	-	2,070
<u>SPREP (International Water IWP)</u>						
Inte'l Water of the Pac	A23933	97,875	(568)	-	-	(568)
Int'l Water of the Pacific FY04	F43933	102,200	3,700	-	-	3,700
Total SPREP		200,075	3,132	-	-	3,132
<u>UNDP (WSSD Grants)</u>						
UNDP (WSSD) Projects	A23934	5,965	(50)	-	-	(50)
CEDAW Translation	C0UN01	4,000	-	4,000	4,000	-
Int'l Women's Day 2010	C0UN02	2,000	-	2,000	2,000	-
17th Annual Women's Conference	C0UN03	1,000	-	1,000	1,000	-
Total UNDP		12,965	(50)	7,000	7,000	(50)
<u>SPREP</u>						
Ozone Depleting Substance	A33936	50,000	7,773	-	-	7,773
Ozone Depleting Substance	A73936	3,400	(10,648)	-	17,006	6,358
Ozone Depleting Substance	A03936	12,000	-	36,000	3,086	(32,914)
Ozone Depleting Substance	A13936	10,000	-	10,000	-	(10,000)
Total SPREP		75,400	(2,875)	46,000	20,092	(28,783)
<u>PADI Aware Foundation</u>						
Project Aware	A33937	1,500	21,284	-	-	21,284
<u>UN Pops Grants</u>						
U.N. Pops Grant	A33938	346,400	11,816	-	-	11,816
<u>UNDP (NCSA) Global Env. Mgmt.</u>						
UNDP (Global Env. Mgmt.)	A33939	25,000	24,838	-	-	24,838
<u>UNICEF</u>						
Justice Program	J33940	6,200	(345)	-	-	(345)

REPUBLIC OF PALAU
OTHER GRANTS FUND

Schedule of Expenditures of Other Grants, Continued
Year Ended September 30, 2010

Fund 360100 Grantor Account Title	Cost Center	Authorization	Receivable from Grantor (Deferred Revenue) at 10/01/09	(revenues) Cash Receipts FY 2010	Expenditures FY 2010	Receivable from Grantor (Deferred Revenue) at 9/30/10
<u>PALAU NCSA</u>						
PALAU NCSA - TTP/03/G41	F43943	200,000	(29,792)	-	-	(29,792)
<u>Access to Benefit Sharing</u>						
Access to Benefit Sharing Program	F43945	31,343	(19)	-	-	(19)
<u>FOOD & AGRICULTURE</u>						
National Forest Policy	R53946	4,350	(833)	-	-	(833)
<u>REPORT ON BIODIVERSITY</u>						
NR4 GEF-CBD BTNA Phase II	A03947	15,000	-	15,000	7,347	(7,653)
3rd Report on Biodiversity	A63947	16,500	(199)	-	-	(199)
Total Report on Biodiversity		31,500	(199)	15,000	7,347	(7,852)
<u>8th OEK Orientation & WRKS</u>						
8th OEK Orientation & WRKS	K93948	22,000	(281)	-	-	(281)
<u>UNEP / FNR-RIO</u>						
FNR to Rio Convention	A03949	34,567	-	14,547	8,183	(6,364)
<u>SAICM - EQPB</u>						
QSP Trust Fund - SAICM	R93951	125,000	(99,161)	-	51,181	(47,980)
<u>PW Feasibility Study Energy</u>						
PW Feasibility Study	R83953	17,000	(17,000)	-	12,690	(4,310)
<u>2ND FRANCE-OCEANIA SUMMIT</u>						
2nd France-Oceania Summit	A63954	34,410	(1,307)	-	-	(1,307)
3RD FRANCE-OCEANIA SUMMI	P93954	22,904	-	-	-	-
		57,314	(1,307)	-	-	(1,307)
<u>Watercourse Splash</u>						
Watercourse Splash	A23955	6,000	(104)	-	-	(104)
<u>Japan Grant (Horifuma Arima)</u>						
Japan Grant (Horifuma Arima)	A23956	70,809	5	-	-	5
Ngchesar Elementary School Renovation	E43956	54,895	(52)	-	-	(52)
Nippon Foundation Grant	R63956	25,493	(9,995)	-	2,872	(7,123)
Total Japan Grant		151,197	(10,042)	-	2,872	(7,170)
<u>SPREP Grants (Fruit Fly)</u>						
SPREP Grants (Fruit Fly)	R23957	4,495	(15)	-	-	(15)

REPUBLIC OF PALAU
OTHER GRANTS FUND

Schedule of Expenditures of Other Grants, Continued
Year Ended September 30, 2010

Fund 360100 Grantor Account Title	Cost Center	Authorization	Receivable from Grantor (Deferred Revenue) at 10/01/09	(revenues) Cash Receipts FY 2010	Expenditures FY 2010	Receivable from Grantor (Deferred Revenue) at 9/30/10
<u>President (Korean Grant)</u>						
President (Korean Grant)	A23958	9,532	(509)	-	-	(509)
14th APPCED Conference	K03958	20,000	-	20,000	19,931	(69)
		<u>29,532</u>	<u>(509)</u>	<u>20,000</u>	<u>19,931</u>	<u>(578)</u>
<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	(1,088)	-	215	(873)
<u>Secretariat Pacific Comm</u>						
Secretariat Pacific Comm	R13961	6,000	2,837	-	-	2,837
<u>Vanuatu Grants</u>						
Vanuatu Grants (NEMO)	A13962	8,269	(863)	-	-	(863)
<u>SPF Org. Comm - China Grants</u>						
SPF Org. Comm - China Grants	A93963	231,000	(839)	-	-	(839)
<u>Info Dev. Planning (IBRD)</u>						
Info Dev. Implement (IBRD)	A93960	200,000	21,225	-	-	21,225
Infor Dev. Planning (IBRD)	A93965	103,627	(21,380)	-	-	(21,380)
Total Info Dev. Planning (IBRD)		<u>303,627</u>	<u>(155)</u>	<u>-</u>	<u>-</u>	<u>(155)</u>
<u>Republic of China Grants</u>						
China Grants - Sport Comm	A83966	56,087	-	-	-	-
National Youth Policies Development	C43966	6,000	(2,296)	-	-	(2,296)
PM & SP Capacity Building	F63966	200,000	(134)	-	-	(134)
PM & SP Capacity Building	F73966	10,000	(10,000)	-	-	(10,000)
ROC-PAC Summit Security	J63966	30,000	(5,132)	-	-	(5,132)
Total Republic of China Grants		<u>526,000</u>	<u>(17,562)</u>	<u>-</u>	<u>-</u>	<u>(17,562)</u>
<u>Forum Secretariat Grants</u>						
Forum Sect. Drought Relief 1998	A83967	10,180	(2,156)	-	-	(2,156)
Forum Import Mang Wrkshp 2001	A13967	2,300	2,028	-	-	2,028
Total Forum Sect. Drought Relief		<u>12,480</u>	<u>(128)</u>	<u>-</u>	<u>-</u>	<u>(128)</u>
<u>Computerization (State)</u>						
Computerization (State) 1998	S83968	10,000	(172)	-	-	(172)
<u>FFA - Grants (President's Office)</u>						
FAA- President's Office	A03969	19,941	(50)	-	-	(50)
FFA - President's Office	A13969	39,000	(70)	-	-	(70)
FFA - President's Office	A23969	61,195	(50)	-	-	(50)
FFA - President's Office	A33969	71,194	(1,474)	-	-	(1,474)

REPUBLIC OF PALAU
OTHER GRANTS FUND

Schedule of Expenditures of Other Grants, Continued
Year Ended September 30, 2010

Fund 360100 Grantor Account Title	Cost Center	Authorization	Receivable from Grantor (Deferred Revenue) at 10/01/09	(revenues) Cash Receipts FY 2010	Expenditures FY 2010	Receivable from Grantor (Deferred Revenue) at 9/30/10
36TH PACIFIC ISLS FORUM	A53969	68,360	(47)	-	-	(47)
FFA - President's Office	A73969	86,100	(258)	-	-	(258)
FFA - President's Office	A83969	14,980	(14,980)	-	-	(14,980)
FFA - Conferences	A93969	4,975	(727)	-	-	(727)
PALM 2000 (Tokyo Japan)	S03969	16,656	(495)	-	-	(495)
TRAVEL - FOC/FORUM Meeting	P63969	65,000	(2,716)	-	-	(2,716)
Annual Meeting of IWC	P73969	18,600	(5,192)	-	-	(5,192)
Total FFA - Grants		466,001	(26,059)	-	-	(26,059)
<u>PMA Office Building/Infrastructure</u>						
PMA Office Building/Infrastructure 1995	A53970	39,994	(2,219)	-	-	(2,219)
PMA Observer & Monitoring 1996	A63970	66,790	(2,605)	-	-	(2,605)
SPREP (CBEMP) Palau EQPB 2000	R03970	8,895	(397)	-	-	(397)
Total PMA Office Building/Infrastructure		115,679	(5,221)	-	-	(5,221)
<u>Fisheries Forum Agency</u>						
FAA Recrit Qualiry Pers	A13971	30,000	(1,154)	-	-	(1,154)
TAIYO (TAOCH) CLEARING	B91401	25,000	25,000	-	-	25,000
Fisheries & Maritime Cons.	R23971	30,000	25	-	-	25
Marine Law Observer	J8FFA1	25,000	(9,122)	-	6,263	(2,859)
FFA Sponsorol 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)
FFA-Palau PDF Fund- 15%	R83971	165,940	(94,524)	-	76,819	(17,705)
Palau PDF 15%	R03971	50,472	-	52,472	3,836	(48,636)
PI Forum Leaders Meeting	S8FFA1	100,000	(7,816)	-	-	(7,816)
Total Fisheries Forum Agency		583,903	(91,666)	52,472	86,918	(57,220)
<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	(3,718)	-	-	(3,718)
Ngermeduu Conservation Area	R33972	30,000	(6,305)	-	-	(6,305)
FFA Ngarchelong Clam Project	S23972	20,000	25	-	-	25
Total SPREP (Ngermeduu Conservation)		90,752	(15,301)	-	-	(15,301)

REPUBLIC OF PALAU
OTHER GRANTS FUND

Schedule of Expenditures of Other Grants, Continued
Year Ended September 30, 2010

Fund 360100 Grantor Account Title	Cost Center	Authorization	Receivable from Grantor (Deferred Revenue) at 10/01/09	(revenues) Cash Receipts FY 2010	Expenditures FY 2010	Receivable from Grantor (Deferred Revenue) at 9/30/10
<u>GIS/GPS Training (SPREP)</u>						
GIS/GPS Training	R23973	32,296	(21,112)	-	-	(21,112)
<u>Tax Equipment Furniture & Supplies</u>						
Tax Equipment Furniture & Supplies	A83973	25,000	(260)	-	-	(260)
<u>Palau Youth Empowerment Fund</u>						
Palau Youth Empowerment Fund 1998	C83974	53,551	(14,680)	-	-	(14,680)
PMA Port Samplers (SPC)	R63974	14,790	(392)	-	-	(392)
Total Palau Youth Empowerment Fund		68,341	(15,072)	-	-	(15,072)
<u>Australian Grants</u>						
Project 5/99	A93975	1,572	(19)	-	-	(19)
Coral Reef Aware Program	A43975	2,000	(2,000)	-	-	(2,000)
Pur Microfilm Read/Printer	C65001	8,600	(298)	-	-	(298)
Inventory Bar Code System	H43975	13,800	(4,143)	-	-	(4,143)
AUSAID	H73975	4,800	-	-	-	-
Ramsar Wetl'ds Cons Fund	S70201	6,796	(5,721)	-	-	(5,721)
Equipment for Youth Program	C03975	1,984	-	1,984	1,790	(194)
Total Australian Grants		39,552	(12,181)	1,984	1,790	(12,375)
<u>Japan Rotary Club Donation</u>						
Japan Rotary Club Donation	R63976	24,725	(106)	-	-	(106)
Pal/Jpn Fisheries Conslt.	R13976	18,013	(1,208)	-	-	(1,208)
Total Rotary Club Donation		42,738	(1,314)	-	-	(1,314)
<u>FFA - Kayangel Fishing Project</u>						
FFA Grant Tatirou Group	S03977	50,000	(15)	-	-	(15)
FFA Sonsorol State Boat	S13977	100,000	(127)	-	-	(127)
Total Kayangel Fishing Project		150,000	(142)	-	-	(142)
<u>SPREP Grants</u>						
SPREP (Coral Reef Comm)1997	R73979	12,050	(287)	-	-	(287)
Pilot Project (Solid Waste)1999	R93979	39,998	(2)	-	-	(2)
Total SPREP Grants		52,048	(289)	-	-	(289)
<u>WildAid-Packard Foundation</u>						
WildAid-Packard Foundation	J33980	72,867	(3,254)	-	-	(3,254)
Packard EBM Project-EQPB	A63980	107,755	(27,286)	-	29,816	2,530
EQPB EBM Project Cycle II	A03980	53,687	-	53,687	1,874	(51,813)
		234,309	(30,540)	53,687	31,690	(52,537)
<u>Marine Res Conservation</u>						
Marine Res Conservation	R53980	38,900	(4,764)	-	-	(4,764)

REPUBLIC OF PALAU
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Schedule of Expenditures of Other Grants, Continued
Year Ended September 30, 2010

Fund 360100 Grantor Account Title	Cost Center	Authorization	Receivable from Grantor (Deferred Revenue) at 10/01/09	(revenues) Cash Receipts FY 2010	Expenditures FY 2010	Receivable from Grantor (Deferred Revenue) at 9/30/10
<u>CDC & H V Hepatitis Survey</u>						
CDC & HIV Hepatitis Survey	H33981	5,472	(15)	-	-	(15)
<u>FHP Foundation Grant</u>						
FHP Foundation Grant	H63984	39,505	(2,840)	-	-	(2,840)
<u>RR & TC Pacific Basin Grant</u>						
RR & TC Pacific Basin Grant	H63985	54,000	9,900	-	-	9,900
RR & TC Pacific Basin Grant	H83985	22,000	(479)	-	-	(479)
SDSU Foundation	H93985	23,100	(178)	-	-	(178)
Total RR & TC Pacific Basin Grant		99,100	9,243	-	-	9,243
<u>Pacific Basin Development Council</u>						
Pacific Basin Development Council	A63986	4,800	(1,011)	-	-	(1,011)
<u>DNA Project (University of Utah)</u>						
Palau Youth Project 2007	H73987	22,000	(257)	-	-	(257)
Palau Youth Project	H83987	48,864	(74)	-	-	(74)
DNA Project (University of Utah)	H93987	16,700	(39)	-	-	(39)
		87,564	(370)	-	-	(370)
<u>Christa M. Fellowship Program</u>						
Christa M. Fellowship Program 1997	E73990	20,558	(4,719)	-	-	(4,719)
Christa M. Fellowship Program 1998	E83990	10,279	(79)	-	-	(79)
Christa M. Fellowship Program 1999	E93990	10,279	(279)	-	-	(279)
Christa M. Fellowship Program 2000	E03990	10,279	(4,405)	-	-	(4,405)
Christa M. Fellowship Program 2002	E23990	10,003	(4,933)	-	-	(4,933)
Total Christa M. Fellowship Program		61,398	(14,415)	-	-	(14,415)
<u>LSTA State Grants</u>						
LSTA State Grants	E93992	44,274	(1,035)	-	-	(1,035)
LSTA State Grants	E13992	40,377	(801)	-	-	(801)
LSTA State Grants FY07	E73992	54,349	41,115	-	-	41,115
LSTA State Grant 2009	E93992	41,983	-	40,011	-	(40,011)
Total LSTA State Grants		200,550	39,279	40,011	-	(732)
<u>Genetic Study (MOH)</u>						
Genetic Study	H13993	405,000	(758)	(165)	-	(593)
<u>Palau Public Library Grants</u>						
Palau Public Library Grant	E23994	39,630	(13,433)	-	-	(13,433)
<u>Census (Rare Ctr Trop Con)</u>						
Census	A33995	25,000	(92)	-	-	(92)

REPUBLIC OF PALAU
OTHER GRANTS FUND

Schedule of Expenditures of Other Grants, Continued
Year Ended September 30, 2010

Fund 360100 Grantor Account Title	Cost Center	Authorization	Receivable from Grantor (Deferred Revenue) at 10/01/09	(revenues) Cash Receipts FY 2010	Expenditures FY 2010	Receivable from Grantor (Deferred Revenue) at 9/30/10
<u>Protected Areas Network</u>						
TNC MOU Assist to PAN	A83997	6,000	(57)	-	-	(57)
Protected Areas Network	R43997	39,700	(535)	-	-	(535)
		<u>45,700</u>	<u>(592)</u>	<u>-</u>	<u>-</u>	<u>(592)</u>
<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	-	-	-	-
Renewable Energy (SEDREA)	P98922	10,000	(9,975)	-	9,617	(358)
		<u>35,000</u>	<u>(9,975)</u>	<u>-</u>	<u>9,617</u>	<u>(358)</u>
<u>UNDP/UNCCD/GEF</u>						
UNDP (SEDREA) Energy	A68923	12,000	(113)	-	-	(113)
<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	T88962	14,967	(5,838)	-	1,882	(3,956)
Giant Clam Farming Project	T48962	15,000	(1,168)	-	579	(589)
		<u>29,967</u>	<u>(7,006)</u>	<u>-</u>	<u>2,461</u>	<u>(4,545)</u>
<u>TUNA DATA COORDINATOR</u>						
Tuna DATA Entry Technician	R88963	8,756	(12)	-	-	(12)
Tuan Data Coordinator	R68963	11,575	(7)	-	-	(7)
		<u>20,331</u>	<u>(19)</u>	<u>-</u>	<u>-</u>	<u>(19)</u>
<u>HOUSEHOLD INCOME/EXP SURVEY</u>						
Household Income/Expenditures Survey	F68964	26,684	(8)	-	-	(8)
<u>Fisheries Forum Association</u>						
Hosting Consultants Negotiations	S5FFA1	7,081	(4,088)	-	-	(4,088)
Foreign Dignitary Housing	S4FFA1	51,310	(2,645)	-	-	(2,645)
Total FAA		<u>58,391</u>	<u>(6,733)</u>	<u>-</u>	<u>-</u>	<u>(6,733)</u>
<u>Korean Grants</u>						
Bur.of INT'L EXPO	S88967	7,085	18	-	-	18
<u>HOSPITAL EQUIP - IINDIA GRT</u>						
HOSPITAL EQUIP - INDIA GRT	H58968	149,841	(90)	-	-	(90)
Ministry of State Equipments	S08968	100,000	-	100,000	25	(99,975)
Total India Grants		<u>249,841</u>	<u>(90)</u>	<u>100,000</u>	<u>25</u>	<u>(100,065)</u>

REPUBLIC OF PALAU
OTHER GRANTS FUND

Schedule of Expenditures of Other Grants, Continued
Year Ended September 30, 2010

Fund 360100 Grantor Account Title	Cost Center	Authorization	Receivable from Grantor (Deferred Revenue) at 10/01/09	(revenues) Cash Receipts FY 2010	Expenditures FY 2010	Receivable from Grantor (Deferred Revenue) at 9/30/10
<u>PALAU DIGITAL ARCHIVING</u>						
DIGITAL ARCHIVING	S58969	240,000	(426)	-	-	(426)
<u>DRUG DETECTOR DOG UNIT</u>						
DRUG DETECTOR DOG UNIT	F58970	175,000	(71)	-	-	(71)
<u>INDEPENDENCE DAY (ROC)</u>						
12th Independence Day	P6R0C1	100,000	(1,940)	-	-	(1,940)
President's Expenses	P6R0C2	200,000	(1,735)	-	-	(1,735)
13th Independence Day	P7ROC1	50,000	(2,480)	-	-	(2,480)
Total Independence day		350,000	(6,155)	-	-	(6,155)
Total FAA						
<u>CZECH REPUBLIC GRANT</u>						
Czech Dentist Dr. Palek	H78973	23,953	4,211	-	-	4,211
Dental Health Care - CZK	H98973	13,379	(13,379)	-	3,592	(9,787)
Total CZECH Republic Grant		37,332	(9,168)	-	3,592	(5,576)
<u>HUMANITARIAN ASSISTANCE TO PSB</u>						
Humanitarian Assistance to PSB	F78974	3,355,000	(51,616)	-	-	(51,616)
<u>IWRM Project (SOPAC)</u>						
IWRM Project (SOPAC)	A78975	31,300	(1,847)	-	3,330	1,483
SOPAC-Ngerikiil Watershed	A98975	15,000	(8,853)	198,145	60,297	(146,701)
IWRM BOA/EQPB	M98975	10,000	-	-	-	-
		56,300	(10,700)	198,145	63,627	(145,218)
<u>PROTECT MARINE BIODIVERSITY</u>						
Protect Marine Biodiversity	A78976	43,000	(3,156)	-	-	(3,156)
<u>PRIDE GRANTS</u>						
Curriculum Frameworks	E7PRI1	150,000	(1,053)	-	-	(1,053)
Palau Achievement Tests	E7PRI2	150,000	(10,829)	-	10,229	(600)
Palauan Textbook	E7PRI3	88,899	(3)	-	-	(3)
MOE School Handbook	E8PRI1	43,000	42,369	43,000	629	(2)
Total PRIDE		431,899	30,484	43,000	10,858	(1,658)
<u>MICRONESIAN CHALANGE DONATION</u>						
Micronesia Chalange Donation TRKY	A78978	75,000	(7,589)	-	581	(7,008)
Micronesia Chalange Donation Guam	A8GUM1	7,500	7,500	-	-	7,500
Micronesia Chalange Donation PAN	A9TNC1	50,000	(30,115)	-	7,531	(22,584)
		132,500	(30,204)	-	8,112	(22,092)

REPUBLIC OF PALAU
OTHER GRANTS FUND

Schedule of Expenditures of Other Grants, Continued
Year Ended September 30, 2010

Fund 360100 Grantor Account Title	Cost Center	Authorization	Receivable from Grantor (Deferred Revenue) at 10/01/09	(revenues) Cash Receipts FY 2010	Expenditures FY 2010	Receivable from Grantor (Deferred Revenue) at 9/30/10
<u>ENERGY SECT IN 5 ACP ISLS</u>						
Energy Sect in 5 ACP Isls	F88979	287,650	395	-	1,199	1,594
PAL renewable energy NPE2	F8PE02	430,170	11,413	180,298	103,498	(65,387)
Tech. Coop. Facility	F0TFC1	147,000	-	73,500	55,820	(17,680)
		<u>864,820</u>	<u>11,808</u>	<u>253,798</u>	<u>160,517</u>	<u>(81,473)</u>
<u>NEMO PEACESAT ASSISTANCE</u>						
Nemo PEACESAT Assistance	J68980	1,938	(217)	-	-	(217)
<u>NATIONAL FISH & WILDLIFE FOUNDATION</u>						
Coral Reef Conservation	J68981	41,152	11,630	-	-	11,630
<u>Sustainable Land MGMT</u>						
Sustainable Land MGMT	A88983	46,750	(1,768)	78,442	52,675	(27,535)
<u>Taiwan (ROC) Grants</u>						
Energy Support ASST-OPER	A88984	1,669,000	(231,000)	-	-	(231,000)
UN 64TH GEN ASSEMBLY	A98984	50,000	-	-	-	-
TAIWAN/PALAU UN TRAINING	S98984	30,000	(3,401)	-	4,221	820
Purchase X-Ray Machines	H08984	150,000	-	150,000	354	(149,646)
		<u>1,899,000</u>	<u>(234,401)</u>	<u>150,000</u>	<u>4,575</u>	<u>(379,826)</u>
<u>Turkey Grants</u>						
Continental Shelf - Ext	R98986	150,000	(78,168)	-	41,800	(36,368)
Peleliu Multipurpose Gymnasium	S98686	150,000	-	-	-	-
		<u>300,000</u>	<u>(78,168)</u>	<u>-</u>	<u>41,800</u>	<u>(36,368)</u>
<u>Continental Shelf 09-00180</u>						
Continental Shelf	R98988	154,765	(78,076)	-	-	(78,076)
<u>Palau Conservation Society Grants</u>						
Capacity Enhancement	R08989	3,250	-	3,250	-	(3,250)
<u>PICRC Assistance</u>						
Database Design	R08990	10,000	-	10,000	8,394	(1,606)
<u>UN Grants</u>						
Biodiversity Cons Program	9935-PR0001	111,449	(655)	-	-	(655)
Total Other Grants		<u>\$ 17,532,170</u>	<u>\$ (679,750)</u>	<u>\$ 1,361,050</u>	<u>\$ 778,845</u>	<u>\$ (1,261,955)</u>

REPUBLIC OF PALAU
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Schedule of Expenditures of Other Country Grants
Year Ended September 30, 2010

Fund 440100 Grantor Account Title	Budget Authorizations	Receivable from Grantor (Deferred Revenue) at 9/30/09	Cash Receipts FY2010	Expenditures FY2010	Receivable from Grantor (Deferred Revenue) at 9/30/10
<u>ROC TAIWAN GRANT 2000</u>					
F03135 FI/TAX ADVISORY SERVICES	\$ 69,625	\$ (912)	\$ (912)	\$ -	\$ -
R03097 HATOHOBEL STATE PROJECT	80,000	(2,797)	(2,797)	-	-
R03099 SONSOROL STATE PROJECT	100,000	(1,492)	(1,492)	-	-
R03108 PALAU INTL AIRPORT IMPV	843,976	(1)	(1)	-	-
R03109 PELELIU PRIMARY RD ASPHLT	1,233,000	(6,118)	(6,118)	-	-
R03111 MALAKAL BRIDGE INSPECTION	37,637	(5)	(5)	-	-
R03114 NGERIKIL PUMP REPLACEMEN	140,286	(300)	(300)	-	-
R03115 AIRAI WTP MOTOR CENTR&STO	460,279	(2,223)	(2,223)	-	-
R03116 FACILITIES REPAIR & RENOV	356,378	(5,150)	(5,150)	-	-
R03117 GOVT OFFICE FACIL IMPROV	353,669	(20)	(20)	-	-
R03118 KAYANGEL WATER SYSTEM	300,000	(14,255)	(14,255)	-	-
R03136 NTF AGRICULTURE DEVEL	69,037	(317)	(317)	-	-
R03137 ROC PROJECT MANAGEMENT	106,563	29,104	29,104	-	-
R24941 CENTRAL MRKT & CULT. CNTR	2,500,000	(37,942)	(37,942)	-	-
R24940 PALAU NATL MUSEUM COMPLX	2,600,000	(26,981)	-	-	(26,981)
R03120 AIRPORT GENERATOR	95,612	(6,367)	-	-	(6,367)
SUB TOTAL	9,346,062	(75,776)	(42,428)	-	(33,348)
<u>STATE ECONOMIC STIMULUS PACKAGE 2002</u>					
B20102 ELECHUI ROAD EXT/IMPROVMT	20,000	(771)	(771)	-	-
B20103 MEDORM ROAD EXT/IMPROVMNT	30,000	(188)	(188)	-	-
B20301 DOCK IMPROVEMENT STUDY	14,000	(11,000)	(11,000)	-	-
B20302 ANGAUR ROAD EXTENSION	60,000	(10,826)	(10,826)	-	-
B20304 ANGAUR WATER LINE PROJECT	50,000	(161)	(161)	-	-
B20701 HEADSTART BUILDING CONST	50,000	(990)	(990)	-	-
B20702 NGERULIANG ROAD PAVING	30,000	(49)	(49)	-	-
B20703 OLD AGE CENTER	20,000	(1,698)	(1,698)	-	-
B21102 STATE ROAD IMPROVEMENTS	50,000	(9,849)	(9,849)	-	-
B21501 ELOCHEL DOCK TERMIAL/OFF	100,000	(94)	(94)	-	-
R24870 CLASSROOM & FACITILY PROJ	174,665	(25,335)	(25,335)	-	-
B21001 NGARDMAU ROAD & DOCK PROJ	100,000	(530)	-	-	(530)
R24890 SDA SCHL ROAD IMPV PROJ	100,000	(4,497)	-	-	(4,497)
SUB TOTAL	798,665	(65,988)	(60,961)	-	(5,027)
<u>STATE ECONOMIC STIMULUS PACKAGE 2003</u>					
B30103 MEDORM ABAI ROOFING EXTEN	8,000	(700)	-	-	(700)
B30502 DESPENSARY FACILITY IMPRV	120,000	(17,329)	-	-	(17,329)
B30603 NGERBECHED LANDFIL DRAIN	10,000	(3,283)	-	-	(3,283)
B30604 KOROR CBD/CAUSEWAY RD POS	10,000	(395)	-	-	(395)
B30605 MEYUNS ELEMENTARY PHAS2&3	7,000	(333)	-	-	(333)
B30702 MAIN ROAD STRIP CONCR PAV	100,000	(13)	-	-	(13)
B30802 CHOLL VARIOUS PROJECTS	50,000	(15)	-	-	(15)
B30902 OKOTOL ROAD CONSTRUCT/IMP	100,000	(1,942)	-	-	(1,942)
B30904 OLLEI STORAGE TANK PROJ	20,000	(284)	-	-	(284)
B31101 ROAD CONSTRUCTION & IMPRO	70,000	(13,205)	-	-	(13,205)
B31201 NGATPANG DOCK/AQUA IMPROV	50,000	(18)	-	-	(18)
B31202 AQUACULTURE PROJECT	50,000	(2)	-	-	(2)
B31301 CONCRETE ROAD PAVING/IMPR	100,000	(167)	-	-	(167)
B31401 WATER PUMP	8,000	(7,275)	-	-	(7,275)
B31501 PELELIU INCINERATOR PROJ	46,000	(341)	-	-	(341)
B31601 TELECOMMUNICATION UPGRADE	75,000	(3,566)	-	-	(3,566)
R34838 TEAKWOOD AND LUMBER	35,000	(62,579)	(62,579)	-	-
R34840 FISHING AGGREGATE DEVICES	100,000	(6,098)	-	-	(6,098)
R34843 BLS LAND SURVEYING EQUIP	85,000	(473)	-	-	(473)
F34817 NEW PRODUCT DEV COMMITTEE	75,000	(243)	-	-	(243)
R34960 NORTHERN BABLD'D WTRLINE	1,100,000	(18,322)	(18,322)	-	-

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R34891 PELELIU CONCRETE RD EXT	500,000	(142,709)	(142,709)	-	-
R44893 INTER-ISLAND WATER TRANS	791,000	(322)	-	-	(322)
J34920 BPS EQUIP IMRPV. GRANTS	664,000	(10,874)	(10,874)	-	-
R24831 COMPLETION OF CAPITAL,ETC	6,799,000	(70,517)	(60,090)	-	(10,427)
R24832 ROADS,PARKING LOTS & ETC	2,750,000	70,343	-	-	70,343
R24834 LANDSCAPING & ETC	451,000	(20)	-	-	(20)
B30102 ELECHUI WATER SYSTEM	70,000	(17,671)	-	-	(17,671)
B30104 MEDORM RD EXTENTION/IMPRO	30,000	(27,646)	-	10,000	(17,646)
B30202 NGERIKIIL PUMP STATION	30,000	(8,857)	-	-	(8,857)
B30303 STATE BOAT DRYDOCK	35,000	(35,000)	(35,000)	35,000	35,000
B30306 ANGARU STATE OFFICE RENOV	15,000	(5,000)	-	-	(5,000)
B31403 CLAM FARM	10,000	(4,913)	-	-	(4,913)
B31502 CAMP BECK DREDGING	50,000	(3,893)	-	14,712	10,819
R34839 CLAM FARMING PROJECTS	100,000	(2,755)	-	-	(2,755)
R34841 NAT'L CAPITAL REL PH III	3,450,000	(18,363)	-	-	(18,363)
SUB TOTAL	17,964,000	(414,780)	(329,574)	59,712	(25,494)
<u>STATE ECONOMIC STIMULUS PACKAGE 2004</u>					
B40101 MEDORM/ELECHUI RD IMPROVE	735,001	(142)	-	-	(142)
B40201 KASEBELAU RD EXT/FIRE HYD	126,000	(14)	-	-	(14)
B40301 ANGAUR STATE BOAT DRYDOCK	35,000	-	-	-	-
B40604 ENVIRON ASSESSMENT STUDY	-	(282,361)	(160,621)	-	(121,740)
B40702 MELEKEOK ROAD IMPROVEMENT	100,000	(151)	-	-	(151)
B40801 ROAD CONSTRUCT/IMPROVE	100,000	-	-	-	-
B41001 ROAD CONSTRUCT/IMPROVE	50,000	(4)	-	-	(4)
B41101 ROAD CONSTRUCT/IMPROVE	50,000	(1,771)	-	-	(1,771)
B41401 NGIRNGEMELAS SQUARE	50,000	(12,668)	-	-	(12,668)
B41501 ASPHALT RD REPAIR/IMPROV	300,000	(101)	-	-	(101)
B41502 PELELIU WAR MEMORIAL	5,000	(782)	-	-	(782)
R44847 NEW CAPITOL FINISHING PRO	100,000	-	-	-	-
R44873 PUBLIC SCHOOLS FAC IMPROV	200,000	(58,951)	-	-	(58,951)
R44896 KOROR CNT PAVEMENT REPAIR	171,000	104,871	-	-	104,871
R44963 KOROR WTR/WASTEWTR PARTS	145,448	(2,189)	-	-	(2,189)
T44895 INTERNATL WATER TRANSPOR	137,000	-	-	-	-
F44818 NEW PRODUCT DEV COMMITTEE	25,000	(12)	-	-	(12)
R44962 CAPITAL PH III - SEWER	2,783,000	49,000	-	-	49,000
R44826 MELEKEOK/NGIWAL INCINERAT	495,000	(94)	-	-	(94)
R54822 INT/EXTERIOR OF CAPITOL B	3,200,000	-	-	-	-
R54827 N BABELDAOB WATERLINE EXT	50,000	30,000	-	-	30,000
R54828 CUSTOMS MODERNIZATION PRO	360,000	34,894	-	-	34,894
R54829 GUAM/PALAU COMM CENTER	100,000	(20,145)	-	-	(20,145)
B40701 MELEKEOK STATE BUILDING	11,000	(9,351)	-	-	(9,351)
B40401 WATER SYSTEM IMPROVEMENT	80,000	(13,120)	-	-	(13,120)
B40402 WAVE RETAINING WALL/EROSI	15,000	(14,321)	-	-	(14,321)
B40501 ISLAND RING ROAD	92,000	(17,097)	-	-	(17,097)
B40601 T-DOCK REPAIR	500,000	(1,441)	-	-	(1,441)
SUB TOTAL	10,015,449	(215,950)	(160,621)	-	(55,329)
<u>STATE ECONOMIC STIMULUS PACKAGE 2005</u>					
B50101 NEKKEN WATER SYS IMPROVE	150,000	(208)	-	-	(208)
B50104 MONGAMI ROAD IMPROVEMENT	25,000	(282)	-	-	(282)
B50202 AIRAI ROAD IMPROVEMENT	100,000	(1,165)	-	-	(1,165)
B50302 ANGAUR OLD AGE CNTR IMPRO	50,000	-	-	-	-
B50304 ANGAUR COMM CNTR IMPROVE	25,000	-	-	-	-
B50305 ANGAUR ELEM SCH WALKWAY	5,000	(10,000)	(10,000)	-	-
B50306 ANGAUR STATE OFFICE RENOV	-	(15,000)	(15,000)	-	-
B50401 TOBI SOLAR LIGHTING SYSTE	25,000	(366)	-	-	(366)

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Fund 440100 Grantor Account Title	Budget Authorizations	Receivable from Grantor (Deferred Revenue) at 9/30/09	Cash Receipts FY2010	Expenditures FY2010	Receivable from Grantor (Deferred Revenue) at 9/30/10
B50402 TOBI STATE BOAT DRYDOCK	75,000	-	-	-	-
B50503 KAYANGEL OLD AGE CENTER	28,000	-	-	-	-
B50504 KAYANGEL DISPENSARY IMPRO	-	(40,000)	(40,000)	-	-
B50601 NGARACHAMAYONG ABAI CONST	150,000	-	-	-	-
B50801 NGARAARD ROAD IMPROVEMENT	150,000	(76)	-	-	(76)
B50802 NGEBUKED ABAI KITCHEN IMP	60,000	(18,977)	-	-	(18,977)
B50804 REMACHEL TO ULUCHEL ROAD	50,000	(1)	-	-	(1)
B50901 NGARCHELONG ROAD IMPROVE	100,000	(151)	-	-	(151)
B50902 MENGELLANG ABAI/TYPHOON S	50,000	(5)	-	-	(5)
B50904 OLLEI WATER STORAGE TANKS	-	-	-	-	-
B51001 NGARDMAU DOCK IMPROVEMENT	100,000	(5)	-	-	(5)
B51101 NGAREMLENGUI ROAD IMPROVE	170,000	-	-	-	-
B51203 NGATPANG AQUACULTURE PROJ	120,000	-	-	-	-
B51301 NGCHESAR ROAD IMPROVEMENT	200,000	(147)	-	-	(147)
B51401 NGIWAL ROAD IMPROVEMENT	100,000	-	-	-	-
B51402 NGIWAL 2007 IMPROV PROJ	75,000	34,876	-	-	34,876
B51501 PELELIU REV OSMOSIS WTR S	-	-	-	-	-
B51602 SONSOROL WATER SYSTEM	8,000	(4,204)	-	-	(4,204)
B51604 SONSOROL STATE BOAT	100,000	-	-	-	-
R54847 NEW CAPITOL RELOCATION	55,000	-	-	-	-
H54852 MOH AHU SYSTEM	190,000	(13,910)	(6,159)	-	(7,751)
C54964 SOUTH PACIFIC MINI GAMES	1,290,000	(1,538)	-	-	(1,538)
B50602 T-DOCK POOL FILL & PAVING	20,000	(19,000)	-	-	(19,000)
B51601 SONSOROL INTERSTATE TRANS	92,000	(77,087)	-	52,250	(24,837)
SUB TOTAL	3,563,000	(167,246)	(71,159)	52,250	(43,837)
<u>STATE ECONOMIC STIMULUS PACKAGE 2006</u>					
B60101 MEDORM ROAD IMPROVEMENT	100,000	-	-	-	-
B60102 ELECHUI ROAD IMPROVEMENT	20,000	(17,337)	-	17,337	-
B60201 ORDOMEL ROAD REPAIR PROJ	350,000	(97)	-	97	-
B60202 AIRAI ROAD IMPROVE PORJ.	200,000	(82)	-	82	-
B60301 ANGAUR ROAD IMP PROJ FY06	105,000	(1,597)	-	1,597	-
B60302 ANGAUR BAI RENOV FY06	21,500	(6,366)	-	6,366	-
B60303 ANGAUR BOAT REPAIR FY06	33,500	(1,145)	-	1,145	-
B60401 HELEN REEF CONSERV PROJ.	55,000	-	-	-	-
B60406 HATOHOBEL SOLAR PROJECT	25,000	(38,122)	-	38,122	-
B60407 TOBI WATER SYSTEM IMPROV	15,000	(15,000)	-	15,000	-
B60408 TOBI MEDICAL DISPENSARY	35,000	-	-	-	-
B60409 TOBI HOUSING PRESERVATION	35,000	-	-	-	-
B60501 KAYANGEL WATER SYSTEM P3	215,000	(1,694)	-	1,694	-
B60603 KB BRIDGE WTRLINE REPAIR	40,000	-	-	-	-
B60605 MARINE RESOURCE ROAD PROJ	100,000	(197)	-	197	-
B60606 KOROR PARKS IMPROVEMENT	50,000	(40,995)	-	40,995	-
B60701 MELKEOK MAIN ROAD REHAB	100,000	(210)	-	210	-
B60801 NGARAARD BASEBALL FIELD	150,000	(13)	-	13	-
B60901 MENGELLANG ABAI ADDTNL	10,000	-	-	-	-
B60902 NGARCHELONG ROAD IMPROV	100,000	(10,071)	-	10,071	-
B61001 NGARDMAU WATERFALL PARKIN	100,000	-	-	-	-
B61201 NGATPANG AQUACULTURE FY06	100,000	(63)	-	63	-
B61601 SOLAR LIGHTING SYSTEM	50,000	(22,970)	-	22,970	-
R64816 POST OFFICE BLDG EXPANSIO	45,000	-	-	-	-
R64819 CULTURAL CENTER AUDIO/VIS	175,000	-	-	-	-
R64827 NORTH BABELDAOB WATERLINE	115,000	(5,513)	-	5,513	-
R64836 WB PETROLEUM T/A MATCHING	200,000	(160,800)	-	160,800	-
R64846 PELELIU/ANGAUR RUNWAY LGH	58,000	(3,000)	-	3,000	-
R64847 CAPITOL FINISHING-ADDNL	432,000	-	-	-	-

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R64849 NTF AGRICULTURE DEV/BIODI	20,000	(135)	-	135	-
R64889 K/A RD REPAIR&LANDFILL 06	50,000	-	-	-	-
R64966 CAPITOL/MELEKEOK SEWER SY	300,000	(88)	-	88	-
R64967 AIRAI WTR TREATMENT SYSTE	250,000	(444)	-	444	-
R64968 STATE WATER SYSTEMS	150,000	9,715	-	(9,715)	-
R64969 WATER METERING	200,000	98,503	-	(98,503)	-
R64998 MUSEUM PROJECT FY06	125,000	(2,156)	-	2,156	-
J64923 PTRL BOAT DRYDOCK/REFIT06	200,000	(377)	-	377	-
J64924 PS PATROL MOTORCYCLES	200,000	(509)	-	509	-
H64853 MOH PAC SYSTEM	350,000	(900)	-	900	-
A64834 OPERATION COUNTER INVASIO	100,000	(479)	-	479	-
A64834 OPERATION COUNTER INVASIO	-	-	-	-	-
F64815 2007 FEMM	10,000	(7)	-	7	-
R64970 KOROR WASTEWTR COLLECT SY	2,000,000	(117)	-	117	-
R64873 SCHOOL FACILITIES FY06	1,000,000	(543)	-	543	-
R64898 AIRPORT-NERIKIL RD. FY06	3,000,000	(580,029)	-	580,029	-
R64899 NGARAARD ROAD FY'06	1,000,000	150,000	-	(150,000)	-
R54845 OKOTOL HARBOR IMPROV PROJ	200,000	(696)	-	696	-
R84898 PHASE IV-FINAL A/N ROAD	3,100,000	1,231,065	675,672	(535,393)	20,000
SUB TOTAL	15,290,000	577,531	675,672	118,141	20,000
<u>BABELDAOB INTRA-STATE ROADS</u>	15,290,000	-	-	-	-
<u>& DOCK IMPROVEMENTS</u>	-	-	-	-	-
B70901 NGARCHELONG ROAD REHAB	-	-	-	-	-
G70001 BABL INTRA ST RD IMPROVEM	-	-	-	-	-
G70102 AIMELIHK-COFA CONNECT RD	200,000	(24)	-	-	(24)
G70201 NGERUSAR-KED RD IMPROVE	200,000	(99)	-	-	(99)
G70801 NGARAARD STATE RD IMPROVE	245,000	75,710	-	-	75,710
G70901 NGARCHELONG MAIN RD REHAB	200,000	(20,000)	-	-	(20,000)
G71101 NGAREMLENGUI STATE RD IMP	100,000	-	-	-	-
G71301 NGCHESAR ROAD PROJECT	200,000	(612)	-	-	(612)
F73966 PM & SP CAPACITY BLDG PRO	75,000	(242)	-	-	(242)
R74898 AIRPORT TO NGERIKIL ROAD	3,300,000	-	-	-	-
R74845 OKOTOL DOCK IMPROVE PH II	1,000,000	(29,289)	-	-	(29,289)
R74848 CAPITOL STANDBY GENERATOR	1,600,000	-	-	-	-
G70101 MEDORM HAMLET RD REPAIR	200,000	(29,658)	(4,214)	3,865	(21,579)
G71401 IMEKANG DOCK IMPROVE	200,000	(18,053)	-	-	(18,053)
SUB TOTAL	7,520,000	(22,267)	(4,214)	3,865	(14,188)
<u>STATE ECONOMIC STIMULUS PACKAGE 2008</u>	-	-	-	-	-
B80101 AIMELIHK ROAD REPAIR PROJ	25,000	-	-	-	-
B80102 ELECHUI WATER SYS - PH II	150,000	(41,263)	-	1,628	(39,635)
B80103 AIMELIHK PUBL WORKS BLDG	50,000	(16,750)	-	-	(16,750)
B80202 AIRAI ROAD IMPROVEMENT PR	239,000	-	-	-	-
B80401 TOBI VARIOUS IMPROV PROJ	-	-	-	-	-
B80501 KAYANGEL GARBAGE FACILITY	65,000	(38,429)	-	-	(38,429)
B80601 KOROR KB BRIDGE PARK PROJ	-	-	-	-	-
B80701 MELEKEOK ROAD IMPROVEMENT	100,000	(9,150)	-	9,150	-
B80801 CHOLL TYPHOON SHELTER	200,000	11,675	-	149,008	160,683
B80803 NGARAARD NEW ROAD PROJ	100,000	(30,631)	-	-	(30,631)
B80804 NGARAARD WATER PUMP STATI	50,000	(48,341)	-	-	(48,341)
B80805 ORREDAKL TO ULIMANG ROAD	300,000	(21,636)	-	17,106	(4,530)
B80901 NGARCHELONG MAIN ROAD IMP	100,000	(91,845)	-	78,272	(13,573)
B81001 NGARDMAU ROAD PAVING PROJ	250,000	(96)	-	-	(96)
B81101 NGERMETENGEL COMM BAI	225,000	(47,921)	-	47,509	(412)
B81102 NGERMETENGEL DOCK IMPROVE	125,000	(68,266)	-	-	(68,266)
B81103 NGAREM ROAD IMPR PH IV	40,000	(345)	-	-	(345)

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B81104 NGAREML ELEM ROAD PAVEMNT	60,000	(8,521)	-	-	(8,521)
B81105 NGARMESKANG WTRFALLS ROAD	100,000	(98,886)	-	-	(98,886)
B81201 AQUACULTURE PROJ PHIV	150,000	(96)	-	-	(96)
B81301 NGCHESAR MAIN ROAD IMPROV	200,000	(73,252)	-	23,048	(50,204)
B81401 NGIWAL WATER SYSTEM IMPRO	160,000	(55,007)	-	132,476	77,469
B81402 NGIWAL DOCK REPAIR	40,000	(21,187)	-	1,133	(20,054)
B81501 PELELIU STATE BOAT REPAIR	330,000	(9,604)	-	-	(9,604)
S78969 PALAU DIGITAL ARCHIVING	125,000	(3,191)	-	-	(3,191)
S84813 CNMI CONSUL ABAI CONTRIB	25,000	-	-	-	-
P84810 COMPACT REVIEW	175,000	-	-	-	-
P84811 PRES DIGITAL ARCHIV/OTHER	225,000	(36)	-	-	(36)
F84812 CAPITOL COMPLX INFO SUPPL	347,000	79,400	-	-	79,400
F84814 CAPITOL COMPLEX MIS-PH2	1,000,000	(100,400)	-	-	(100,400)
H84854 HOSP SOLAR LIGHTING PROJ	2,500,000	(56,388)	-	-	(56,388)
R84971 KOROR SEWER SYS PROJ PH 2	2,255,000	218,212	-	(90)	218,122
SUB TOTAL	<u>9,711,000</u>	<u>(531,954)</u>	<u>-</u>	<u>459,240</u>	<u>(72,714)</u>
<u>STATE ECONOMIC STIMULUS PACKAGE 2009</u>					
B90701 MELEKEOK MAIN ROAD	850,000	5,213	850,000	777,067	(67,720)
R94823 IMEKANG DOCK	1,000,000	1,330	1,000,000	935,146	(63,524)
J94825 GLOBAL POSITIONING SYSTEM	1,900,000	-	1,900,000	1,898,000	(2,000)
J94826 LIGHT EMITTING DIODE	800,000	2,224	800,000	795,223	(2,553)
B90901 NGERCHELONG MAIN ROAD	810,000	90,618	810,000	640,687	(78,695)
B91101 NGERMLENGUI BRIDGE	640,000	632	640,000	589,216	(50,152)
R94824 KOKSAI/NGCHESAR ACCESS RD	5,000,000	629	5,000,000	4,483,344	(516,027)
SUB TOTAL	<u>11,000,000</u>	<u>100,646</u>	<u>11,000,000</u>	<u>10,118,683</u>	<u>(780,671)</u>
<u>STATE ECONOMIC STIMULUS PACKAGE 2010</u>					
R04821 ENERGY EFFICIENT BUILDING FY2010	445,000	-	222,500	108,315	(114,185)
R04824 KOKSAI-NGCHESAR ROAD II FY2010	3,000,000	-	1,500,000	1,058,565	(441,435)
R04830 AGRI DEV. CENTER FY2010	750,000	-	375,000	135,929	(239,071)
R04835 COCONUT TREE PLANTING FY2010	175,000	-	87,500	29,918	(57,582)
R04837 MALAKAL MARINE RESOURCE FY2010	750,000	-	375,000	198,183	(176,817)
R04840 STATE MARINE SANCTUARY FY2010	400,000	-	200,000	35,300	(164,700)
R04842 TWN EXPERT AGRICULTURE FY2010	150,000	-	150,000	-	(150,000)
R04844 BEAUTIFICATION PROJECT FY2010	100,000	-	50,000	50,000	-
H04850 MOH EQUIP & OTHERS FY2010	1,500,000	-	600,000	-	(600,000)
R04871 PCC SCHOOL OF EXCELENCE FY2010	300,000	-	300,000	300,000	-
R04872 BASKETBALL COURTS FY2010	150,000	-	75,000	41,805	(33,195)
R04873 MOE SOLAR PROJECT FY2010	600,000	-	300,000	187,229	(112,771)
B00201 RABBIT FISH HATCHERY FY2010	400,000	-	200,000	108,485	(91,515)
B01001 NGARDMAU CONCRETE ROAD FY2010	500,000	-	250,000	107,320	(142,680)
B01002 NGARDMAU BOTANICAL GARDER FY2010	30,000	-	30,000	-	(30,000)
B01201 TWN EXPERT AQUACULTURE FY2010	150,000	-	150,000	-	(150,000)
B01301 NGCHESAR CONCRETE ROAD FY2010	600,000	-	300,000	264,092	(35,908)
SUB TOTAL	<u>10,000,000</u>	<u>-</u>	<u>5,165,000</u>	<u>2,625,141</u>	<u>(2,539,859)</u>
R04999 ROC TWN ADMIN COST	668,957	-	668,957	626,726	(42,231)
GRAND TOTAL	<u>\$ 95,877,133</u>	<u>\$ (815,784)</u>	<u>\$ 16,840,672</u>	<u>\$ 14,063,758</u>	<u>\$ (3,592,698)</u>