

REPUBLIC OF PALAU  
NATIONAL GOVERNMENT

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

YEAR ENDED SEPTEMBER 30, 2008

REPUBLIC OF PALAU  
NATIONAL GOVERNMENT

FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT

YEAR ENDED SEPTEMBER 30, 2008

REPUBLIC OF PALAU  
FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2008

TABLE OF CONTENTS

	<u>Page</u>
I. Independent Auditors' Report	1
II. Basic Financial Statements	
Management's Discussion and Analysis	3
Government-Wide Financial Statements:	
Statement of Net Assets	11
Statement of Activities	12
Governmental Fund Financial Statements:	
Balance Sheet	13
Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficit)	14
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficit) to the Statement of Activities	15
Fiduciary Fund Financial Statements:	
Statement of Fiduciary Net Assets	16
Statement of Changes in Fiduciary Net Assets	17
Discretely Presented Component Unit Financial Statements:	
Combining Statement of Net Assets	18
Combining Statement of Revenues, Expenses, and Changes in Net Assets	19
Notes to the Basic Financial Statements	20
III. Required Supplementary Information - Other than Management's Discussion and Analysis	52
Schedule of Revenues, Expenditures, and Changes in Deficit	
- Budget and Actual - General Fund	53
Notes to the Required Supplementary Information - Budgetary Reporting	54
IV. Other Supplementary Information	55
Combining Schedule of Expenditures by Account - Governmental Funds	56
General Fund	57
Schedule of Revenues - General Fund	58
Schedule of Revenues, Expenditures, and Changes in Deficit	
- Budget and Actual - General Fund	59
Nonmajor Governmental Funds:	
Combined Balance Sheet	64
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances	65

REPUBLIC OF PALAU  
FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2008

TABLE OF CONTENTS, CONTINUED

	<u>Page No.</u>
IV. Other Supplementary Information, Continued	
Nonmajor Governmental Funds - Special Revenue Funds:	
Combining Balance Sheet	66
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficits)	68
Nonmajor Governmental Funds - Capital Projects Funds:	70
Combining Balance Sheet	71
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	72
Nonmajor Governmental Funds - Debt Service Fund	73
Grants Fund:	
Combining Balance Sheet – Grants Fund	74
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	75
Statement of Revenues, Expenditures and Changes in Deficit - Budget and Actual - Compact Section 211(b) - Energy Fund	76
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Compact Section 211(c) - Communications Fund	77
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Compact Section 211(d) - Maritime, Health and Scholarship Fund	78
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Compact Section 211(e) - Maritime Fund	79
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Compact Section 213 - Defense	80
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Compact Section 221(b) - Special Block Grants	81
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Compact Section 212(b) - Capital Account	82
Schedule of Expenditures of Other Grants	83

## **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, 2008, which collectively comprise the Republic's basic financial statements as set forth in Section II of the foregoing table of contents. These financial statements are the responsibility of the management of the Republic. Our responsibility is to express an opinion on the respective financial statements based on our audit. We did not audit the financial statements of the Palau Community College and the Palau District Housing Authority, which represent 8%, 14% and 15%, 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 and the Palau District Housing Authority, is based solely on the reports of the other auditors.

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

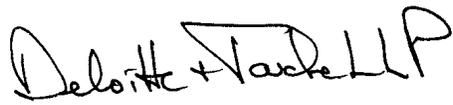
In our opinion, based on our audit and the reports of other auditors, such financial statements, as set forth in Section II of the foregoing table of contents, present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Republic of Palau as of September 30, 2008, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated July 1, 2009, 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.

The image shows a handwritten signature in black ink. The signature is written in a cursive, stylized font and reads "Deloitte + Touche LLP". The signature is positioned above the date "July 1, 2009".

July 1, 2009

# REPUBLIC OF PALAU

## Management's Discussion and Analysis Year Ended September 30, 2008

This report presents a discussion and analysis of the Republic of Palau (ROP) financial performance during fiscal year ended September 30, 2008.

### FINANCIAL HIGHLIGHTS

- The total assets of the ROP exceeded its liabilities at the close of fiscal year by \$414,752,843. Of this amount, \$272,287,317 was invested in capital assets, net of related debt, and \$151,496,226 was restricted. Unrestricted net assets, the amount that may be used to meet the government's ongoing responsibilities was a deficiency of \$9,030,700.
- At end of the fiscal year, unreserved fund balance deficit for the General Fund Budget to Actual was \$7,614,565 or 14% of total general fund expenditures. The general fund unreserved fund balance deficit increased by \$787,326 or 12% from last year. The increase was made up of net change in 1) unreserved fund deficit of \$120,645; 2) reserve for continuing appropriations of \$175,063; and 3) reserve for related assets of \$491,618.
- The Republic's total debt was \$21,828,570. As of September 30, 2008, the ROP was in default on the repayment of \$571,429 due on July 7, 2008 plus interest.

### 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 and Changes in Net Assets 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. 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.

# REPUBLIC OF PALAU

## Management's Discussion and Analysis, Continued Year Ended September 30, 2008

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

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

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 15 of this report.

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

### Notes to the Financial Statement

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are a required part of the basic financial statements and can be found on pages 20 through 51 of this report.

### GOVERNMENT-WIDE FINANCIAL ANALYSIS

Republic of Palau assets exceeded its liabilities by \$ \$414,752,843 at the close of the most recent fiscal year as compared to \$462,789,613 at the close of the last fiscal year. This represents a 10% decrease. A comparative analysis of the changes is presented below:

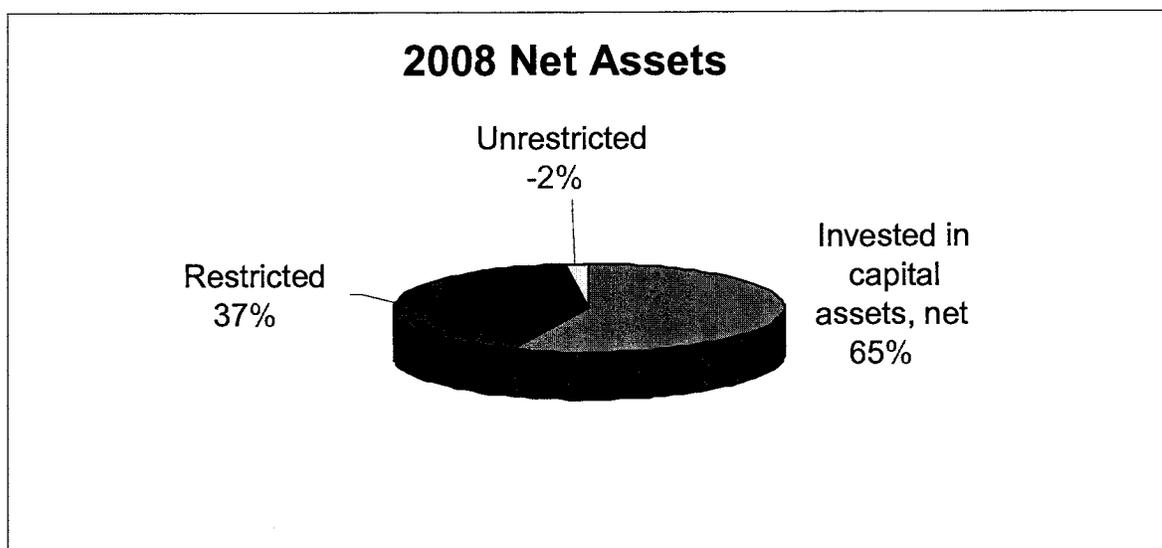
#### STATEMENT OF NET ASSETS

	<u>Governmental Activities</u>	
		2007
	<u>2008</u>	<u>As Restated</u>
Assets:		
Current assets	\$ 17,305,910	\$ 22,796,433
Capital assets	291,115,887	306,055,842
Other noncurrent assets	<u>153,100,418</u>	<u>182,927,389</u>
Total assets	<u>461,522,215</u>	<u>511,779,664</u>

**REPUBLIC OF PALAU**

Management's Discussion and Analysis, Continued  
Year Ended September 30, 2008

	<u>Governmental Activities</u>	
	<u>2007</u>	<u>2007</u>
Liabilities:		
Current liabilities	22,530,310	22,728,631
Noncurrent liabilities	<u>24,239,062</u>	<u>26,261,420</u>
Total liabilities	<u>46,769,372</u>	<u>48,990,051</u>
Net assets:		
Invested in capital assets, net of related debt	272,287,317	283,198,703
Restricted	151,496,226	181,360,560
Unrestricted	<u>(9,030,700)</u>	<u>(1,769,650)</u>
Total net assets	\$ <u>414,752,843</u>	\$ <u>462,789,613</u>



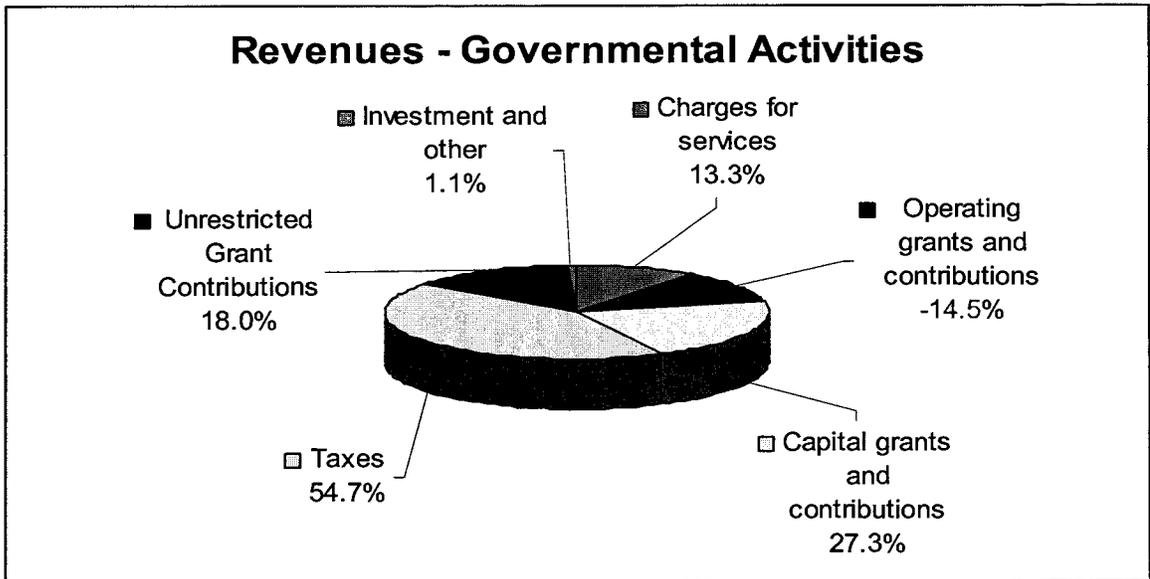
Below is the summary of the changes in net assets for the year ended September 30, 2008 in comparison to fiscal year 2007:

	<u>Governmental Activities</u>	
	<u>2008</u>	<u>2007</u> <u>As Restated</u>
Revenues:		
Program revenues:		
Charges for services	\$ 7,678,854	\$ 6,944,052
Operating grants and contributions	(8,332,292)	42,540,540
Capital grants and contributions	15,740,156	65,847,930
General revenues:		
Taxes	31,488,320	29,763,571
Unrestricted grant contributions	10,341,096	9,840,000
Unrestricted investment earnings	26,979	490,573
Other	<u>612,998</u>	<u>443,422</u>
Total revenues	<u>57,556,111</u>	<u>155,870,088</u>

**REPUBLIC OF PALAU**

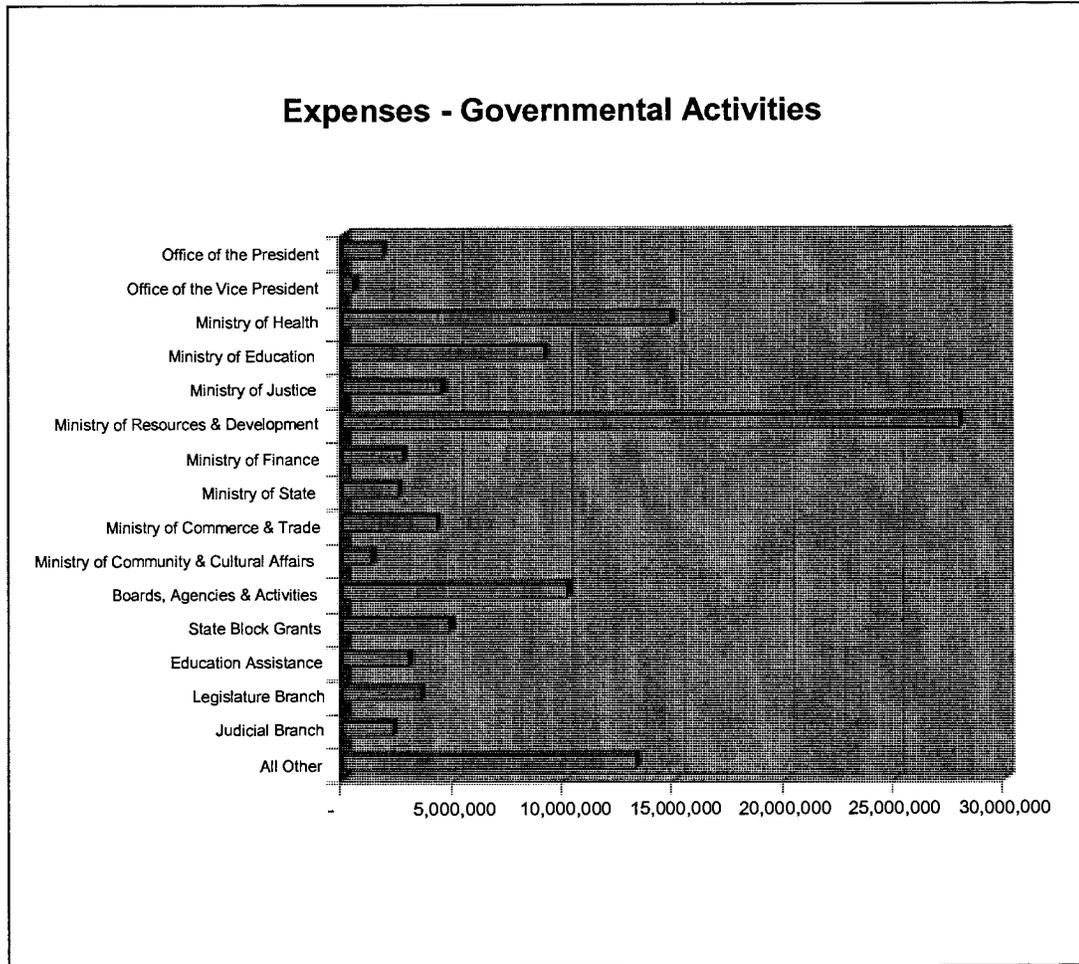
Management's Discussion and Analysis, Continued  
Year Ended September 30, 2008

	<u>Governmental Activities</u>	
		2007
	<u>2008</u>	<u>As Restated</u>
Expenses:		
Office of the President	1,805,010	1,506,859
Office of the Vice President	501,358	546,076
Ministry of Finance	2,697,299	6,036,991
Ministry of State	2,506,981	2,638,598
Ministry of Health	14,880,013	15,119,688
Ministry of Education	9,079,926	9,072,723
Ministry of Justice	4,439,867	4,562,357
Ministry of Community and Cultural Affairs	1,294,421	1,473,909
Ministry of Resources and Development	27,910,642	11,594,043
Ministry of Commerce and Trade	4,206,371	2,033,031
Boards, Commissions, and Authorities	679,223	671,155
Independent Agencies	7,440,549	3,673,282
Legislature Branch	3,528,414	3,856,281
Judicial Branch	2,240,287	2,291,117
State Block Grants	4,811,000	4,810,970
Capital Projects	6,694,455	4,924,485
Other Agencies and Activities	1,954,435	1,685,037
Education Assistance	2,957,607	3,017,619
Investment management fees	1,028,498	1,021,131
Unallocated interest – long term debt	810,265	634,427
Other	<u>4,126,260</u>	<u>4,934,720</u>
 Total expenses	 <u>105,592,881</u>	 <u>86,104,499</u>
 Change in net assets	 (48,036,770)	 69,765,589
 Net assets at the beginning of the year	 <u>462,789,613</u>	 <u>393,024,024</u>
 Net assets at the end of the year	 <u>\$ 414,752,843</u>	 <u>\$ 462,789,613</u>



# REPUBLIC OF PALAU

## Management's Discussion and Analysis, Continued Year Ended September 30, 2008



Investment in capital assets (e.g. land, improvements, buildings, equipment, and infrastructure), less accumulated depreciation, less any related debt used to acquire those assets that is still outstanding, represents 65.0% 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 \$9,030,700 at the end of the current fiscal year.

The above analysis incorporates the restatement of 2007 amounts. Please refer to Note 12 of the accompanying financial statements for further discussion.

## REPUBLIC OF PALAU

Management's Discussion and Analysis, Continued  
Year Ended September 30, 2008

### 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, 2008, ROP's governmental funds reported combined fund balances of \$151,570,718 and at September 30, 2007 the ROP reported \$186,309,807 a decrease of \$34,739,089 or 18.6%. The decrease is made up mostly of the Compact Trust Fund net decrease in the fair value of investment.

Approximately \$12,261,900 of the combined fund balances includes unreserved fund balance deficit, an increase of \$11,694,730 over last year deficit. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has been committed for (1) Continuing appropriations – non lapsing programs \$594,498 (2) Related assets such as Compact Trust Fund reserved for future use, receivables, etc., \$153,696,657, and (3) Encumbrances that are contracts and purchase orders \$9,541,463.

**The General Fund** is the chief operating fund of the ROP. At September 30, 2008, the General Fund reported revenues at \$48,109,170, an increase of \$2,602,809 over the previous year 5.7%, while reported expenditures at \$54,131,522. The total other financing sources (uses), net of \$5,941,025 combined with revenues of \$48,109,170 resulted in a net change in fund balance deficit of \$81,327. The cumulative fund balance deficit at end of year was \$3,044,838.

**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 major fund. Of the total revenues of \$28,022,901, US Federal Contributions made up 28.5%, Other Country grants (ROC) 31.5%, Other Grants (various countries and foundations) 10.5%, and OTIA direct grants 4.8% for the year ended.

**Permanent Fund** includes the Compact Section 211(f) Trust Fund. Market value of the fund at end of fiscal year was \$147,058,860, a decrease of \$29,331,098 or 17.0%. Five (5) million dollars from this fund was appropriated and withdrawn in the current year.

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

### General Fund Budgetary Highlights

In Fiscal Year 2008, changes from the General Fund original budget and the final amended budget amounted to an additional \$1.846 million as results of unforeseen but nonetheless necessary expenditures that the government needed to pay during the year. The initial amendment was to provide start up fund for the Protected Area Network (PAN). Subsequent amendment amounting to just a little less than a million dollars to supplement general operations shortfall notably from the water and sewer operations, Pacific Savings Bank (PSB) legal costs, and update international obligations that were badly in arrears. The remaining balance was used to procure school supplies as well as cover health administrative costs. Despite the budgetary constraints the amendments for additional funding were necessary. Funding source for the amendments was from loan proceeds for Airport Improvement Project (PIA). Details and the actual variance and explanations may be found in the audit report on pages 53 and 54.

# REPUBLIC OF PALAU

Management's Discussion and Analysis, Continued  
Year Ended September 30, 2008

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

The ROP investment in capital assets for its governmental activities as of September 30, 2008, amounted to \$291,115,887 (net of accumulated depreciation of \$99,786,563), as compared to \$306,055,842 (net of accumulated depreciation of \$72,245,236) for the year ended September 30, 2007. The total decrease in ROP's investment in capital assets for the current period was \$14,939,955. Included in the decrease is \$2,344,754 overstatement of capital assets for year ended September 30, 2007. This was due to Army Corp of Engineers' confirmation of the compact road cost at end of fiscal year 2008 being less than their confirmation of the total cost of the road at end of fiscal year 2007.

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

	<u>Governmental Activities</u>	
	<u>2008</u>	<u>2007</u> <u>As Restated</u>
Land	\$ 4,238,850	\$ 4,238,850
Buildings and improvements, net	1,166,081	76,289,811
Machinery and equipment, net	6,857,99	5,351,184
Vehicles	576,359	808,067
Infrastructure	181,933,574	54,986,583
Construction in progress	<u>6,343,031</u>	<u>164,381,347</u>
Totals	\$ <u>291,115,887</u>	\$ <u>308,400,596</u>

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

### Long-Term Debt

At September 30, 2008, the ROP had total long-term obligations outstanding of \$28,505,191 as compared to \$29,576,036 in the prior year.

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

	<u>Governmental</u> <u>Activities</u>	
	<u>2008</u>	<u>2007</u>
Accrued Vacation Leave	\$ 3,676,621	\$ 3,718,897
Loans Payable	21,828,570	22,857,139
Due to U.S. Government	<u>3,000,000</u>	<u>3,000,000</u>
Totals	\$ <u>28,505,191</u>	\$ <u>23,967,598</u>

Refer to Note 6 to the accompanying financial statements for additional information regarding long-term obligations. No additions to long-term debt occurred during the current year.

## REPUBLIC OF PALAU

Management's Discussion and Analysis, Continued  
Year Ended September 30, 2008

### ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

During Fiscal Year 2008, actual local revenue collected increased by 5.9% from \$35.6 million in Fiscal Year 2007 to \$37.8 million. Despite the increase, actual revenue collected still fell short of the projected \$39.4 million by 4.2% for the year. Of the three major revenue sources for the government, the various tax revenue collections and fees and charges performed fairly well against projections while licenses and permits did not meet expectations, as they fell short of projections by almost 45%. Specific revenue projection for the various licenses and permits pointed to a likelihood of \$3.8 million in takings, but actual collections were only \$2.1 million. The good showing in the different fees and other charges yielded a collection of \$3.6 million originally projected to be slightly above \$2.0 million, and the additional revenue compensated for the shortfall on the licenses and permits. Compact revenues continue to be fairly constant while indirect cost recoveries are dependant on programs size. Investment earnings continues to decline, particularly in light of the evolving global financial and economic crises, and as the end of the Compact's economic provision agreement approaches while the principal value continues to be eroded by the government's tapping into the investment for budgetary support.

Local revenue shortfall continues to be partly due to continued fluctuating energy costs which have directly affected business costs, prices of goods and services and thus end consumers. In the last few years Palau had completed some major infrastructure projects that now require regular proper maintenance for which new revenue sources would need to be identified and implemented to meet these new costs. In 2008, some new measures were introduced to try and raise additional revenue, i.e. tax reforms, new water rates; however, those measures have yet to be enacted.

Palau recognizes the widening gap between the budgetary requirements and the revenue collection and continues to seek ways to lessen the gap. Despite relentless efforts in 2006 through 2008 to push through the proposed measures such as tax reforms and increased water usage fees, the measures were unsuccessful. It is unclear yet whether the new administration would reintroduce the measures for enactment by the Congress in 2009 or beyond.

Authorities are aware of the situation, but the leadership transition in early to mid 2009 has yet to determine the direction of the pending reforms and their impact on the fiscal health of the government.

On a positive note Palau will undertake some major infrastructure development projects that will not only spur economic activities but will also complete much needed infrastructure projects. The projects will be funded by stimulus funding from the Republic of China (Taiwan) for approximately \$11 million and are scheduled to commence in mid-2009. The projects include the inter-island connecting road, some state roads and docking rehabilitation projects. Additionally, two major resort projects are scheduled to commence construction in 2009. Palau can expect additional revenue and other investment derivatives from the imminent operations of the Ocean View Resorts which has committed to begin construction in 2009 for an approximate cost of about \$20 million in Arkebesang, Koror and Amman Resorts that plans to invest \$24 million in their resort development at the old Nikko site in Ngermid, Koror.

### 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, 2008

	Primary Government	Component Units
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 2,624,864	\$ 9,165,533
Time certificates of deposit	951,608	957,940
Investments	4,458,407	6,050,070
Receivables, net of allowance for uncollectibles	8,085,041	11,276,777
Inventories	-	10,402,780
Other current assets	770,198	240,299
Restricted assets:		
Cash and cash equivalents	415,792	5,455,463
Time certificates of deposit	-	551,773
Investments held for Endowment Foundation	-	1,381,013
Total current assets	17,305,910	45,481,648
Noncurrent assets:		
Restricted assets:		
Investments	149,494,426	-
Cash and cash equivalents and time certificates of deposit	1,454,658	205,112
Investments	1,739,500	5,221,907
Receivables, net of allowance for uncollectibles	-	17,656,097
Capital assets, net of accumulated depreciation	291,115,887	53,370,442
Foreclosed real estate	-	326,578
Other noncurrent assets	411,834	294,013
Total noncurrent assets	444,216,305	77,074,149
Total assets	\$ 461,522,215	\$ 122,555,797
<b>LIABILITIES</b>		
Current liabilities:		
Note payable	\$ 198,142	\$ 1,341,065
Accrued interest payable	264,389	-
Current portion of long-term obligations	2,171,427	1,264,133
Accounts payable	6,555,493	12,724,992
Contract payable	3,479,278	-
Due to state governments	1,407,216	-
Due to component units	2,142,490	-
Accrued payroll and others	1,723,440	-
Current portion of compensated absences payable	2,094,702	-
Other liabilities	220,341	1,812,723
Income tax refunds	892,646	-
Deferred revenue	1,380,746	3,094,410
Total current liabilities	22,530,310	20,237,323
Noncurrent liabilities:		
Noncurrent portion of long-term obligations	19,657,143	44,351,395
Compensated absences payable, net of current portion	1,581,919	-
Due to U.S. Government	3,000,000	-
Deposits	-	580,698
Deferred credit	-	16,147
Total noncurrent liabilities	24,239,062	44,948,240
Total liabilities	46,769,372	65,185,563
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	272,287,317	24,345,687
Restricted for:		
Nonexpendable:		
Future operations	147,058,860	1,785,039
Expendable:		
Compact related	4,437,366	-
Other purposes	-	16,914,166
Unrestricted	(9,030,700)	14,325,342
Total net assets	414,752,843	57,370,234
Total liabilities and net assets	\$ 461,522,215	\$ 122,555,797

See accompanying notes to basic financial statements.

REPUBLIC OF PALAU

Statement of Activities  
For the Year Ended September 30, 2008

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
<b>Primary government:</b>						
<b>Governmental activities:</b>						
Ministry of Health	\$ 14,880,013	\$ 1,886,074	\$ 5,045,363	\$ -	\$ (7,948,576)	\$ -
Ministry of Education	9,079,926	-	2,666,888	-	(6,413,038)	-
Ministry of Resources and Development	27,910,642	-	612,956	-	(27,297,686)	-
State Block Grants	4,811,000	-	-	-	(4,811,000)	-
Education assistance	2,957,607	-	2,000,000	-	(957,607)	-
Ministry of Finance	2,697,299	1,024,128	195,248	-	(1,477,923)	-
Ministry of Justice	4,439,867	69,769	634,957	-	(3,735,141)	-
Legislative Branch	3,528,414	-	-	-	(3,528,414)	-
Ministry of State	2,506,981	-	484,573	-	(2,022,408)	-
Judicial Branch	2,240,287	174,490	-	-	(2,065,797)	-
Ministry of Commerce and Trade	4,206,371	3,144,017	329,330	-	(733,024)	-
Office of the President	1,805,010	-	926,727	-	(878,283)	-
Ministry of Community and Cultural Affairs	1,294,421	4,638	-	-	(1,289,783)	-
Office of the Vice-President	501,358	-	107,218	-	(394,140)	-
Boards, Commissions & Authorities	679,223	239,517	-	-	(439,706)	-
Independent Agencies	7,440,549	395,281	456,650	-	(6,588,618)	-
Other Agencies and Activities	1,954,435	-	-	-	(1,954,435)	-
Capital projects	6,694,455	-	-	15,740,156	9,045,701	-
Unallocated interest - long-term debt	810,265	-	-	-	(810,265)	-
Future operations	1,028,498	-	(23,316,990)	-	(24,345,488)	-
Depreciation - unallocated	1,522,208	-	-	-	(1,522,208)	-
Other	2,604,052	740,940	1,524,788	-	(338,324)	-
<b>Total primary government</b>	<b>\$ 105,592,881</b>	<b>\$ 7,678,854</b>	<b>\$ (8,332,292)</b>	<b>\$ 15,740,156</b>	<b>(90,506,163)</b>	<b>-</b>
<b>Component units:</b>						
National Development Bank of Palau	\$ 1,008,707	\$ 1,638,347	\$ -	\$ -	-	629,640
Palau Community College	8,824,201	2,558,489	3,412,959	338,397	-	(2,514,356)
Palau National Communications Corporation	9,743,054	9,339,643	-	-	-	(403,411)
Palau International Coral Reef Center	1,210,850	207,468	274,975	-	-	(728,407)
Palau Visitors Authority	798,310	17,635	-	725,000	-	(55,675)
Public Utilities Corporation	31,224,355	24,102,423	-	280,841	-	(6,841,091)
Palau District Housing Authority	119,602	78,627	16,400	32,037	-	7,462
<b>Total component units</b>	<b>\$ 52,929,079</b>	<b>\$ 37,942,632</b>	<b>\$ 3,704,334</b>	<b>\$ 1,376,275</b>	<b>-</b>	<b>(9,905,838)</b>
<b>General revenues:</b>						
<b>Taxes:</b>						
Business gross receipts					10,406,665	-
Salary and wage					6,965,363	-
Alcohol and tobacco					5,039,713	-
General import					1,963,565	-
Travelers head					1,775,465	-
Hotel occupancy					2,134,835	-
Other					3,202,714	-
Grants and contributions not restricted for specific programs					10,341,096	-
Unrestricted investment earnings (loss)					26,979	(561,376)
Contributions from Primary Government					-	2,825,501
Other					612,998	-
<b>Total general revenues</b>					<b>42,469,393</b>	<b>2,264,125</b>
<b>Change in net assets</b>					<b>(48,036,770)</b>	<b>(7,641,713)</b>
<b>Net assets at the beginning of the year, as restated</b>					<b>462,789,613</b>	<b>65,011,947</b>
<b>Net assets at the end of the year</b>					<b>\$ 414,752,843</b>	<b>\$ 57,370,234</b>

See accompanying notes to basic financial statements.

REPUBLIC OF PALAU

Balance Sheet  
Governmental Funds  
September 30, 2008

	General	Special Revenue	Permanent		Other Governmental Funds	Total
		Grants	Compact Section 211(f)			
<b>ASSETS</b>						
Cash and cash equivalents	\$ 2,679,736	\$ -	\$ -	\$ -	\$ -	\$ 2,679,736
Time certificates of deposit	2,351,394	-	-	-	-	2,351,394
Investments	3,292,872	-	-	-	2,905,035	6,197,907
Receivables, net:						
Taxes	3,700,389	-	-	-	-	3,700,389
General	441,289	63,348	-	-	9,581	514,218
Federal agencies	-	3,280,621	-	-	-	3,280,621
Accrued interest	4,326	-	564,434	-	21,053	589,813
Due from other funds	2,094,291	3,876,173	-	-	3,896,560	9,867,024
Advances	226,876	158,029	-	-	777	385,682
Inventory	46,467	-	-	-	-	46,467
Prepaid items	122,862	595,215	-	-	31,806	749,883
Restricted assets:						
Cash and cash equivalents	415,792	-	-	-	-	415,792
Investments	-	-	146,494,426	-	3,000,000	149,494,426
	<u>\$ 15,376,294</u>	<u>\$ 7,973,386</u>	<u>\$ 147,058,860</u>		<u>\$ 9,864,812</u>	<u>\$ 180,273,352</u>
<b>LIABILITIES AND FUND BALANCES</b>						
<b>Liabilities:</b>						
Note payable	\$ 198,142	\$ -	\$ -	\$ -	\$ -	\$ 198,142
Loan payable	571,429	-	-	-	-	571,429
Accrued interest payable	264,389	-	-	-	-	264,389
Accounts payable	4,766,218	1,148,723	-	-	640,552	6,555,493
Contract payable	-	3,479,278	-	-	-	3,479,278
Due to state governments	1,407,216	-	-	-	-	1,407,216
Due to component units	2,142,490	-	-	-	-	2,142,490
Accrued payroll and others	1,723,440	-	-	-	-	1,723,440
Other liabilities	183,867	36,085	-	-	389	220,341
Deferred revenues	-	1,200,293	-	-	180,453	1,380,746
Due to other funds	7,772,733	2,089,582	-	-	4,709	9,867,024
Income tax refunds	892,646	-	-	-	-	892,646
Total liabilities	<u>19,922,570</u>	<u>7,953,961</u>	<u>-</u>	<u>-</u>	<u>826,103</u>	<u>28,702,634</u>
<b>Fund balances (deficit):</b>						
<b>Reserved for:</b>						
Continuing appropriations	594,498	-	-	-	-	594,498
Related assets	3,460,578	145,413	147,058,860	-	3,000,000	153,664,851
Encumbrances	514,651	8,883,424	-	-	143,388	9,541,463
<b>Unreserved (deficit):</b>						
General fund	(9,116,003)	-	-	-	-	(9,116,003)
Special revenue funds	-	(9,009,412)	-	-	3,811,180	(5,198,232)
Capital projects funds	-	-	-	-	2,084,141	2,084,141
Total fund balances (deficit)	<u>(4,546,276)</u>	<u>19,425</u>	<u>147,058,860</u>	<u>-</u>	<u>9,038,709</u>	<u>151,570,718</u>
	<u>\$ 15,376,294</u>	<u>\$ 7,973,386</u>	<u>\$ 147,058,860</u>		<u>\$ 9,864,812</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	291,115,887
Long-term liabilities, including loans payable, are not due and payable in the current period and therefore are not reported in the funds. The liabilities include:	
Long term obligation	(21,257,141)
Compensated absences	(3,676,621)
Due to U.S. Government	(3,000,000)
	<u>(27,933,762)</u>
Net assets of governmental activities	<u>\$ 414,752,843</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, 2008

	General	Special	Permanent	Other Governmental Funds	Total
		Revenue			
		Grants	Compact Section 211(f)		
<b>Revenues:</b>					
Taxes	\$ 31,488,320	\$ -	\$ -	\$ -	\$ 31,488,320
Federal and other grants	-	28,022,901	-	-	28,022,901
Compact funding	10,341,096	-	-	2,891,600	13,232,696
Net change in the fair value of investments	26,979	-	(23,316,990)	(182,888)	(23,472,899)
Fees and charges	3,621,622	-	-	1,977,026	5,598,648
Licenses and permits	2,073,447	-	-	-	2,073,447
Other	557,706	-	-	55,292	612,998
<b>Total revenues</b>	<b>48,109,170</b>	<b>28,022,901</b>	<b>(23,316,990)</b>	<b>4,741,030</b>	<b>57,556,111</b>
<b>Expenditures:</b>					
<b>Current:</b>					
Ministry of Health	6,921,158	5,045,363	-	1,965,164	13,931,685
Ministry of Education	6,217,656	2,666,888	-	-	8,884,544
Ministry of Resources and Development	7,364,238	612,956	-	43	7,977,237
State Block Grants	4,811,000	-	-	-	4,811,000
Education assistance	2,957,607	-	-	-	2,957,607
Ministry of Finance	2,443,983	195,248	-	-	2,639,231
Ministry of Justice	4,001,103	3,957	-	23,514	4,028,574
Legislative Branch	3,559,511	-	-	-	3,559,511
Investment management fees	-	-	1,014,108	14,390	1,028,498
Ministry of State	2,433,062	57,792	-	-	2,490,854
Judicial Branch	2,200,794	-	-	-	2,200,794
Ministry of Commerce and Trade	1,662,096	329,330	-	-	1,991,426
Office of the President	859,482	926,727	-	-	1,786,209
Ministry of Community and and Cultural Affairs	941,221	-	-	4,793	946,014
Office of the Vice-President	390,513	107,218	-	-	497,731
Boards, Commissions and Authorities	679,223	-	-	-	679,223
Office of the Public Auditor	364,077	456,650	-	-	820,727
Office of the Special Prosecutor	225,095	-	-	-	225,095
Environmental Quality Protection Board	389,701	-	-	-	389,701
National Postal Service	277,572	-	-	-	277,572
Palau Visitors Authority	725,000	-	-	-	725,000
Public Utilities Corporation	-	-	-	3,000,000	3,000,000
Compact Review Fund	516,169	-	-	-	516,169
Pacific Savings Bank Investigation	120,186	-	-	-	120,186
Public Service System Reclassification	619,506	-	-	-	619,506
Social Security Contribution Payment	180,401	-	-	-	180,401
Protected Areas Network Fund	11,714	-	-	-	11,714
National Aviation Administration	137,328	-	-	-	137,328
International Monetary Fund	331,873	-	-	-	331,873
Other agencies and activities	1,954,435	-	-	-	1,954,435
Other	-	2,123,644	-	1,318,355	3,441,999
Capital outlay:					
Capital projects	-	15,740,156	-	982,937	16,723,093
Debt service:					
Principal retirement	571,429	-	-	1,028,569	1,599,998
Interest	264,389	-	-	545,876	810,265
<b>Total expenditures</b>	<b>54,131,522</b>	<b>28,265,929</b>	<b>1,014,108</b>	<b>8,883,641</b>	<b>92,295,200</b>
Deficiency of revenues under expenditures	(6,022,352)	(243,028)	(24,331,098)	(4,142,611)	(34,739,089)
<b>Other financing sources (uses):</b>					
Operating transfers in	8,853,000	243,028	-	4,170,385	13,266,413
Operating transfers out	(4,413,413)	-	(5,000,000)	(3,853,000)	(13,266,413)
<b>Total other financing sources (uses), net</b>	<b>4,439,587</b>	<b>243,028</b>	<b>(5,000,000)</b>	<b>317,385</b>	<b>-</b>
Net change in fund balances (deficit)	(1,582,765)	-	(29,331,098)	(3,825,226)	(34,739,089)
Fund balances (deficit) at beginning of year	(2,963,511)	19,425	176,389,958	12,863,935	186,309,807
Fund balances (deficit) at end of year	\$ (4,546,276)	\$ 19,425	\$ 147,058,860	\$ 9,038,709	\$ 151,570,718

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, 2008

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

Net change in fund balances - total governmental funds from page 14	\$ (34,739,089)
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.	(14,939,955)
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.	<u>42,276</u>
Change in net assets of governmental activities as presented on page 12.	\$ <u>(48,036,770)</u>

See accompanying notes to basic financial statements.

REPUBLIC OF PALAU

Statement of Fiduciary Net Assets  
Fiduciary Funds  
September 30, 2008

	Private Purpose Trust	Pension (and Other Employee Benefit) Trust	Total
<u>ASSETS</u>			
Cash and cash equivalents	\$ 951,699	\$ 201,959	\$ 1,153,658
Time certificate of deposit	-	156,990	156,990
Receivables, net:			
Contributions	1,947,339	939,190	2,886,529
Loan	3,500,000	-	3,500,000
Accrued interest and dividends	310,967	-	310,967
Other	107,800	37,503	145,303
Investments:			
Common stock	25,776,398	16,936,909	42,713,307
U.S. Government obligations	19,830,035	12,784,391	32,614,426
Corporate bonds	7,133,567	3,952,056	11,085,623
Money market funds	7,318,469	3,972,352	11,290,821
Fixed Income	-	350,000	350,000
Time certificate of deposit with an uninsured bank	-	1,452,609	1,452,609
Prepaid expense	3,950	-	3,950
Capital assets, net	398,160	44,804	442,964
Total assets	<u>67,278,384</u>	<u>40,828,763</u>	<u>108,107,147</u>
<u>LIABILITIES</u>			
Benefits payable	283,200	-	283,200
Other liabilities and accruals	92,996	62,311	155,307
Total liabilities	<u>376,196</u>	<u>62,311</u>	<u>438,507</u>
<u>NET ASSETS</u>			
Held in trust for:			
Social security benefits	66,902,188	-	66,902,188
Pension benefits	-	40,766,452	40,766,452
Total net assets	<u>\$ 66,902,188</u>	<u>\$ 40,766,452</u>	<u>\$ 107,668,640</u>

See accompanying notes to basic financial statements.

REPUBLIC OF PALAU

Statement of Changes in Fiduciary Net Assets  
 Fiduciary Funds  
 Year Ended September 30, 2008

	Private Purpose Trust	Pension (and Other Employee Benefit) Trust	Total
Additions:			
Contributions:			
Employer	\$ -	\$ 2,461,486	\$ 2,461,486
Employee	8,716,376	2,493,859	11,210,235
Other	<u>342,979</u>	<u>-</u>	<u>342,979</u>
Total contributions	<u>9,059,355</u>	<u>4,955,345</u>	<u>14,014,700</u>
Investment earnings (loss):			
Net change in the fair value of investments	(10,298,715)	(7,753,705)	(18,052,420)
Interest and dividends	<u>2,343,089</u>	<u>2,028,187</u>	<u>4,371,276</u>
Total investment loss	<u>(7,955,626)</u>	<u>(5,725,518)</u>	<u>(13,681,144)</u>
Less investment expense	<u>296,091</u>	<u>284,493</u>	<u>580,584</u>
Net investment loss	<u>(8,251,717)</u>	<u>(6,010,011)</u>	<u>(14,261,728)</u>
Other	<u>300,258</u>	<u>-</u>	<u>300,258</u>
Total additions	<u>1,107,896</u>	<u>(1,054,666)</u>	<u>53,230</u>
Deductions:			
Benefits	7,337,676	6,189,021	13,526,697
General and administrative	<u>920,101</u>	<u>347,631</u>	<u>1,267,732</u>
Total deductions	<u>8,257,777</u>	<u>6,536,652</u>	<u>14,794,429</u>
Change in net assets	<u>(7,149,881)</u>	<u>(7,591,318)</u>	<u>(14,741,199)</u>
Net assets at the beginning of the year	<u>74,052,069</u>	<u>48,357,770</u>	<u>122,409,839</u>
Net assets at the end of the year	<u>\$ 66,902,188</u>	<u>\$ 40,766,452</u>	<u>\$ 107,668,640</u>

See accompanying notes to basic financial statements.

REPUBLIC OF PALAU

Combining Statement of Net Assets  
Component Units  
September 30, 2008

	National Development Bank of Palau	Palau Community College	Palau National Communications Corporation	Palau International Coral Reef Center	Palau Visitors Authority	Public Utilities Corporation	Palau District Housing Authority	Total
<u>Assets</u>								
<b>Current assets:</b>								
Cash and cash equivalents	\$ 848,201	\$ 482,461	\$ 1,710,414	\$ 88,592	\$ 128,438	\$ 4,933,960	\$ 973,467	\$ 9,165,533
Time certificates of deposit	-	-	265,038	65,443	-	627,459	-	957,940
Investments	-	-	-	-	-	6,050,070	-	6,050,070
Receivables, net:								
General	189,061	2,407,366	814,473	39,069	11,418	2,075,271	27,361	5,564,019
Receivable from primary government	-	610,503	307,797	47,104	80,796	1,385,443	-	2,431,643
Grantor agency	-	-	-	18,951	-	61,390	-	80,341
Loans	2,655,041	-	-	-	-	-	176,389	2,831,430
Accrued interest	339,850	-	-	-	-	19,905	9,589	369,344
Inventories	7,024	174,895	383,815	110,277	-	9,726,769	-	10,402,780
Prepaid items	53,443	-	100,763	21,331	756	64,006	-	240,299
<b>Total current assets</b>	<b>4,092,620</b>	<b>3,675,225</b>	<b>3,582,300</b>	<b>390,767</b>	<b>221,408</b>	<b>24,944,273</b>	<b>1,186,806</b>	<b>38,093,399</b>
<b>Other assets, restricted:</b>								
Cash and cash equivalents	779,092	798,500	3,877,871	-	-	-	-	5,455,463
Time certificates of deposit	551,773	-	-	-	-	-	-	551,773
Investments held for Endowment Foundation	-	1,381,013	-	-	-	-	-	1,381,013
<b>Total other assets, restricted</b>	<b>1,330,865</b>	<b>2,179,513</b>	<b>3,877,871</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7,388,249</b>
<b>Noncurrent assets:</b>								
Time certificates of deposit	205,112	-	-	-	-	-	-	205,112
Loans receivable	16,179,095	-	-	-	-	-	1,477,002	17,656,097
Investments	1,000,000	-	-	-	-	4,221,907	-	5,221,907
Capital assets, net of accumulated depreciation	528,830	810,747	23,307,421	2,597,876	113,203	25,989,941	22,424	53,370,442
Foreclosed real estate	326,578	-	-	-	-	-	-	326,578
Other	-	-	50,972	-	-	200,000	43,041	294,013
<b>Total noncurrent assets</b>	<b>18,239,615</b>	<b>810,747</b>	<b>23,358,393</b>	<b>2,597,876</b>	<b>113,203</b>	<b>30,411,848</b>	<b>1,542,467</b>	<b>77,074,149</b>
<b>Total assets</b>	<b>\$ 23,663,100</b>	<b>\$ 6,665,485</b>	<b>\$ 30,818,564</b>	<b>\$ 2,988,643</b>	<b>\$ 334,611</b>	<b>\$ 55,356,121</b>	<b>\$ 2,729,273</b>	<b>\$ 122,555,797</b>
<u>Liabilities and Net Assets</u>								
<b>Current liabilities:</b>								
Current portion of long-term debt	\$ 285,716	\$ -	\$ 932,793	\$ -	\$ -	\$ 45,624	\$ -	\$ 1,264,133
Short-term loan payable	300,000	-	-	-	-	1,041,065	-	1,341,065
Accounts payable	102,540	280,824	54,284	73,202	67,725	12,146,417	-	12,724,992
Accrued payroll and others	90,231	286,831	413,121	72,062	24,756	296,020	-	1,183,021
Deferred revenue	-	336,000	43,000	143,484	-	2,554,729	17,197	3,094,410
Other liabilities	-	128,166	-	-	-	501,536	-	629,702
<b>Total current liabilities</b>	<b>778,487</b>	<b>1,031,821</b>	<b>1,443,198</b>	<b>288,748</b>	<b>92,481</b>	<b>16,585,391</b>	<b>17,197</b>	<b>20,237,323</b>
<b>Noncurrent liabilities:</b>								
Notes payable, net of current portion	7,785,740	-	29,447,793	-	-	7,117,862	-	44,351,395
Deposits	-	50,000	530,698	-	-	-	-	580,698
Deferred credit	-	-	-	-	-	16,147	-	16,147
<b>Total noncurrent liabilities</b>	<b>7,785,740</b>	<b>50,000</b>	<b>29,978,491</b>	<b>-</b>	<b>-</b>	<b>7,134,009</b>	<b>-</b>	<b>44,948,240</b>
<b>Total liabilities</b>	<b>8,564,227</b>	<b>1,081,821</b>	<b>31,421,689</b>	<b>288,748</b>	<b>92,481</b>	<b>23,719,400</b>	<b>17,197</b>	<b>65,185,563</b>
<b>Net assets:</b>								
Invested in capital assets, net of related debt	528,830	810,747	(3,195,294)	2,597,876	113,203	23,467,901	22,424	24,345,687
Restricted:								
Nonexpendable	-	1,785,039	-	-	-	-	-	1,785,039
Expendable	14,570,043	-	-	-	-	-	2,344,123	16,914,166
Unrestricted	-	2,987,878	2,592,169	102,019	128,927	8,168,820	345,529	14,325,342
<b>Total net assets</b>	<b>15,098,873</b>	<b>5,583,664</b>	<b>(603,125)</b>	<b>2,699,895</b>	<b>242,130</b>	<b>31,636,721</b>	<b>2,712,076</b>	<b>57,370,234</b>
	<b>\$ 23,663,100</b>	<b>\$ 6,665,485</b>	<b>\$ 30,818,564</b>	<b>\$ 2,988,643</b>	<b>\$ 334,611</b>	<b>\$ 55,356,121</b>	<b>\$ 2,729,273</b>	<b>\$ 122,555,797</b>

See accompanying notes to basic financial statements.

REPUBLIC OF PALAU

Combining Statement of Revenues, Expenses, and Changes in Net Assets  
Component Units  
Year Ended September 30, 2008

	National Development Bank of Palau	Palau Community College	Palau National Communications Corporation	Palau International Coral Reef Center	Palau Visitors Authority	Public Utilities Corporation	Palau District Housing Authority	Total
Operating revenues:								
Charges for services	\$ 1,750,097	\$ 2,246,990	\$ 8,998,627	\$ 205,749	\$ -	\$ 23,785,342	\$ 72,240	\$ 37,059,045
Grants and contributions	-	3,412,959	-	274,975	-	-	16,400	3,704,334
Other	(111,750)	311,499	341,016	1,719	17,635	317,081	6,387	883,587
Total operating revenues	1,638,347	5,971,448	9,339,643	482,443	17,635	24,102,423	95,027	41,646,966
Operating expenses:								42,845,000
Cost of services	513,368	6,961,579	4,032,228	896,308	712,195	24,795,621	84,702	37,996,001
Depreciation	42,115	489,542	2,972,861	325,526	15,186	2,400,039	8,265	6,253,534
Administration costs	128,276	1,373,080	1,273,561	72,631	70,929	943,709	26,635	3,888,821
Total operating expenses	683,759	8,824,201	8,278,650	1,294,465	798,310	28,139,369	119,602	48,138,356
Operating income (loss)	954,588	(2,852,753)	1,060,993	(812,022)	(780,675)	(4,036,946)	(24,575)	(6,491,390)
Nonoperating revenues (expenses):								
Contributions from primary government	-	2,333,501	-	425,000	-	-	67,000	2,825,501
Net decrease in the fair value of investments	-	(237,653)	-	-	-	(556,109)	-	(793,762)
Interest income	122,562	-	67,883	1,818	-	20,905	19,218	232,386
Writedown of receivable from a local bank	-	-	-	-	-	(858,378)	-	(858,378)
Interest expense	(358,293)	-	(1,417,812)	-	-	(281,283)	-	(2,057,388)
Gain(loss) on retirement of fixed assets	-	-	-	-	-	(1,293)	-	(1,293)
Claims and litigations	-	-	-	-	-	(1,678,240)	-	(1,678,240)
Other, net	33,345	-	(46,592)	83,615	-	(265,792)	-	(195,424)
Total nonoperating revenues (expenses), net	(202,386)	2,095,848	(1,396,521)	510,433	-	(3,620,190)	86,218	(2,526,598)
Capital contributions	-	338,397	-	-	725,000	280,841	32,037	1,376,275
Change in net assets	752,202	(418,508)	(335,528)	(301,589)	(55,675)	(7,376,295)	93,680	(7,641,713)
Net assets at the beginning of the year	14,346,671	6,002,172	(267,597)	3,001,484	297,805	39,013,016	2,618,396	65,011,947
Net assets at the end of the year	\$ 15,098,873	\$ 5,583,664	\$ (603,125)	\$ 2,699,895	\$ 242,130	\$ 31,636,721	\$ 2,712,076	\$ 57,370,234

See accompanying notes to basic financial statements.

# REPUBLIC OF PALAU

Notes to Financial Statements  
September 30, 2008

## (1) Summary of Significant Accounting Policies

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

### A. Reporting Entity

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

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

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

Once financial accountability has been determined for a potential component unit, that component unit is either blended into the primary government or discretely presented from the primary government. Potential component units that do not meet the financial accountability criteria, but where the Republic appoints a voting majority of the governing board, are deemed to be related organizations. The nature and relationship of the Republic's component units and related organizations are disclosed in the following section.

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

# REPUBLIC OF PALAU

Notes to Financial Statements  
September 30, 2008

## (1) Summary of Significant Accounting Policies, Continued

### A. Reporting Entity, Continued

#### 1. Blended Component Units

##### A. Republic of Palau Social Security Retirement Fund

The Republic of Palau Social Security Retirement Fund (the Fund), a Fiduciary Fund Type - Private Purpose Trust Fund, was created under Republic of Palau Public Law (RPPL) No. 2-29, passed into law on May 28, 1987, and revised by RPPL No. 3-64, passed into law on December 20, 1991, and began operations in a transition phase on October 1, 1987. The Fund is administered under the authority of five trustees appointed by the President with the advice and consent of the Senate of the Republic. The Fund provides retirement, disability, and death benefits to qualified individuals and their survivors.

##### B. Republic of Palau Civil Service Pension Trust Fund

The Republic of Palau Civil Service Pension Trust Fund (the Pension Fund), a Fiduciary Fund Type - Pension (and Other Employee Benefit) Trust Fund, was created under RPPL No. 2-26, which was passed into law April 3, 1987, and began operations October 1, 1987. RPPL No. 2-26 was revised by RPPL No. 3-21 and RPPL No. 4-40, RPPL No. 4-49, RPPL No. 5-30 and RPPL 6-37. The Pension Fund is administered under the authority of a seven member Board of Trustees appointed by the President with the advice and consent of the Senate of the Republic.

#### 2. Discretely Presented Component Units

##### A. National Development Bank of Palau

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

##### B. Palau Community College

The Palau Community College (PCC) is a nonprofit corporation established by RPPL No. 4-2, and inaugurated on June 3, 1993. Four voting members are appointed by the President of the Republic with the advice and consent of the Senate of the OEK. One voting member shall be a member of the Republic of Palau Board of Education as designated by the Republic Board of Education. Two non-voting member appointed by the Board of Trustees to serve in an advisory capacity to the Board. The Board shall grant voting membership to one member from the RMI, one member from the FSM as designated by those governments. The Board shall grant voting membership to a student representative.

# REPUBLIC OF PALAU

Notes to Financial Statements  
September 30, 2008

## (1) Summary of Significant Accounting Policies, Continued

### A. Reporting Entity, Continued

#### 2. Discretely Presented Component Units, Continued

##### B. Palau Community College, Continued

The purpose of PCC, as defined by RPPL No. 4-2, is to be the institution of higher education for the Republic of Palau and to provide post secondary educational opportunities to the people of the Republic of Palau, Federated States of Micronesia, Republic of the Marshall Islands, as well as students from other countries.

##### C. Palau District Housing Authority

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

##### D. Palau National Communications Corporation

The Palau National Communications Corporation (PNCC) was created on August 23, 1982, under the provisions of RPPL No. 1-40. The law created a wholly owned government corporation managed by a Board of Directors appointed by the President of the Republic, with the advice and consent of the Senate of the OEK. The primary purpose of PNCC is to establish and operate communication services as a communication common carrier within the Republic.

##### E. Palau International Coral Reef Center

The Palau International Coral Reef Center (PICRC) was created on November 20, 1998 by RPPL No. 5-17. The law created a wholly owned government non-profit corporation managed by a Board of Directors appointed by the President with the advice and consent of the Senate of the OEK. PICRC is to carry out marine research and educate the public about the ecological, economic and cultural importance of coral reefs and their associated marine habitats.

##### F. Palau Visitors Authority

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

# REPUBLIC OF PALAU

Notes to Financial Statements  
September 30, 2008

## (1) Summary of Significant Accounting Policies, Continued

### A. Reporting Entity, Continued

#### 2. Discretely Presented Component Units, Continued

##### G. Public Utilities Corporation

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

#### 3. Omitted Component Units

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

##### A. Belau National Museum

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

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

### B. Government-Wide Financial Statements

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

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

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

# REPUBLIC OF PALAU

Notes to Financial Statements  
September 30, 2008

## (1) Summary of Significant Accounting Policies, Continued

### B. Government-Wide Financial Statements, Continued

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

The government-wide Statement of Net Assets reports \$151,496,226 of restricted net assets, none of which is restricted by enabling legislation.

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

### C. Fund Financial Statements

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

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

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

# REPUBLIC OF PALAU

Notes to Financial Statements  
September 30, 2008

## (1) Summary of Significant Accounting Policies, Continued

### D. Measurement Focus and Basis of Accounting

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

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

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

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

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

# REPUBLIC OF PALAU

Notes to Financial Statements  
September 30, 2008

## (1) Summary of Significant Accounting Policies, Continued

### D. Measurement Focus and Basis of Accounting, Continued

The Republic reports the following fund types:

#### a. Governmental Fund Types

##### i. General Fund

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

##### ii. Special Revenue Funds

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

##### iii. Capital Projects Funds

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

##### iv. Debt Service Fund

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

##### v. Permanent Fund

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

#### b. Fiduciary Fund Types

##### i. Private Purpose Trust Fund

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

##### ii. Pension (and Other Employee Benefit) Trust Fund

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

# REPUBLIC OF PALAU

Notes to Financial Statements  
September 30, 2008

## (1) Summary of Significant Accounting Policies, Continued

### D. Measurement Focus and Basis of Accounting, Continued

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

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

Compact Section 211(f) Fund, a Governmental Fund Type - Permanent Fund, is utilized to account for funds provided pursuant to the Compact of Free Association, Section 211(f). Under the terms and conditions of Section 211(f) of the Compact and subsidiary agreements, the Republic may expend an agreed minimum annual distribution from accrued interest of the Fund. This amount has been determined to be \$5,000,000 annually for the first fifteen years of the Compact. The objective for the Fund is to allow annual distributions from accrued interest of \$15,000,000 annually after the fifteenth year of the Compact.

### E. Reporting Standards

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

### F. Estimates

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

### G. Cash and Cash Equivalents and Time Certificates of Deposit

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

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

**REPUBLIC OF PALAU**

Notes to Financial Statements  
September 30, 2008

(1) Summary of Significant Accounting Policies, Continued

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

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

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

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

As of September 30, 2008, the carrying amount of the primary government's total cash and cash equivalents and time certificates of deposit were \$5,446,922 and the corresponding bank balances were \$7,207,787. Of the bank balance amounts, \$5,639,618 are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2008, bank deposits in the amount of \$515,905 were FDIC insured.

As of September 30, 2008, the carrying amount of the fiduciary funds total cash and cash equivalents and time certificates of deposit were \$2,763,257 and the corresponding bank balances were \$2,803,397. Of the bank balance amounts, \$1,357,815 is maintained in financial institutions subject to FDIC insurance. As of September 30, 2008, bank deposits in the amount of \$300,000 were FDIC insured.

At September 30, 2008, the carrying amount of the discretely presented component units total cash and cash equivalents and time certificate of deposits were \$16,335,821 and the corresponding bank balances were \$16,190,001. Of the bank balance amounts, \$15,360,937 is maintained in financial institutions subject to FDIC insurance. As of September 30, 2008, bank deposits in the amount of \$2,206,233 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, 2008 the Republic has cash deposits and investments in bank accounts that exceed federal depository insurance limits.

**REPUBLIC OF PALAU**

Notes to Financial Statements  
September 30, 2008

(1) Summary of Significant Accounting Policies, Continued

H. Receivables

In general, tax revenue is recognized on the government-wide statements, when assessed or levied and on the governmental fund financial statements to the extent that it is both measurable and available. Receivables are stated net of estimated allowances for uncollectible accounts. Reimbursements due to the Republic for expenditures on federally funded reimbursement and grant programs are reported as "receivables from federal agencies". Receivables of the primary government are primarily due from businesses and individuals residing in the Republic. The Republic establishes an allowance for doubtful accounts receivable based on the credit risk of specific customers, historical trends and other information.

I. Inventories

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

J. Prepaid Items

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

K. Interfund Receivables and Payables

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

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

L. Restricted Assets

Certain assets of the primary government are classified as restricted assets because their use is completely restricted through trust arrangements or enabling legislation. Specifically, the Republic has recorded cash and cash equivalents of \$415,792, which is maintained by the primary government and administered on behalf of designated beneficiaries. Furthermore, investments of \$146,494,426, 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.

# REPUBLIC OF PALAU

## Notes to Financial Statements September 30, 2008

### (1) Summary of Significant Accounting Policies, Continued

#### M. Fixed Assets

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

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

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

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

Management has elected to present only assets acquired subsequent to 1980, except for buildings. Accordingly, fixed assets records consist of additions commencing fiscal year 1980. The Republic has elected to prospectively report general infrastructure assets in the government-wide financial statements and have retroactively reported all major general infrastructure assets at September 30, 2008.

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

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

#### N. Deferred Revenue

In the government-wide financial statements, deferred revenue is recognized when cash, receivables or other assets are recorded prior to being earned. In the governmental fund financial statements deferred revenue represents monies received or revenues accrued which have not been earned or do not meet the "available" criterion for revenue recognition under the modified accrual basis of accounting. The deferred revenue in the governmental fund types has primarily resulted as federal funds are received in advance of eligible expenditures.

#### O. Interfund/Intrafund Transactions

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

**REPUBLIC OF PALAU**

Notes to Financial Statements  
September 30, 2008

(1) Summary of Significant Accounting Policies, Continued

P. Compensated Absences

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

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

Q. Fund Equity

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

The unreserved fund balances for the governmental funds represent the amount available for budgeting future operations. The reserve for related assets as of September 30, 2008, 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	\$ 1,739,500	\$ -	\$ -	\$ -	\$ 1,739,500
Cash and time certificate of deposit	1,399,786	-	-	-	1,399,786
Advances	211,688	101,906	-	-	313,594
Accrued interest	-	-	564,434	-	564,434
Inventory	46,467	-	-	-	46,467
Prepaid items	8,265	43,507	-	-	51,772
Restricted assets:					
Cash and cash equivalents	54,872	-	-	-	54,872
Investments	-	-	146,494,426	3,000,000	149,494,426
	<u>\$ 3,460,578</u>	<u>\$145,413</u>	<u>\$ 147,058,860</u>	<u>\$ 3,000,000</u>	<u>\$153,664,851</u>

R. Fund Balance Reserves and Designation

The Republic's fund balance reserves represent those portions of fund balance (1) not appropriable for expenditures or (2) legally segregated for a specific future use. In the accompanying combined balance sheet, reserves for related assets such as inventories, petty cash and long-term receivables are examples of the former. Reserves for encumbrances, contracts and continuing appropriations are examples of the latter. Continuing appropriations of the General Fund at September 30, 2008, primarily consist of block grants to the States, which are available until expended.

## REPUBLIC OF PALAU

Notes to Financial Statements  
September 30, 2008

### (1) Summary of Significant Accounting Policies, Continued

#### S. New Accounting Standards

In fiscal year 2008, the Republic implemented the following pronouncements:

GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which establishes uniform financial reporting for other postemployment benefit plans by state and local governments.

GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfer of Assets and Future Revenues*, which establishes criteria that governments will use to ascertain whether certain transactions should be regarded as a sale or a collateralized borrowing. The statement also includes a provision that stipulates that governments should not revalue assets that are transferred between financial reporting entity components.

GASB Statement No. 50, *Pension Disclosures an amendment of GASB Statements No. 25 and 27*, which more closely aligns the financial reporting requirements for pensions with those for other post-employment benefits.

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

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

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

In June 2007, GASB issued statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. GASB Statement No. 51 addresses whether and when intangible assets should be considered capital assets for financial reporting purposes. The provisions of this statement are effective for periods beginning after June 15, 2009. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Republic.

**REPUBLIC OF PALAU**

Notes to Financial Statements  
September 30, 2008

(1) Summary of Significant Accounting Policies, Continued

S. New Accounting Standards, Continued

In November 2007, GASB issued Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*. GASB Statement No. 52 improves the quality of financial reporting by requiring endowments to report their land and other real estate investments at fair value, creating consistency in reporting among similar entities that exist to invest resources for the purpose of generating income. The provisions of this statement are effective for periods beginning after June 15, 2008. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Republic.

In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. GASB Statement No. 53 is intended to improve how state and local governments report information about derivative instruments - financial arrangements used by governments to manage specific risks or make investments - in their financial statements. The provisions of this statement are effective for periods beginning after June 15, 2009. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Republic.

T. Risk Financing

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

U. 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, 2007 from which summarized information was derived.

(2) Investments

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

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

## REPUBLIC OF PALAU

Notes to Financial Statements  
September 30, 2008

### (2) Investments, Continued

Category 2 Investments that are uninsured and unregistered for which the securities are held by the counterparty's trust department or agent in the Republic's name; or

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

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

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

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

# REPUBLIC OF PALAU

## Notes to Financial Statements September 30, 2008

### (2) Investments, Continued

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

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

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, the Republic will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The Republic's investments are held and administered by trustees. Based on negotiated trust and custody contracts, all of these investments were held in the State's name by the Republic's custodial financial institutions at September 30, 2008.

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, 2008, the Republic did not hold an investment in any one issuer that represented more than 5% of the Republic's total investments.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of debt instruments. The Republic does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

As of September 30, 2008, investments at fair value for the primary government's individual major funds, nonmajor governmental funds in the aggregate, fiduciary funds and discretely presented component units, are as follows:

#### Primary Government

General Fund:	
Mutual funds	\$ 72,538
Money market funds	<u>1,480,834</u>
	\$ <u>1,553,372</u>
Compact Section 211(f) Trust Fund:	
Fixed income securities	\$ 52,285,477
Equities	83,294,071
Money market funds	<u>10,914,878</u>
	\$ <u>146,494,426</u>
Nonmajor Governmental Funds:	
Common stock	\$ 1,848,022
Money market funds	<u>4,057,013</u>
	\$ <u>5,905,035</u>

**REPUBLIC OF PALAU**

Notes to Financial Statements  
September 30, 2008

(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. The following represents the Compact Trust Fund fixed income securities at September 30, 2008:

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	\$ 5,907,960	\$ -	\$ 1,055,032	\$ 1,921,250	\$ 2,931,678	AAA
US Government Agencies	23,387,396	-	4,789,418	843,687	17,754,291	AAA
Municipal Obligations	1,190,229	-	296,485	105,154	788,590	AAA
Preferred Stock	27,226	27,226	-	-	-	AAA
Corporate Bonds	2,546,886	64,635	1,207,707	937,067	337,477	A
Corporate Bonds	1,254,880	-	479,738	332,628	442,514	A-
Corporate Bonds	1,004,830	-	166,754	716,633	121,443	A+
Corporate Bonds	143,654	-	29,554	76,276	37,824	A3
Corporate Bonds	1,096,247	173,019	266,631	155,978	500,619	AA
Corporate Bonds	376,207	-	298,607	-	77,600	AA-
Corporate Bonds	194,223	-	28,796	165,427	-	AA+
Corporate Bonds	10,665,333	-	699,422	150,360	9,815,551	AAA
Corporate Bonds	47,460	-	36,340	11,120	-	BB
Corporate Bonds	93,195	-	93,195	-	-	BB+
Corporate Bonds	2,056,543	-	522,080	710,007	824,456	BBB
Corporate Bonds	422,547	-	72,078	140,596	209,873	BBB-
Corporate Bonds	1,870,661	-	460,086	1,169,742	240,833	BBB+
	<u>\$ 52,285,477</u>	<u>\$ 264,880</u>	<u>\$ 10,501,923</u>	<u>\$ 7,435,925</u>	<u>\$ 34,082,749</u>	

As of September 30, 2008, the General Fund holds approximately 8% of the shares of the United Micronesia Development Association, Inc., in the amount of \$1,739,500. As the fair market value of this investment is not readily available, such has been recorded at cost.

Fiduciary Funds

Republic of Palau Social Security Retirement Fund:

The following represents the Retirement Fund's fixed income securities at September 30, 2008:

Investment Type	Fair Value	Investment Maturities (In Years)				Rating
		Less Than 1	1 - 5	6 - 10	More Than 10	
U.S. Treasury notes	\$ 4,757,442	\$ -	\$ 1,069,723	\$ 1,810,288	\$ 1,877,431	AAA
Other U.S. government obligations	5,478,111	396,524	3,749,365	525,190	807,032	AAA
Mortgage pass throughs	8,543,271	-	80,799	-	8,462,472	AAA
Collateralized mortgage obligations	501,211	-	-	-	501,211	AAA
Municipal obligations	550,000	550,000	-	-	-	AAA
Corporate bonds	1,382,566	59,271	702,700	-	620,595	AAA
Corporate bonds	1,208,565	311,040	363,726	165,427	368,372	AA
Corporate bonds	2,292,827	533,195	419,804	652,378	687,450	A
Corporate bonds	<u>2,249,609</u>	<u>212,340</u>	<u>735,012</u>	<u>1,074,815</u>	<u>227,442</u>	BBB
	<u>\$ 26,963,602</u>	<u>\$ 2,062,370</u>	<u>\$ 7,121,129</u>	<u>\$ 4,228,098</u>	<u>\$ 13,552,005</u>	

**REPUBLIC OF PALAU**

Notes to Financial Statements  
September 30, 2008

(2) Investments, Continued

Fiduciary Funds, Continued

Republic of Palau Civil Service Pension Trust Fund:

The following represents the Pension Trust Fund's fixed income securities at September 30, 2008:

Investment Type	Fair Value	Investment Maturities (In Years)				Rating
		Less Than 1	1 - 5	6 - 10	More Than 10	
Mortgage and asset backed Securities	\$ 6,204,180	\$ -	\$ -	\$ 53,497	\$ 6,150,683	AAA
Government bonds	6,580,211	-	3,541,929	1,783,135	1,255,147	AAA
Municipal obligations	350,000	350,000	-	-	-	AAA
Corporate bonds	780,606	29,543	470,756	-	280,307	AAA
Corporate bonds	330,889	69,208	-	97,486	164,195	AA
Corporate bonds	134,666	-	134,666	-	-	AA-
Corporate bonds	105,690	-	-	105,690	-	AA+
Corporate bonds	488,019	-	-	297,937	190,082	A+
Corporate bonds	922,620	252,986	124,125	65,102	480,407	A
Corporate bonds	472,941	-	130,804	-	342,137	A-
Corporate bonds	419,634	-	-	419,634	-	BBB+
Corporate bonds	296,991	-	85,940	143,598	67,453	BBB
	<u>\$ 17,086,447</u>	<u>\$ 701,737</u>	<u>\$ 4,488,220</u>	<u>\$ 2,966,079</u>	<u>\$ 8,930,411</u>	

Discretely Presented Component Units

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

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

	<u>Fair Value</u>
Palau Community College: Fixed income	\$ 532,216
Domestic equities	662,684
International equities	<u>186,113</u>
	\$ <u>1,381,013</u>

As of September 30, 2008, 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	16.8%
1 - 3 years	9.6%
4 - 5 years	23.1%
5 - 7 years	3.5%
7 - 9 years	3.1%
9 or more years	<u>43.9%</u>
	<u>100.0%</u>

**REPUBLIC OF PALAU**

Notes to Financial Statements  
September 30, 2008

(2) Investments, Continued

Discretely Presented Component Units, Continued

PCC's fixed income investments at September 30, 2008, were rated as follows:

<u>Rating</u>	<u>Percentage of Portfolio</u>
Government Agency	35.0%
AAA	7.9%
AA	5.9%
A	10.5%
BAA	11.9%
Other	<u>28.8%</u>
	<u>100.0%</u>

Public Utilities Corporation:	
Fixed income	\$ 3,521,855
Domestic equities	2,528,215
Others	<u>4,221,907</u>
	<u>\$ 10,271,977</u>

The following represents the Discretely Presented Component Units fixed income securities at September 30, 2008:

<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 and Bonds	\$ 1,283,733	\$ 195,030	\$ 616,726	\$ 323,106	\$ 148,871	AAA
Municipal Bonds	42,326	-	-	42,326	-	AAA
Municipal Bonds	86,121	-	86,121	-	-	AA
Mortgage and Asset Back Securities	802,520	-	87,192	68,844	646,484	AAA
Corporate Bonds	116,752	-	47,893	38,636	30,223	AAA
Corporate Bonds	36,769	-	36,769	-	-	AA+
Corporate Bonds	73,902	-	73,902	-	-	AA-
Corporate Bonds	72,766	-	37,112	-	35,654	AA
Corporate Bonds	67,957	-	67,957	-	-	A+
Corporate Bonds	178,787	-	108,059	70,728	-	A
Corporate Bonds	90,702	-	23,833	-	66,869	A-
Corporate Bonds	310,856	-	-	175,078	135,778	BBB+
Corporate Bonds	57,777	-	57,777	-	-	BBB
Corporate Bonds	99,313	-	-	32,116	67,197	BBB-
International Bonds	37,290	-	-	-	37,290	AA-
International Bonds	127,846	-	74,939	-	52,907	A-
International Bonds	36,438	-	-	36,438	-	BBB+
	<u>\$ 3,521,855</u>	<u>\$ 195,030</u>	<u>\$ 1,318,280</u>	<u>\$ 787,272</u>	<u>\$ 1,221,273</u>	

# REPUBLIC OF PALAU

## Notes to Financial Statements September 30, 2008

### (3) Receivables

Receivables as of September 30, 2008, 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:

	General	Grants	Compact Section 211(f)	Nonmajor Governmental Funds	Fiduciary Funds	Total
Receivables:						
Taxes	\$ 3,700,389	\$ -	\$ -	\$ -	\$ -	\$ 3,700,389
General	1,170,289	63,348	-	11,654,725	3,611,505	16,499,867
Federal agencies	-	3,280,621	-	-	-	3,280,621
Loan	-	-	-	-	3,500,000	3,500,000
Accrued interest	4,326	-	564,434	21,053	310,967	900,780
Other	-	-	-	-	145,303	145,303
	<u>4,875,004</u>	<u>3,343,969</u>	<u>564,434</u>	<u>11,675,778</u>	<u>7,567,775</u>	<u>28,035,960</u>
Less: allowance for uncollectibles	<u>(729,000)</u>	<u>-</u>	<u>-</u>	<u>(11,645,144)</u>	<u>(724,976)</u>	<u>(13,108,120)</u>
Net receivables	<u>\$ 4,146,004</u>	<u>\$ 3,343,969</u>	<u>\$ 564,434</u>	<u>\$ 30,634</u>	<u>\$ 6,842,799</u>	<u>\$ 14,927,840</u>

	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	\$ 189,061	\$2,859,004	\$3,722,744	\$ 84,100	\$ 15,725	\$ 3,016,063	\$ 27,361	\$ 9,914,058
Primary government	-	610,503	307,797	47,104	80,796	1,385,443	-	2,431,643
Loan	20,439,433	-	-	-	-	-	1,731,947	22,171,380
Grantor agency	-	-	-	18,951	-	61,390	-	80,341
Accrued interest	<u>339,850</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>19,905</u>	<u>9,589</u>	<u>359,755</u>
	20,968,344	3,469,507	4,030,541	150,155	96,521	4,482,801	1,768,897	34,966,766
Less allowance for uncollectible	<u>(1,605,297)</u>	<u>(451,638)</u>	<u>(2,908,271)</u>	<u>(45,031)</u>	<u>(4,307)</u>	<u>(940,792)</u>	<u>(78,556)</u>	<u>(6,033,892)</u>
	<u>\$19,363,047</u>	<u>\$3,017,869</u>	<u>\$1,122,270</u>	<u>\$ 105,124</u>	<u>\$92,214</u>	<u>\$ 3,542,009</u>	<u>\$1,690,340</u>	<u>\$ 28,932,874</u>

Differences in component unit receivables due from the primary government of \$2,431,643 and the primary government's liability due to component units of \$2,142,490 results primarily from timing differences and the difference in year-end for the Palau National Communications Corporation.

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

**REPUBLIC OF PALAU**

Notes to Financial Statements  
September 30, 2008

(4) Fixed Assets

Capital asset activities for the year ended September 30, 2008, are as follows:

Governmental Activities

	Balance at October <u>1, 2007</u>	<u>Additions</u>	Deletions and <u>Transfers</u>	Balance at September <u>30, 2008</u>
Assets not being depreciated:				
Land	\$ 4,238,850	\$ -	\$ -	\$ 4,238,850
Construction in progress	<u>164,381,347</u>	<u>7,534,407</u>	<u>(165,572,723)</u>	<u>6,343,031</u>
Total capital assets not being depreciated	<u>168,620,197</u>	<u>7,534,407</u>	<u>(165,572,723)</u>	<u>10,581,881</u>
Capital assets being depreciated:				
Buildings and other improvements	100,904,848	19,888,813	-	120,793,661
Machinery and equipment	14,445,197	3,191,062	-	17,636,259
Vehicles	4,516,900	250,161	(255,004)	4,512,057
Infrastructure	<u>89,813,936</u>	<u>147,564,656</u>	<u>-</u>	<u>237,378,592</u>
Total capital assets being depreciated	<u>209,680,881</u>	<u>170,894,692</u>	<u>(255,004)</u>	<u>380,320,569</u>
Total capital assets at cost	<u>378,301,078</u>	<u>178,429,099</u>	<u>(165,827,727)</u>	<u>390,902,450</u>
Accumulated depreciation:				
Buildings and other improvements	(24,615,037)	(5,012,543)	-	(29,627,580)
Machinery and equipment	(9,094,013)	(1,684,254)	-	(10,778,267)
Vehicles	(3,708,833)	(462,610)	235,745	(3,935,698)
Infrastructure	<u>(34,827,353)</u>	<u>(20,617,665)</u>	<u>-</u>	<u>(55,445,018)</u>
Total accumulated depreciation	<u>(72,245,236)</u>	<u>(27,777,072)</u>	<u>235,745</u>	<u>(99,786,563)</u>
Capital assets, net	\$ <u>306,055,842</u>	\$ <u>150,652,027</u>	\$ <u>(165,591,982)</u>	\$ <u>291,115,887</u>

Depreciation expense was charged to governmental functions as follows:

Ministry of Health	\$ 1,020,118
Ministry of Education	195,382
Ministry of Resources and Development	21,442,664
Ministry of Finance	64,668
Ministry of Justice	421,536
Legislative Branch	46,246
Ministry of State	16,127
Judicial Branch	39,493
Ministry of Commerce and Trade	2,520,850
Office of the President	23,751
Ministry of Community and Cultural Affairs	353,407
Office of the Vice-President	3,627
Independent Agencies	85,277
Other Agencies and Activities	21,718
Unallocated	<u>1,522,208</u>
Total depreciation expense	\$ <u>27,777,072</u>

**REPUBLIC OF PALAU**

Notes to Financial Statements  
September 30, 2008

(4) Fixed Assets, Continued

Governmental Activities, Continued

Fiduciary Funds

Fixed assets of the Fiduciary Funds as of September 30, 2008, are as follows:

	Balance at October <u>1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	Balance at September <u>30, 2008</u>
Office equipment and furniture	\$ 257,205	\$ 70,969	\$ (3,993)	\$ 324,181
Land	207,018	-	-	207,018
Building and improvement	132,315	-	-	132,315
Vehicles	<u>93,680</u>	<u>31,702</u>	<u>-</u>	<u>125,382</u>
	690,218	102,671	(3,993)	788,896
Less accumulated depreciation	<u>(284,897)</u>	<u>(67,484)</u>	<u>6,449</u>	<u>(345,932)</u>
	\$ <u>405,321</u>	\$ <u>35,187</u>	\$ <u>2,456</u>	\$ <u>442,964</u>

(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 remain outstanding at September 30, 2008. This loan is in noncompliance with local requirements since only the President of the Republic is authorized to enter into debt agreements.

**REPUBLIC OF PALAU**

Notes to Financial Statements  
September 30, 2008

(5) Notes Payable, Continued

Discretely Presented Component Units

National Development Bank of Palau (NDBP)

The Bank entered into a \$300,000 revolving credit line on October 27, 2007 and October 28, 2004 for the purpose of supplementing disbursements of approved loans and temporary cash requirements for operations. The loan is payable one year from initial drawdown with interest at the time certificate of deposit (TCD) rate plus 1.50%. The loan is collateralized by assignment of \$438,817 in TCDs.

Changes in short-term loans payable of the Bank for the year ended September 30, 2008, are as follows:

	Balance October <u>1, 2007</u>	<u>Additions</u>	<u>Reductions</u>	Balance September <u>30, 2008</u>
Short-term loans payable	\$ <u>-</u>	\$ <u>300,000</u>	\$ <u>-</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 4.50% as of September 30, 2008.

PUC entered into a term loan on December 23, 2004 in the amount of \$1,800,000 for the purpose of financing short-term working capital. On October 6, 2005 the loan was refinanced for an additional \$600,000 for the purpose of financing property improvements of its new office building. The loan bears a simple interest at 2.95% per annum as of September 30, 2007. Principal is payable in quarterly \$300,000 installments plus interest. The remaining loan balance was converted to a long-term loan in April 2008.

PUC entered into a revolving credit line agreement on March 14, 2005 under which a commercial bank will extend credit to PUC in the form of drawings, from time to time until March 14, 2006, in such sums as PUC may request but which shall not exceed \$500,000 in the aggregate principal amount for the purpose of financing short-term working capital and to purchase equipment, generator parts, transmission and distribution system parts and any other purchases requiring letters of credit. Interest is subject to rate changes based on the interest rate paid on the deposit account and is payable monthly. On April 4, 2007, the revolving credit line agreement was amended to decrease the principal amount to \$440,000 and to extend the credit term until March 1, 2008. There were no drawings made during the year ended September 30, 2008.

Movements in short-term borrowings for the year ended September 30, 2008 are as follows:

	Balance at October <u>1, 2007</u>	<u>Additions</u>	<u>Repayments</u>	Balance at September <u>30, 2008</u>
Term loan	\$ 182,496	\$ -	\$ (182,496)	\$ -
Portfolio credit line	<u>-</u>	<u>3,137,824</u>	<u>(2,096,759)</u>	<u>1,041,065</u>
	<u>\$ 182,496</u>	<u>\$ 3,127,824</u>	<u>\$ (2,279,255)</u>	<u>\$ 1,041,065</u>

**REPUBLIC OF PALAU**

Notes to Financial Statements  
September 30, 2008

(6) Long-Term Obligations

Primary Government

As of September 30, 2008, the primary government had the following long-term debt outstanding:

Loan payable to the Mega International Commercial Bank (MICB, formerly the International Commercial Bank of China) in the amount of \$20,000,000, interest at 3.5% per annum, principal payable in semi-annual installments of \$571,429 plus interest, due June 21, 2020. This loan was used for construction of a new national capital in Melekeok State and is uncollateralized.	\$ 14,285,710
Loan payable to the MICB in the amount of \$8,000,000, interest at 3.5% per annum, principal payable in semi-annual installments of \$428,600 commencing on November 30, 2007, plus interest, due October 28, 2024. This loan was used to fund the Palau International Airport Repaving Project and is uncollateralized.	<u>7,542,860</u> \$ <u>21,828,570</u>

As of September 30, 2008, the Republic is delinquent in certain debt service payments relative to the abovementioned Mega International Commercial Bank. Specifically, these delinquent payments amount to \$835,818, representing \$571,429 in principal payments and \$264,389 in interest. As these delinquent amounts represent matured debt that is currently due and payable, the delinquent portion is reported as a governmental fund liability within the General Fund at September 30, 2008. On April 28, 2009, the Republic remitted payment of MICB satisfying these delinquent amounts.

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>
2009	\$ 2,171,427	\$ 717,063	\$ 2,888,490
2010	1,599,998	776,899	2,376,897
2011	1,599,998	708,734	2,308,732
2012	1,599,998	641,644	2,241,642
2013	1,599,998	567,518	2,167,516
2014 - 2018	6,628,562	1,650,611	8,279,173
2019 - 2023	5,714,259	360,334	6,074,593
2024 - 2025	<u>914,330</u>	<u>11,838</u>	<u>926,168</u>
	\$ <u>21,828,570</u>	\$ <u>5,434,641</u>	\$ <u>27,263,211</u>

As provided for in the Compact of Free Association, the Republic was awarded \$3 million which it had agreed to repay in financial year 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, 2008 and therefore has restricted assets of \$3 million 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.

**REPUBLIC OF PALAU**

Notes to Financial Statements  
September 30, 2008

(6) Long-Term Obligations, Continued

Primary Government, Continued

Changes in long-term liabilities of the primary government for the year ended September 30, 2008, are as follows:

	Balance October <u>1, 2007</u>	<u>Additions</u>	<u>Reductions</u>	Balance September <u>30, 2008</u>	Due Within <u>One Year</u>
Loans payable:					
MICB loan	\$ 22,857,139	\$ -	\$ (1,028,569)	\$ 21,828,570	\$ 2,171,427
Other:					
Compensated absences	3,718,897	2,827,243	(2,869,519)	3,676,621	2,094,702
Due to U.S. Government	<u>3,000,000</u>	<u>-</u>	<u>-</u>	<u>3,000,000</u>	<u>-</u>
	<u>\$ 29,576,036</u>	<u>\$ 2,827,243</u>	<u>\$ (3,898,088)</u>	<u>\$ 28,505,191</u>	<u>\$ 4,266,129</u>

Discretely Presented Component Units

Palau National Communications Corporation (PNCC)

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

\$ 30,380,586

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

Year ending <u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 932,793	\$ 1,373,382	\$ 2,306,175
2010	974,861	1,331,314	2,306,175
2011	1,020,560	1,285,615	2,306,175
2012	1,068,402	1,237,773	2,306,175
2013	1,118,487	1,187,688	2,306,175
2014 - 2018	6,429,841	5,101,036	11,530,877
2019 - 2023	8,085,012	3,445,865	11,530,877
2024 - 2028	10,166,258	1,364,619	11,530,877
2029	<u>584,372</u>	<u>4,522</u>	<u>588,894</u>
	<u>\$ 30,380,586</u>	<u>\$ 16,331,814</u>	<u>\$ 46,712,400</u>

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 the Bank and is collateralized by a guarantee of the Republic.

\$ 4,571,456

## REPUBLIC OF PALAU

Notes to Financial Statements  
September 30, 2008

### (6) Long-Term Obligations, Continued

#### National Development Bank of Palau, Continued

Loan payable to the Republic of Palau Social Security Retirement Fund (the Fund) with interest at a variable annual rate equal to the Funds'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% or more than 7.5%. Interest is payable semi-annually, with the principal balance due on or before December 31, 2025. The loan is collateralized by the full faith and credit of the Republic.

3,500,000

\$ 8,071,456

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>
2009	\$ 285,716	\$ 312,500	\$ 598,216
2010	285,716	302,500	588,216
2011	402,383	291,176	693,559
2012	519,049	272,402	791,451
2013	519,049	251,500	770,549
2014 - 2018	2,595,247	950,285	3,545,532
2019 - 2023	2,595,247	437,668	3,032,915
2024	<u>869,049</u>	<u>35,780</u>	<u>904,829</u>
	\$ <u>8,071,456</u>	\$ <u>2,853,811</u>	\$ <u>10,925,267</u>

#### 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 of Palau 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 22, 2008, PUC entered into a promissory note with a commercial bank in the amount of \$182,496 for the purpose of financing working capital, which bears interest at 3.5% as of September 30, 2008. The loan is to be repaid in forty-seven monthly installments until April 22, 2012 and is collateralized by time certificates of deposit valued at \$656,094 as of September 30, 2008. At September 30, 2008, the balance payable under this promissory note amounts to \$163,486.

**REPUBLIC OF PALAU**

Notes to Financial Statements  
September 30, 2008

(6) Long-Term Obligations, Continued

Principal payments for subsequent years ending September 30 and applicable interest due, are as follows:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 45,624	\$ 253,460	\$ 299,084
2010	445,624	243,986	689,610
2011	445,624	228,172	673,796
2012	426,614	213,057	639,671
2013	400,000	197,964	597,964
2014 - 2018	2,000,000	777,331	2,777,331
2019 - 2023	2,000,000	422,314	2,422,314
2024 - 2027	<u>1,400,000</u>	<u>84,408</u>	<u>1,484,108</u>
	<u>\$ 7,163,486</u>	<u>\$ 2,420,692</u>	<u>\$ 9,584,178</u>

Changes in long-term liabilities of the discretely presented component units for the year ended September 30, 2008, are as follows:

	<u>Balance October 1, 2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance September 30, 2008</u>	<u>Due Within One Year</u>
Loans payable:					
PNCC	\$ 31,268,949	\$ -	\$ (888,363)	\$ 30,380,586	\$ 932,793
NDBP	7,857,172	500,000	(285,716)	8,071,456	285,716
PUC	7,000,000	182,496	(19,010)	7,163,486	45,624
Other:					
Customer deposits	513,904	141,755	(74,961)	530,698	-
Deferred credit	<u>16,172</u>	<u>-</u>	<u>(25)</u>	<u>16,147</u>	<u>-</u>
	<u>\$ 46,656,197</u>	<u>\$ 824,251</u>	<u>\$ (1,268,075)</u>	<u>\$ 46,212,373</u>	<u>\$ 1,264,133</u>

(7) Other Liabilities

Pursuant to a subsidiary agreement to the Compact of Free Association, entitled "Agreement Concerning Special Programs Related to the Entry into Force of the Compact of Free Association Between the Government of the United States and the Government of the Republic of Palau", Article 5, the Republic is to pay the United States Government, by September 30, 2005, a total of \$3,000,000. This amount represents the mutually agreed net economic cost of the United States providing all \$28,000,000 of Compact Section 211(b) funds in a lump sum at inception of the Compact, rather than payments of \$2,000,000 annually for fourteen years. During the fiscal year ended September 30, 2008, the Republic made no payments under this agreement. Please refer to note 6 for matters involving potential release of this liability.

**REPUBLIC OF PALAU**

Notes to Financial Statements  
September 30, 2008

(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, 2008, are summarized as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor governmental funds	\$ 4,709
General	Grants	2,089,582
Grants	General	3,876,173
Nonmajor governmental funds	General	<u>3,896,560</u>
		<u>\$ 9,867,024</u>

Funds drawn from the Compact Section investment accounts at September 30, 2008 to cover the amount due the General Fund, based on prior year appropriations, are as follows:

<u>Account</u>	<u>Amount</u>
Compact Section 212(b)	\$ 288,503
Compact Section 211(c)	<u>385,298</u>
	<u>\$ 673,801</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, 2008, are as follows:

<u>Source</u>	<u>Recipient</u>	<u>Transfer Out</u>	<u>Transfer In</u>
<u>Major Governmental Funds</u>			
General Fund	Nonmajor governmental funds	\$ 4,170,385	\$ 3,853,000
Compact Section 211(f)	General Fund	5,000,000	5,000,000
General Fund	Grants Fund	243,028	-
Grants Fund	General Fund	-	<u>243,028</u>
		<u>9,413,413</u>	<u>9,096,028</u>
<u>Nonmajor Governmental Funds</u>			
Nonmajor governmental funds	General Fund	<u>3,853,000</u>	<u>4,170,385</u>
		<u>3,853,000</u>	<u>4,170,385</u>
		<u>\$ 13,266,413</u>	<u>\$ 13,266,413</u>

Operating transfers out were provided for under appropriation by the OEK. Transfers are used to (1) move revenues from the fund that statute requires to collect them to the fund that statute requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. There were no one-time transfers of funds during the year ended September 30, 2008.

## REPUBLIC OF PALAU

Notes to Financial Statements  
September 30, 2008

### (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, 2008, amounted to \$7,060,363.

#### 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, 2008, 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 \$1,379,669 have been set forth in the Republic's Single Audit Report for the year ended September 30, 2008. The ultimate disposition of these questioned costs can be determined only by final action of the respective grantor agencies. Therefore, no provision for any liability that may result upon resolution of this matter has been made in the accompanying financial statements.

#### D. Insurance Coverage

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

#### E. Unfunded Liability

An actuarial valuation of the Republic of Palau Social Security Retirement Fund has determined that the Fund has an actuarial deficiency of approximately \$21,419,000 as of October 1, 2006. This actuarial valuation does not include the effects of changes in contribution and benefit calculations of RPPL no. 7-32. Unless the existing deficiency is corrected, the Fund's cash flows may eventually become negative, which may cause the Fund to become depleted to the point that the Fund may not be able to meet its benefit obligations. The Fund has not developed a formal plan as of September 30, 2008 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.

## REPUBLIC OF PALAU

Notes to Financial Statements  
September 30, 2008

### (10) Commitments and Contingencies, Continued

#### 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, 2008 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 \$9,116,003. Additionally, the Republic defaulted on a debt repayment and has recorded \$835,818 of past due principal and interest in its general fund. Due to these conditions, management of the Republic is proposing certain deficit reduction plans that include, but are not limited to aggressively looking to maximize revenue collections and reducing general fund expenditures by up to 10%. 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.

### (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 \$2,312,491, \$2,363,020 and \$2,461,486 to the Pension Fund during fiscal years 2006, 2007 and 2008, 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 2008 was covered in total by the Pension Fund's pension plan.

**REPUBLIC OF PALAU**

Notes to Financial Statements  
September 30, 2008

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

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, 2008.

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

As a result of the provisions of RPPL No. 6-12, PCC employees who opted to claim prior year’s service executed payment agreements with the Pension Fund totaling \$978,907 for prior year’s service claimed. As these employees are not mandated to continue payment agreements and can elect to have contributions refunded upon termination of payment agreements, and due to the uncertainty of collection of the employee’s share through RPPL No. 6-12, the Pension Fund has elected not to record PCC employee receivables for prior years service. The Pension Fund received \$35,202 from PCC employees during the year ended September 30, 2008.

The funded status as of October 1, 2007, 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)
\$ 48,358,000	\$ 107,579,000	\$ 59,221,000	44.95%	\$ 34,763,000	170.4%

## REPUBLIC OF PALAU

Notes to Financial Statements  
September 30, 2008

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

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, 2007
Actuarial Cost Method:	Aggregate cost method
Amortization Method:	Level percent open
Remaining Amortization Period:	30 years
Asset Valuation Method:	Market value, including accrued but unpaid contributions
Actuarial Assumptions:	
Investment rate of return:	8.5% per year
Projected salary increases:	3% per annum
COLAS:	0%

### (12) Restatement

Subsequent to the issuance of the Republic's 2007 financial statements, management of the Republic determined that capital assets of the primary government's governmental activities were overstated by \$2,344,754. As a result of this determination, capital asset balances have been restated from the amounts previously reported as follows:

	As Previously <u>Reported</u>	<u>As Stated</u>
At September 30:		
Capital assets, net of accumulated depreciation	\$ <u>308,400,596</u>	\$ <u>306,055,842</u>
Net assets:		
Invested in capital assets, net of restated debt	\$ <u>285,543,457</u>	\$ <u>283,198,703</u>
Total net assets	\$ <u>465,134,367</u>	\$ <u>462,789,613</u>

REPUBLIC OF PALAU

REQUIRED SUPPLEMENTARY INFORMATION  
- BUDGETARY REPORTING

YEAR ENDED SEPTEMBER 30, 2008

REPUBLIC OF PALAU

Schedule of Revenues, Expenditures, and Changes  
in Deficit - Budget and Actual - General Fund  
Year Ended September 30, 2008

	Original Budget	Final Budget	Actual - Budgetary Basis (see note 1)	Variance
<b>Revenues:</b>				
Local revenue	\$ 39,925,551	\$ 40,025,551	\$ 37,599,059	\$ (2,426,492)
Compact funding - Section 211(a)	6,000,000	6,000,000	6,021,096	21,096
Compact funding - Section 215 inflation adjustment	3,960,000	3,960,000	4,320,000	360,000
Indirect cost recoveries	-	254,900	142,036	(112,864)
Net change in the fair value of investments	-	-	26,979	26,979
<b>Total revenues</b>	<b>49,885,551</b>	<b>50,240,451</b>	<b>48,109,170</b>	<b>(2,131,281)</b>
<b>Expenditures - budgetary basis:</b>				
Office of the President	898,475	1,036,511	999,608	36,903
Office of the Vice-President	391,492	401,492	387,083	14,409
Ministry of Finance	2,201,996	2,307,450	2,279,582	27,868
Ministry of State	2,348,936	2,587,936	2,430,847	157,089
Ministry of Community and Cultural Affairs	955,893	955,893	937,596	18,297
Ministry of Education	6,398,793	6,563,793	6,213,543	350,250
Ministry of Commerce and Trade	1,888,047	1,866,047	1,755,508	110,539
Ministry of Justice	4,260,300	4,250,300	3,982,952	267,348
Ministry of Health	6,957,258	7,100,668	6,980,648	120,020
Ministry of Resources and Development	7,385,096	7,489,596	7,285,188	204,408
Boards, Commissions and Authorities	777,074	792,074	739,336	52,738
Judicial Branch	2,219,000	2,219,000	2,200,794	18,206
Legislative Branch	3,598,000	3,625,431	3,532,616	92,815
State Block Grants	4,811,000	4,811,000	4,811,000	-
Independent Agencies	2,202,131	2,229,405	2,110,849	118,556
Other Agencies and Activities	1,660,512	1,992,118	1,949,127	42,991
PSB Investigation	-	339,131	113,613	225,518
Public Service Recalssificaiton	620,440	620,440	619,506	934
Social Security Contribution	182,000	182,000	180,401	1,599
Compact Review Fund	800,000	800,000	517,856	282,144
Protected Areas Network Fund	-	100,000	17,889	82,111
International Monetary Fund	-	54,847	331,873	(277,026)
Debt principal retirement	-	571,429	571,429	-
Interest	-	264,389	264,389	-
Education Assistance	2,957,607	2,957,607	2,957,607	-
<b>Total expenditures</b>	<b>53,514,050</b>	<b>56,118,557</b>	<b>54,170,840</b>	<b>1,947,717</b>
<b>Deficiency of revenues under expenditures</b>	<b>(3,628,499)</b>	<b>(5,878,106)</b>	<b>(6,061,670)</b>	<b>(183,564)</b>
<b>Other financing sources (uses):</b>				
Operating transfers in	7,880,000	8,853,000	8,853,000	-
Operating transfers out	(4,251,501)	(3,493,183)	(4,413,413)	(920,230)
<b>Total other financing sources (uses), net</b>	<b>3,628,499</b>	<b>5,359,817</b>	<b>4,439,587</b>	<b>(920,230)</b>
<b>Net change in unreserved fund deficit</b>	<b>-</b>	<b>(518,289)</b>	<b>(1,622,083)</b>	<b>(1,103,794)</b>
<b>Other changes in unreserved deficit:</b>				
Decrease in reserve for continuing appropriations	-	518,289	(175,063)	(693,352)
Decrease in reserve for related assets	-	-	(491,618)	(491,618)
<b>Unreserved deficit at the beginning of the year</b>	<b>(6,827,239)</b>	<b>(6,827,239)</b>	<b>(6,827,239)</b>	<b>-</b>
<b>Unreserved deficit at the end of the year</b>	<b>\$ (6,827,239)</b>	<b>\$ (6,827,239)</b>	<b>\$ (9,116,003)</b>	<b>\$ (2,288,764)</b>

See Accompanying Independent Auditors' Report.

**REPUBLIC OF PALAU**

Notes to Required Supplementary Information - Budgetary Reporting  
September 30, 2008

(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	\$ (1,582,765)
Increase in reserve for encumbrances	<u>(39,318)</u>
Net change in unreserved fund deficit	\$ <u>(1,622,083)</u>

REPUBLIC OF PALAU

OTHER SUPPLEMENTARY INFORMATION

YEAR ENDED SEPTEMBER 30, 2008

REPUBLIC OF PALAU

Combining Schedule of Expenditures by Account  
 Governmental Funds  
 Year Ended September 30, 2008

	Major Governmental Funds			Nonmajor Governmental Funds			Total
	General	Special Revenue	Permanent	Special Revenue	Capital Projects	Debt Service	
		Grants	Compact Section 211(f)				
Salaries and wages	\$ 30,885,147	\$ 4,500,277	\$ -	\$ 52,536	\$ 1,696	\$ -	\$ 35,439,656
Construction	395,436	11,647,961	-	-	286,568	-	12,329,965
Payments of allotments/benefits	10,791,843	497,272	-	-	3,000,000	-	14,289,115
Professional and contractual services	604,557	3,484,816	-	79,563	72,010	-	4,240,946
Supplies and materials	1,107,984	804,724	-	62,330	-	-	1,975,038
Travel	1,031,718	1,027,518	-	39,211	8,704	-	2,107,151
Utilities	2,630,802	1,745,576	-	-	-	-	4,376,378
Equipment	168,448	1,512,192	-	21,212	215,724	-	1,917,576
Medical supplies	279,347	175,890	-	1,614,219	-	-	2,069,456
Scholarships and student loans	-	37,500	-	1,235,149	-	-	1,272,649
Investment management fees	-	-	1,014,108	14,390	178	-	1,028,676
Repairs and maintenance	498,484	415,291	-	56,709	330,147	-	1,300,631
Vehicles	90,342	47,680	-	6,000.00	-	-	144,022
Medical referrals	444,566	-	-	112,000	-	-	556,566
Rentals	578,247	206,394	-	445	-	-	785,086
Foodstuffs	669,993	72,437	-	796	-	-	743,226
Petroleum products	825,361	175,073	-	12,812	67,796	-	1,081,042
Communications and postage	575,756	74,754	-	1,747	-	-	652,257
Dues, fees and registrations	538,659	27,031	-	-	114	-	565,804
Machinery	54,311	-	-	-	-	-	54,311
Building	-	155,205	-	-	-	-	155,205
Indirect costs	-	163,268	-	-	-	-	163,268
Administrative costs	-	81,410	-	-	-	-	81,410
Books and library materials	133,585	241,746	-	-	-	-	375,331
Allowances	19,520	-	-	-	-	-	19,520
Compensation and stipends	251,085	151,815	-	3,420	-	-	406,320
Training	794	57,054	-	-	-	-	57,848
Donations	339,123	551,129	-	-	-	-	890,252
Advertising	21,042	118,708	-	1,716	-	-	141,466
Freight	21,569	5,629	-	1,506	-	-	28,704
Employee incentive awards	10,300	4,410	-	-	-	-	14,710
Representation and entertainment	7,159	1,800	-	-	-	-	8,959
Insurance	15,579	3,510	-	-	-	-	19,089
Computer software	8,073	-	-	-	-	-	8,073
Furniture and fixtures	59,897	274,731	-	-	-	-	334,628
Principal retirement	571,429	-	-	-	-	1,028,569	1,599,998
Interest	264,389	-	-	-	-	545,876	810,265
Other/Miscellaneous	236,977	3,128	-	10,498	-	-	250,603
	<u>\$ 54,131,522</u>	<u>\$ 28,265,929</u>	<u>\$ 1,014,108</u>	<u>\$ 3,326,259</u>	<u>\$ 3,982,937</u>	<u>\$ 1,574,445</u>	<u>\$ 92,295,200</u>

See Accompanying Independent Auditors' Report.

**REPUBLIC OF PALAU  
GENERAL FUND**

September 30, 2008

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, 2008  
(With comparative totals for the year ended September 30, 2007)

	<u>2008</u>	<u>2007</u>
Compact funding:		
Section 211(a)	\$ 6,021,096	\$ 6,000,000
Section 215 inflation adjustment	4,320,000	3,840,000
Total compact funding	<u>10,341,096</u>	<u>9,840,000</u>
Taxes:		
Gross receipts	10,406,665	9,572,148
Salary and wage	6,965,363	6,911,830
Alcohol and tobacco	5,039,713	4,551,844
General import	1,963,565	2,046,284
Travelers head	1,775,465	1,864,269
Hotel occupancy	2,134,835	1,736,206
Fuel Excise	911,816	772,374
Road Use	459,316	453,300
Fish export	1,128,667	1,002,441
Penalties, interest and delinquencies	573,485	774,854
Vessel cabin and foreign water vessel	128,910	77,521
Other	520	500
Total taxes	<u>31,488,320</u>	<u>29,763,571</u>
Licenses and permits:		
Foreign labor permits	1,159,720	974,591
Business licenses	200,379	225,386
Foreign investment permits and fees	233,517	200,889
Fishing rights fees	154,281	153,412
Corporate filing fees	53,505	28,522
Other licenses and permits	272,045	301,722
Total licenses and fees	<u>2,073,447</u>	<u>1,884,522</u>
Fees and charges:		
Airport fees and rentals	1,924,450	1,615,508
Water utility charges	669,468	697,197
Postal service	378,736	371,837
Court fines and fees	174,490	191,878
Seaport fees	65,847	110,500
Palau passport fees	112,676	122,346
Banking fees	-	10,000
Other	295,955	27,995
Total fees and charges	<u>3,621,622</u>	<u>3,147,261</u>
Net change in the fair value of investments	<u>26,979</u>	<u>490,573</u>
Other:		
Indirect cost recoveries	142,036	199,778
Serv Mart sales	-	40
Belau Mariculture Demonstration Center sales	4,902	7,425
Other	410,768	173,191
Total other	<u>557,706</u>	<u>380,434</u>
Total revenues	<u>\$ 48,109,170</u>	<u>\$ 45,506,361</u>

REPUBLIC OF PALAU  
GENERAL FUND

Schedule of Revenues, Expenditures, and Changes in  
Deficit - Budget and Actual - General Fund  
Year Ended September 30, 2008

	Budget	Actual	Variance
<b>Revenues:</b>			
Local revenue	\$ 40,025,551	\$ 37,599,059	\$ (2,426,492)
Compact funding - Section 211(a)	6,000,000	6,021,096	21,096
Compact funding - Section 215 inflation adjustment	3,960,000	4,320,000	360,000
Indirect cost recoveries	254,900	142,036	(112,864)
Net change in the fair value of investments	-	26,979	26,979
<b>Total revenues</b>	<b>50,240,451</b>	<b>48,109,170</b>	<b>(2,131,281)</b>
<b>Expenditures - budgetary basis:</b>			
<b>Office of the President:</b>			
President's Office	650,000	633,954	16,046
Presidential Stipend	25,000	25,000	-
Official representation	29,841	29,506	335
Indirect cost collection	142,036	144,450	(2,414)
Council of chiefs	113,000	91,093	21,907
Grants Coordinator Office	76,634	75,605	1,029
<b>Total Office of the President</b>	<b>1,036,511</b>	<b>999,608</b>	<b>36,903</b>
<b>Office of the Vice-President:</b>			
Vice-President's Office	306,000	301,805	4,195
National Emergency Management Office	95,492	85,278	10,214
<b>Total Office of the Vice-President</b>	<b>401,492</b>	<b>387,083</b>	<b>14,409</b>
<b>Ministry of Finance:</b>			
Office of the Minister	38,793	36,022	2,771
Administrative Overhead	31,454	29,660	1,794
Information Systems Support Services	198,967	197,345	1,622
Bureau of National Treasury	629,762	627,063	2,699
Bureau of Budget and Planning	177,057	174,554	2,503
Bureau of Public Service System	124,417	123,020	1,397
Workmen's Compensation	41,000	39,584	1,416
Bureau of Revenue, Customs and Taxation	1,066,000	1,052,334	13,666
<b>Total Ministry of Finance</b>	<b>2,307,450</b>	<b>2,279,582</b>	<b>27,868</b>
<b>Ministry of State:</b>			
Office of the Minister	38,793	38,149	644
United Nations Rep Office	255,813	252,414	3,399
Consulate Office in Guam	103,000	102,449	551
Washington D.C. Embassy	324,320	318,288	6,032
Tokyo Embassy	360,320	354,948	5,372
Consulate Office in Saipan	45,000	43,784	1,216
Taipei Embassy	104,470	102,405	2,065
Manila Embassy	127,000	122,815	4,185
International Organizations Obligations	304,000	184,624	119,376
Office of the Public Defender	171,020	170,723	297
Passport Office	35,793	34,197	1,596
Bureau of Foreign Affairs Admin	292,633	291,816	817
Bureau of Domestic Affairs Admin	348,145	345,301	2,844
Bureau International Trade and Technical Assistance	77,629	68,934	8,695
<b>Total Ministry of State</b>	<b>2,587,936</b>	<b>2,430,847</b>	<b>157,089</b>

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, 2008

	Budget	Actual	Variance
Ministry of Community and Cultural Affairs:			
Office of the Minister	38,793	36,711	2,082
Office on Aging	213,808	207,475	6,333
Sports Facilities Maintenance and Utilities	100,000	99,472	528
Palau National Archive	45,200	44,337	863
Palau Severely Disabled Assistance Fund	205,000	204,755	245
Bureau of Community Services	210,850	210,555	295
Bureau of Arts and Culture	142,242	134,291	7,951
Total Ministry of Community and Cultural Affairs	<u>955,893</u>	<u>937,596</u>	<u>18,297</u>
Ministry of Education:			
Office of the Minister	38,793	38,272	521
School Books, Supplies and Instructional Equipment	292,000	163,716	128,284
Food Services Program	600,000	565,862	34,138
Bureau of Curriculum and Instruction	900,000	840,398	59,602
Bureau of School Administration	4,733,000	4,605,295	127,705
Total Ministry of Education	<u>6,563,793</u>	<u>6,213,543</u>	<u>350,250</u>
Ministry of Commerce and Trade:			
Office of the Minister	38,793	35,607	3,186
Palau Small Business Development Center	29,841	29,841	-
Pacific Business Center Program	20,000	20,000	-
Airport Operations	1,250,354	1,170,137	80,217
Bureau of Commercial Development	243,649	235,258	8,391
Bureau of Human Resource Development	283,410	264,665	18,745
Total Ministry of Commerce and Trade	<u>1,866,047</u>	<u>1,755,508</u>	<u>110,539</u>
Ministry of Justice:			
Office of the Attorney General	533,233	511,956	21,277
Bureau of Immigration	285,442	270,615	14,827
Bureau of Public Safety	2,497,655	2,499,492	(1,837)
Patrol Boat Operations	933,970	700,889	233,081
Total Ministry of Justice	<u>4,250,300</u>	<u>3,982,952</u>	<u>267,348</u>
Ministry of Health:			
Office of the Minister	38,793	37,425	1,368
Office of Health Services Administration	1,844,559	1,834,722	9,837
Medical Supplies and Drugs	360,000	352,846	7,154
Medical Referrals	540,000	470,945	69,055
Manila Medical Referral Office	87,523	87,032	491
Hawaii Medical Referral Office	121,364	116,442	4,922
Bureau of Public Health	1,203,587	1,191,112	12,475
Bureau of Hospital and Clinical Services	2,904,842	2,890,124	14,718
Total Ministry of Health	<u>7,100,668</u>	<u>6,980,648</u>	<u>120,020</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, 2008

	Budget	Actual	Variance
Ministry of Resources and Development:			
Office of the Minister	38,793	37,979	814
OMIP and Other Grants Match	12,970	(208)	13,178
PALARIS Office	194,232	169,626	24,606
Bridge and Road Maintenance	300,000	263,690	36,310
National Capitol Electric Bills	650,000	599,061	50,939
Protected Area Network	49,735	47,729	2,006
Landfill Operations/Solid Waste Management	49,735	46,559	3,176
Bureau of Marine Resources	512,271	499,530	12,741
Bureau of Lands and Survey	900,000	862,418	37,582
Bureau of Agriculture	402,801	399,614	3,187
Bureau of Public Works	1,436,865	1,462,705	(25,840)
Water and Sewer Operations	2,533,837	2,508,905	24,932
New Capitol Sewer System	100,000	83,408	16,592
CIP Office Operations	149,205	146,866	2,339
Rural Sanitation Projects	159,152	157,306	1,846
Total Ministry of Resources and Development	<u>7,489,596</u>	<u>7,285,188</u>	<u>204,408</u>
Total Executive Branch	<u>34,559,686</u>	<u>33,252,555</u>	<u>1,307,131</u>
Boards, Commissions and Authorities:			
Foreign Investment Board	94,523	93,955	568
Palau Election Commission	213,940	182,378	31,562
Palau Public Lands Authority	144,205	142,445	1,760
Parole Board	27,852	21,866	5,986
Palau Housing Authority	66,645	66,645	-
Financial Institutions Commission	117,375	115,789	1,586
Ethics Commission	44,762	34,723	10,039
Ngardmau FTZ Commission	40,000	40,000	-
Palau National Code Commission	42,772	41,535	1,237
Total Boards, Commissions and Authorities	<u>792,074</u>	<u>739,336</u>	<u>52,738</u>
Judicial Branch:			
Judiciary	2,114,250	2,115,802	(1,552)
Land Court	104,750	84,992	19,758
Total Judicial Branch	<u>2,219,000</u>	<u>2,200,794</u>	<u>18,206</u>
Legislative Branch:			
Senate	1,180,000	1,151,072	28,928
Senate Legal Counsel	197,000	193,980	3,020
House of Delegates	1,778,000	1,747,262	30,738
House Legal Counsel	175,000	172,240	2,760
Joint Staff	238,000	210,631	27,369
Copy Machine	27,431	27,431	-
Association of Pacific Island Legislatures Conference	10,000	10,000	-
Inter-Parliamentary Union	20,000	20,000	-
Total Legislative Branch	<u>3,625,431</u>	<u>3,532,616</u>	<u>92,815</u>
State Block Grants	<u>4,811,000</u>	<u>4,811,000</u>	<u>-</u>
Independent Agencies:			
Office of the Public Auditor	379,123	360,785	18,338
Office of the Special Prosecutor	294,707	221,799	72,908
Palau Environmental Quality Protection Board	397,880	390,125	7,755
National Postal Service	283,490	275,812	7,678
Palau Visitors Authority	725,000	725,000	-
National Aviation Administration	149,205	137,328	11,877
Total Independent Agencies	<u>2,229,405</u>	<u>2,110,849</u>	<u>118,556</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, 2008

	Budget	Actual	Variance
Other Agencies and Activities:			
Palau National Museum	246,020	242,440	3,580
Micronesian Legal Services	129,311	129,311	-
Palau Community Action Agency	246,532	246,532	-
Headstart Program	115,000	115,000	-
Palau Workforce Investment Act	99,470	99,470	-
Civic Action Team Share	250,000	250,000	-
Peace Corps Contribution	25,000	14,975	10,025
Palau International Coral Reef Center	425,000	421,259	3,741
Palau National Olympic Committee and Sports Organization	149,205	149,205	-
Red Cross	4,974	4,974	-
Second Constitutional Convention Post Con Comm	32,000	32,000	-
Others	269,606	243,961	25,645
Total Other Agencies and Activities	<u>1,992,118</u>	<u>1,949,127</u>	<u>42,991</u>
PSB Investigation	339,131	113,613	225,518
Public Service System Reclassification	620,440	619,506	934
Social Security Contribution	182,000	180,401	1,599
Compact Review Fund	800,000	517,856	282,144
Protected Areas Network	100,000	17,889	82,111
International Monetary Fund	54,847	331,873	(277,026)
Debt principal retirement	571,429	571,429	-
Debt interest	264,389	264,389	-
Education Assistance:			
Palau Community College	2,242,730	2,242,730	-
PCC Board of Trustees	43,880	43,880	-
COM Board of Regents	24,378	24,378	-
Aid to Non-Public Schools	607,619	607,619	-
PCC CRE Program	39,000	39,000	-
Total Education Assistance	<u>2,957,607</u>	<u>2,957,607</u>	<u>-</u>
Total expenditures	<u>56,118,557</u>	<u>54,170,840</u>	<u>1,632,437</u>
Deficiency of revenues under expenditures	<u>(5,878,106)</u>	<u>(6,061,670)</u>	<u>(498,844)</u>
Other financing sources (uses):			
Operating transfers in:			
Local Capital Projects Fund	973,000	973,000	-
Compact Section 211(f) Trust Fund	5,000,000	5,000,000	-
Compact Section 211(c) Communications Fund	249,000	249,000	-
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	-
Total other financing sources	<u>8,853,000</u>	<u>8,853,000</u>	<u>-</u>
Operating transfers out:			
Debt Service Fund	(2,146,740)	(1,400,004)	746,736
Compact Section 213 Defense	-	(1,501,438)	(1,501,438)
US Federal Grants Fund	(27,500)	(27,500)	-
Other Grants Fund	(50,000)	(215,528)	(165,528)
National Scholarship Fund	(1,268,943)	(1,268,943)	-
Total other financing uses	<u>(3,493,183)</u>	<u>(4,413,413)</u>	<u>(920,230)</u>
Total other financing sources (uses), net	<u>5,359,817</u>	<u>4,439,587</u>	<u>(920,230)</u>
Deficiency of revenues and other financing sources under expenditures and other financing uses	<u>(518,289)</u>	<u>(1,622,083)</u>	<u>(1,419,074)</u>
Other changes in deficit:			
Increase in reserve for continuing appropriations	518,289	(175,063)	(693,352)
Increase in reserve for related assets	-	(491,618)	(491,618)
Unreserved deficit at the beginning of the year	(6,827,239)	(6,827,239)	-
Unreserved deficit at the end of the year	<u>\$ (6,827,239)</u>	<u>\$ (9,116,003)</u>	<u>\$ (2,604,044)</u>

See Accompanying Independent Auditors' Report.

**REPUBLIC OF PALAU**  
**NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS**

September 30, 2008

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, 2008

	<u>Other Special Revenue</u>	<u>Other Capital Projects</u>	<u>Other Debt Service</u>	<u>Total</u>
<b><u>ASSETS</u></b>				
Investments	\$ 2,790,361	\$ 114,674	\$ -	\$ 2,905,035
Investments - restricted	3,000,000	-	-	3,000,000
Receivables, net:				
General	-	9,581	-	9,581
Accrued interest	21,053	-	-	21,053
Due from other funds	1,426,863	2,230,555	239,142	3,896,560
Prepaid items	31,806	-	-	31,806
Advances	-	777	-	777
Total assets	<u>\$ 7,270,083</u>	<u>\$ 2,355,587</u>	<u>\$ 239,142</u>	<u>\$ 9,864,812</u>
<b><u>LIABILITIES AND FUND BALANCES</u></b>				
Liabilities:				
Accounts payable	\$ 364,536	\$ 36,874	\$ 239,142	\$ 640,552
Deferred revenue	-	180,453	-	180,453
Other liabilities and accruals	389	-	-	389
Due to other funds	4,709	-	-	4,709
Total liabilities	<u>369,634</u>	<u>217,327</u>	<u>239,142</u>	<u>826,103</u>
Fund balances:				
Reserved for:				
Related assets	3,000,000	-	-	3,000,000
Encumbrances	89,269	54,119	-	143,388
Unreserved:				
Special revenue funds	3,811,180	-	-	3,811,180
Capital projects funds	-	2,084,141	-	2,084,141
Total fund balances	<u>6,900,449</u>	<u>2,138,260</u>	<u>-</u>	<u>9,038,709</u>
Total liabilities and fund balances	<u>\$ 7,270,083</u>	<u>\$ 2,355,587</u>	<u>\$ 239,142</u>	<u>\$ 9,864,812</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, 2008

	Other Special Revenue	Other Capital Projects	Other Debt Service	Total
<b>Revenues:</b>				
Compact funding	\$ 2,891,600	\$ -	\$ -	\$ 2,891,600
Fees and charges	1,977,026	-	-	1,977,026
Net change in the fair value of investments	(367,908)	185,020	-	(182,888)
Other	55,292	-	-	55,292
Total revenues	<u>4,556,010</u>	<u>185,020</u>	<u>-</u>	<u>4,741,030</u>
<b>Expenditures:</b>				
Current:				
Ministry of Health	1,965,164	-	-	1,965,164
Ministry of Resources and Development	43	-	-	43
Ministry of Community and Cultural Affairs	4,793	-	-	4,793
Ministry of Justice	23,514	-	-	23,514
Investment management fees	14,390	-	-	14,390
Public Utilities Corporation	-	3,000,000	-	3,000,000
Other	1,318,355	-	-	1,318,355
Capital projects	-	982,937	-	982,937
Debt service:				
Principal retirement	-	-	1,028,569	1,028,569
Interest	-	-	545,876	545,876
Total expenditures	<u>3,326,259</u>	<u>3,982,937</u>	<u>1,574,445</u>	<u>8,883,641</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,229,751</u>	<u>(3,797,917)</u>	<u>(1,574,445)</u>	<u>(4,142,611)</u>
Other financing sources (uses), net:				
Operating transfers in	2,770,381	-	1,400,004	4,170,385
Operating transfers out	(2,880,000)	(973,000)	-	(3,853,000)
Total other financing sources (uses), net	<u>(109,619)</u>	<u>(973,000)</u>	<u>1,400,004</u>	<u>317,385</u>
Net change in fund balances	1,120,132	(4,770,917)	(174,441)	(3,825,226)
Fund balances at the beginning of the year	<u>5,780,317</u>	<u>6,909,177</u>	<u>174,441</u>	<u>12,863,935</u>
Fund balances at the end of the year	<u>\$ 6,900,449</u>	<u>\$ 2,138,260</u>	<u>\$ -</u>	<u>\$ 9,038,709</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU  
NONMAJOR GOVERNMENTAL FUNDS  
SPECIAL REVENUE FUNDS

Combining Balance Sheet  
September 30, 2008

	Palau Ed Textbook Development and Sales	Public and Law Access Unit	Drug Fine Collection	Sports Facilities Trust	Scholarship	Hospital Trust	EQPB Trust	Agrifund
<b>ASSETS</b>								
Investments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Investments - restricted	-	-	-	-	-	-	-	-
Receivables, net:								
Accrued interest	-	-	-	-	-	2,284	-	-
Due from other funds	21,028	83,306	664	1,736	131,372	960,927	75,411	-
Prepaid items	-	-	-	-	-	31,806	-	-
Total assets	<u>\$ 21,028</u>	<u>\$ 83,306</u>	<u>\$ 664</u>	<u>\$ 1,736</u>	<u>\$ 131,372</u>	<u>\$ 995,017</u>	<u>\$ 75,411</u>	<u>\$ -</u>
<b>LIABILITIES AND FUND BALANCES</b>								
<b>(DEFICITS)</b>								
Liabilities:								
Accounts payable	\$ -	\$ 196	\$ 274	\$ 212	\$ 18,572	\$ 339,061	\$ -	\$ -
Other liabilities and accruals	-	-	-	-	389	-	-	-
Due to other funds	-	-	-	-	-	-	-	4,709
Total liabilities	<u>-</u>	<u>196</u>	<u>274</u>	<u>212</u>	<u>18,961</u>	<u>339,061</u>	<u>-</u>	<u>4,709</u>
Fund balances (deficit):								
Reserved for:								
Related assets	-	-	-	-	-	-	-	-
Encumbrances	-	-	-	1,012	1,411	58,439	120	-
Unreserved (deficit)	<u>21,028</u>	<u>83,110</u>	<u>390</u>	<u>512</u>	<u>111,000</u>	<u>597,517</u>	<u>75,291</u>	<u>(4,709)</u>
Total fund balances (deficit)	<u>21,028</u>	<u>83,110</u>	<u>390</u>	<u>1,524</u>	<u>112,411</u>	<u>655,956</u>	<u>75,411</u>	<u>(4,709)</u>
Total liabilities and fund balances	<u>\$ 21,028</u>	<u>\$ 83,306</u>	<u>\$ 664</u>	<u>\$ 1,736</u>	<u>\$ 131,372</u>	<u>\$ 995,017</u>	<u>\$ 75,411</u>	<u>\$ -</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU  
NONMAJOR GOVERNMENTAL FUNDS  
SPECIAL REVENUE FUNDS

Combining Balance Sheet, Continued  
September 30, 2008

	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
<b>ASSETS</b>								
Investments	\$ -	\$ 127,414	\$ 83,574	\$ 48,762	\$ 445,594	\$ 1,872,744	\$ 212,273	\$ 2,790,361
Investments - restricted	-	3,000,000	-	-	-	-	-	3,000,000
Receivables, net:								
Accrued interest	-	-	-	-	-	18,769	-	21,053
Due from other funds	137,419	-	15,000	-	-	-	-	1,426,863
Prepaid items	-	-	-	-	-	-	-	31,806
Total assets	<u>\$ 137,419</u>	<u>\$ 3,127,414</u>	<u>\$ 98,574</u>	<u>\$ 48,762</u>	<u>\$ 445,594</u>	<u>\$ 1,891,513</u>	<u>\$ 212,273</u>	<u>\$ 7,270,083</u>
<b>LIABILITIES AND FUND BALANCES</b>								
<b>(DEFICITS)</b>								
Liabilities:								
Accounts payable	\$ 6,221	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 364,536
Other liabilities and accruals	-	-	-	-	-	-	-	389
Due to other funds	-	-	-	-	-	-	-	4,709
Total liabilities	<u>6,221</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>369,634</u>
Fund balances (deficit):								
Reserved for:								
Related assets	-	3,000,000	-	-	-	-	-	3,000,000
Encumbrances	3,681	24,606	-	-	-	-	-	89,269
Unreserved (deficit)	<u>127,517</u>	<u>102,808</u>	<u>98,574</u>	<u>48,762</u>	<u>445,594</u>	<u>1,891,513</u>	<u>212,273</u>	<u>3,811,180</u>
Total fund balances (deficit)	<u>131,198</u>	<u>3,127,414</u>	<u>98,574</u>	<u>48,762</u>	<u>445,594</u>	<u>1,891,513</u>	<u>212,273</u>	<u>6,900,449</u>
Total liabilities and fund balances	<u>\$ 137,419</u>	<u>\$ 3,127,414</u>	<u>\$ 98,574</u>	<u>\$ 48,762</u>	<u>\$ 445,594</u>	<u>\$ 1,891,513</u>	<u>\$ 212,273</u>	<u>\$ 7,270,083</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU  
NONMAJOR GOVERNMENTAL FUNDS  
SPECIAL REVENUE FUNDS

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficits)  
Year Ended September 30, 2008

	Palauan Ed Textbook Development and Sales	Public and Law Access Unit	Drug Fine Collection	Sports Facilities Trust	Scholarship	Hospital Trust	EQPB Trust	AgriFund
<b>Revenues:</b>								
Compact funding	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Fees and charges	-	18,433	2,169	4,638	-	1,886,074	16,545	-
Net change in the fair value of investments	-	-	-	-	-	-	-	-
Other	3,164	-	-	-	52,128	-	-	-
<b>Total revenues</b>	<b>3,164</b>	<b>18,433</b>	<b>2,169</b>	<b>4,638</b>	<b>52,128</b>	<b>1,886,074</b>	<b>16,545</b>	<b>-</b>
<b>Expenditures:</b>								
Ministry of Health	-	-	-	-	-	1,965,164	-	-
Ministry of Resources and Development	-	-	-	-	-	-	-	43
Ministry of Community and Cultural Affairs	-	-	-	4,793	-	-	-	-
Ministry of Justice	-	-	2,672	-	-	-	-	-
Investment management fees	-	-	-	-	-	-	-	-
Other	-	9,404	-	-	1,301,383	-	7,568	-
<b>Total expenditures</b>	<b>-</b>	<b>9,404</b>	<b>2,672</b>	<b>4,793</b>	<b>1,301,383</b>	<b>1,965,164</b>	<b>7,568</b>	<b>43</b>
Excess (deficiency) of revenues over (under) expenditures	3,164	9,029	(503)	(155)	(1,249,255)	(79,090)	8,977	(43)
<b>Other financing sources (uses):</b>								
Operating transfers in	-	-	-	-	1,268,943	-	-	-
Operating transfers out	-	-	-	-	-	-	-	-
<b>Total other financing sources (uses), net</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,268,943</b>	<b>-</b>	<b>-</b>	<b>-</b>
Net change in fund balances (deficits)	3,164	9,029	(503)	(155)	19,688	(79,090)	8,977	(43)
Fund balances (deficits) at the beginning of the year	17,864	74,081	893	1,679	92,723	735,046	66,434	(4,666)
Fund balances (deficits) at the end of the year	<u>\$ 21,028</u>	<u>\$ 83,110</u>	<u>\$ 390</u>	<u>\$ 1,524</u>	<u>\$ 112,411</u>	<u>\$ 655,956</u>	<u>\$ 75,411</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 (Deficits), Continued  
Year Ended September 30, 2008

	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
<b>Revenues:</b>								
Compact funding	\$ -	\$ -	\$ 260,600	\$ 631,000	\$ -	\$ -	\$ 2,000,000	\$ 2,891,600
Fees and charges	49,167	-	-	-	-	-	-	1,977,026
Net change in the fair value of investments	-	119,191	6,785	4,482	13,950	(525,409)	13,093	(367,908)
Other	-	-	-	-	-	-	-	55,292
<b>Total revenues</b>	<u>49,167</u>	<u>119,191</u>	<u>267,385</u>	<u>635,482</u>	<u>13,950</u>	<u>(525,409)</u>	<u>2,013,093</u>	<u>4,556,010</u>
<b>Expenditures:</b>								
Ministry of Health	-	-	-	-	-	-	-	1,965,164
Ministry of Resources and Development	-	-	-	-	-	-	-	43
Ministry of Community and Cultural Affairs	-	-	-	-	-	-	-	4,793
Ministry of Justice	20,842	-	-	-	-	-	-	23,514
Investment management fees	-	1,629	108	63	209	12,178	203	14,390
Other	-	-	-	-	-	-	-	1,318,355
<b>Total expenditures</b>	<u>20,842</u>	<u>1,629</u>	<u>108</u>	<u>63</u>	<u>209</u>	<u>12,178</u>	<u>203</u>	<u>3,326,259</u>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<u>28,325</u>	<u>117,562</u>	<u>267,277</u>	<u>635,419</u>	<u>13,741</u>	<u>(537,587)</u>	<u>2,012,890</u>	<u>1,229,751</u>
<b>Other financing sources (uses):</b>								
Operating transfers in	-	-	-	-	-	1,501,438	-	2,770,381
Operating transfers out	-	-	(249,000)	(631,000)	-	-	(2,000,000)	(2,880,000)
<b>Total other financing sources (uses), net</b>	<u>-</u>	<u>-</u>	<u>(249,000)</u>	<u>(631,000)</u>	<u>-</u>	<u>1,501,438</u>	<u>(2,000,000)</u>	<u>(109,619)</u>
<b>Net change in fund balances (deficits)</b>	<u>28,325</u>	<u>117,562</u>	<u>18,277</u>	<u>4,419</u>	<u>13,741</u>	<u>963,851</u>	<u>12,890</u>	<u>1,120,132</u>
<b>Fund balances (deficits) at the beginning of the year</b>	<u>102,873</u>	<u>3,009,852</u>	<u>80,297</u>	<u>44,343</u>	<u>431,853</u>	<u>927,662</u>	<u>199,383</u>	<u>5,780,317</u>
<b>Fund balances (deficits) at the end of the year</b>	<u>\$ 131,198</u>	<u>\$ 3,127,414</u>	<u>\$ 98,574</u>	<u>\$ 48,762</u>	<u>\$ 445,594</u>	<u>\$ 1,891,513</u>	<u>\$ 212,273</u>	<u>\$ 6,900,449</u>

See Accompanying Independent Auditors' Report.

**REPUBLIC OF PALAU**  
**NONMAJOR GOVERNMENTAL FUNDS - CAPITAL PROJECTS FUNDS**

September 30, 2008

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, 2008

	<u>DOI Capital Projects</u>	<u>Local Capital Projects</u>	<u>Compact Section 212(b) Capital Account</u>	<u>Total</u>
<u>ASSETS</u>				
Investments	\$ -	\$ -	\$ 114,674	\$ 114,674
Receivables, net:				
General	-	9,581	-	9,581
Due from other funds	263,592	1,966,963	-	2,230,555
Advances	-	777	-	777
Total assets	<u>\$ 263,592</u>	<u>\$ 1,977,321</u>	<u>\$ 114,674</u>	<u>\$ 2,355,587</u>
<u>LIABILITIES AND FUND BALANCES</u>				
Liabilities:				
Accounts payable	\$ -	\$ 36,874	\$ -	\$ 36,874
Deferred revenue	180,453	-	-	180,453
Total liabilities	<u>180,453</u>	<u>36,874</u>	<u>-</u>	<u>217,327</u>
Fund balances:				
Reserved for:				
Encumbrances	-	54,119	-	54,119
Unreserved	83,139	1,886,328	114,674	2,084,141
Total fund balances	<u>83,139</u>	<u>1,940,447</u>	<u>114,674</u>	<u>2,138,260</u>
Total liabilities and fund balances	<u>\$ 263,592</u>	<u>\$ 1,977,321</u>	<u>\$ 114,674</u>	<u>\$ 2,355,587</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, 2008

	<u>DOI Capital Projects</u>	<u>Local Capital Projects</u>	<u>Compact Section 212(b) Capital Account</u>	<u>Total</u>
Revenues:				
Net change in the fair value of investments	\$ -	\$ 172,940	\$ 12,080	\$ 185,020
Total revenues	<u>-</u>	<u>172,940</u>	<u>12,080</u>	<u>185,020</u>
Expenditures:				
Public Utilities Corporation		3,000,000		3,000,000
Capital projects	-	982,760	177	982,937
Total expenditures	<u>-</u>	<u>3,982,760</u>	<u>177</u>	<u>3,982,937</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>(3,809,820)</u>	<u>11,903</u>	<u>(3,797,917)</u>
Other financing sources:				
Transfer out	-	(973,000)	-	(973,000)
Total other financing sources	<u>-</u>	<u>(973,000)</u>	<u>-</u>	<u>(973,000)</u>
Net change in fund balances	-	(4,782,820)	11,903	(4,770,917)
Fund balances at the beginning of the year	<u>83,139</u>	<u>6,723,267</u>	<u>102,771</u>	<u>6,909,177</u>
Fund balances at the end of the year	<u>\$ 83,139</u>	<u>\$ 1,940,447</u>	<u>\$ 114,674</u>	<u>\$ 2,138,260</u>

See Accompanying Independent Auditors' Report.

**REPUBLIC OF PALAU**  
**NONMAJOR GOVERNMENTAL FUNDS - DEBT SERVICE FUND**

September 30, 2008

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, 2008

	U.S. Federal Grants	Other Country Grants	Non-DOI Capital Projects	Other Grants	OTIA Direct Grants	Total
<b>ASSETS</b>						
Receivables, net:						
General	\$ 1,277	\$ 62,071	\$ -	\$ -	\$ -	\$ 63,348
Federal agencies	1,946,338	-	838,360	-	495,923	3,280,621
Due from other funds	-	2,650,401	-	1,225,772	-	3,876,173
Advances	89,218	1,012	-	38,732	29,067	158,029
Prepaid items	294,279	280,000	-	19,657	1,279	595,215
Total assets	<u>\$ 2,331,112</u>	<u>\$ 2,993,484</u>	<u>\$ 838,360</u>	<u>\$ 1,284,161</u>	<u>\$ 526,269</u>	<u>\$ 7,973,386</u>
<b>LIABILITIES AND FUND BALANCES</b>						
Liabilities:						
Accounts payable	\$ 765,346	\$ 14,539	\$ 36,600	\$ 81,313	\$ 250,925	\$ 1,148,723
Contract payable	-	2,974,311	504,967	-	-	3,479,278
Deferred revenues	-	-	-	1,200,293	-	1,200,293
Other liabilities and accruals	28,309	4,634	173	2,555	414	36,085
Due to other funds	1,537,457	-	294,999	-	257,126	2,089,582
Total liabilities	<u>2,331,112</u>	<u>2,993,484</u>	<u>836,739</u>	<u>1,284,161</u>	<u>508,465</u>	<u>7,953,961</u>
Fund balances:						
Reserved for:						
Related assets	109,164	-	-	29,819	6,430	145,413
Encumbrances	1,279,065	3,536,912	3,576,485	374,984	115,978	8,883,424
Unreserved (deficits):						
Special revenue funds	(1,388,229)	(3,536,912)	(3,574,864)	(404,803)	(104,604)	(9,009,412)
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>\$ 2,331,112</u>	<u>\$ 2,993,484</u>	<u>\$ 838,360</u>	<u>\$ 1,284,161</u>	<u>\$ 526,269</u>	<u>\$ 7,973,386</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, 2008

	U.S. Federal Grants	Other Country Grants	Non-DOI Capital Projects	Other Grants	OTIA Direct Grants	Total
Revenues:						
Federal contributions	\$ 7,977,180	\$ -	\$ 6,912,628	\$ -	\$ 1,355,494	\$ 16,245,302
Other grants	-	8,827,528	-	2,950,071	-	11,777,599
Total revenues	7,977,180	8,827,528	6,912,628	2,950,071	1,355,494	28,022,901
Expenditures:						
Ministry of Health	4,643,176	-	-	53,104	349,083	5,045,363
Ministry of Education	2,629,888	-	-	37,000	-	2,666,888
Ministry of Finance	-	-	-	169,138	26,110	195,248
Ministry of Resources and Development	153,532	-	-	27,740	431,684	612,956
Ministry of Commerce and Trade	329,330	-	-	-	-	329,330
Ministry of State	-	-	-	57,792	-	57,792
Ministry of Justice	-	-	-	3,957	-	3,957
Office of the President	141,536	-	-	785,191	-	926,727
Office of the Vice-President	107,218	-	-	-	-	107,218
Office of the Public Auditor	-	-	-	-	456,650	456,650
Other	-	-	-	2,031,677	91,967	2,123,644
Capital projects	-	8,827,528	6,912,628	-	-	15,740,156
Total expenditures	8,004,680	8,827,528	6,912,628	3,165,599	1,355,494	28,265,929
Excess (deficiency) of revenues over (under) expenditures	(27,500)	-	-	(215,528)	-	(243,028)
Other financing sources (uses):						
Operating transfers in	27,500	-	-	215,528	-	243,028
Total other financing sources	27,500	-	-	215,528	-	243,028
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  
Deficit - Budget and Actual - Compact Section 211(b) - Energy Fund  
Year Ended September 30, 2008

	<u>Fiscal Year 2008 Budget</u>	<u>Continuing Appropriation</u>	<u>Total Available Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:					
Net increase in the fair value of investments	\$ 1,629	\$ -	\$ 1,629	\$ 119,191	\$ 117,562
Total revenues	<u>1,629</u>	<u>-</u>	<u>1,629</u>	<u>119,191</u>	<u>117,562</u>
Expenditures:					
Investment management fees	<u>1,629</u>	<u>-</u>	<u>1,629</u>	<u>1,629</u>	<u>-</u>
Total expenditures	<u>1,629</u>	<u>-</u>	<u>1,629</u>	<u>1,629</u>	<u>-</u>
Excess of revenues over expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>117,562</u>	<u>117,562</u>
Other financing sources(uses), net:					
Transfer from General Fund	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Unreserved deficit at the beginning of the year	<u>(333,550)</u>	<u>(4,415,607)</u>	<u>(4,749,157)</u>	<u>(14,754)</u>	<u>4,734,403</u>
Unreserved deficit at the end of the year	<u>\$ (333,550)</u>	<u>\$ (4,415,607)</u>	<u>\$ (4,749,157)</u>	<u>\$ 102,808</u>	<u>\$ 4,851,965</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, 2008

	Fiscal Year 2008 Budget	Continuing Appropriation	Total Available Budget	Actual	Variance
Revenues:					
Compact funding	\$ 260,600	\$ -	\$ 260,600	\$ 260,600	\$ -
Net increase in the fair value of investments	108	-	108	5,785	5,677
Total revenues	<u>260,708</u>	<u>-</u>	<u>260,708</u>	<u>266,385</u>	<u>5,677</u>
Expenditures:					
Investment management fees	108	-	108	108	-
Total expenditures	<u>108</u>	<u>-</u>	<u>108</u>	<u>108</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	<u>260,600</u>	<u>-</u>	<u>260,600</u>	<u>266,277</u>	<u>5,677</u>
Other financing sources (uses):					
Transfers to General Fund	(249,000)	-	(249,000)	(249,000)	-
Total other financing sources (uses), net	<u>(249,000)</u>	<u>-</u>	<u>(249,000)</u>	<u>(249,000)</u>	<u>-</u>
Excess of revenues over expenditures	11,600	-	11,600	17,277	5,677
Unreserved fund balance at the beginning of the year	75,262	(50,000)	25,262	80,297	55,035
Unreserved fund balance at the end of the year	<u>\$ 86,862</u>	<u>\$ (50,000)</u>	<u>\$ 36,862</u>	<u>\$ 97,574</u>	<u>\$ 60,712</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU  
SPECIAL REVENUE FUNDS

Statement of Revenues, Expenditures, and Changes in  
Fund Balance - Budget and Actual - Compact Section 211(d) -  
Maritime, Health and Scholarship Fund  
Year Ended September 30, 2008

	Fiscal Year 2008 Budget	Continuing Appropriation	Total Available Budget	Actual	Variance
Revenues:					
Compact funding	\$ 631,000	\$ -	\$ 631,000	\$ 631,000	\$ -
Net increase in the fair value of investments	<u>63</u>	<u>-</u>	<u>63</u>	<u>4,482</u>	<u>4,419</u>
Total revenues	<u>631,063</u>	<u>-</u>	<u>631,063</u>	<u>635,482</u>	<u>4,419</u>
Expenditures:					
Investment management fees	<u>63</u>	<u>-</u>	<u>63</u>	<u>63</u>	<u>-</u>
Total expenditures	<u>63</u>	<u>-</u>	<u>63</u>	<u>63</u>	<u>-</u>
Excess of revenue over expenditures	<u>631,000</u>	<u>-</u>	<u>631,000</u>	<u>635,419</u>	<u>4,419</u>
Other financing sources (uses), net:					
Transfers to General Fund	<u>(631,000)</u>	<u>-</u>	<u>(631,000)</u>	<u>(631,000)</u>	<u>-</u>
Net change in fund balance	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,419</u>	<u>4,419</u>
Unreserved fund balance at the beginning of the year	<u>58,176</u>	<u>-</u>	<u>58,176</u>	<u>44,343</u>	<u>(13,833)</u>
Unreserved fund balance at the end of the year	<u>\$ 58,176</u>	<u>\$ -</u>	<u>\$ 58,176</u>	<u>\$ 48,762</u>	<u>\$ (9,414)</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, 2008

	Fiscal Year 2008 Budget	Continuing Appropriation	Total Available Budget	Actual	Variance
Revenues:					
Net increase in the fair value of investments	\$ 209	\$ -	\$ 209	\$ 13,950	\$ 13,741
Total revenues	<u>209</u>	<u>-</u>	<u>209</u>	<u>13,950</u>	<u>13,741</u>
Expenditures:					
Investment management fees	<u>209</u>	<u>-</u>	<u>209</u>	<u>209</u>	<u>-</u>
Total expenditures	<u>209</u>	<u>-</u>	<u>209</u>	<u>209</u>	<u>-</u>
Excess of revenues over expenditures	-	-	-	13,741	13,741
Unreserved fund balance at the beginning of the year	<u>273,670</u>	<u>-</u>	<u>273,670</u>	<u>431,853</u>	<u>158,183</u>
Unreserved fund balance at the end of the year	<u>\$ 273,670</u>	<u>\$ -</u>	<u>\$ 273,670</u>	<u>\$ 445,594</u>	<u>\$ 171,924</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, 2008

	Fiscal Year 2008 Budget	Continuing Appropriation	Total Available Budget	Actual	Variance
<b>Revenues:</b>					
Net increase in the fair value of investments	\$ 12,178	\$ -	\$ 12,178	\$ (525,409)	\$ (537,587)
Total revenues	<u>12,178</u>	<u>-</u>	<u>12,178</u>	<u>(525,409)</u>	<u>(537,587)</u>
<b>Expenditures:</b>					
Investment management fees	12,178	-	12,178	12,178	-
Total expenditures	<u>12,178</u>	<u>-</u>	<u>12,178</u>	<u>12,178</u>	<u>-</u>
Excess of revenues over expenditures	-	-	-	(537,587)	(537,587)
<b>Other financing sources (uses):</b>					
Transfers from General Fund	-	-	-	1,501,438	1,501,438
Net change in fund balance	-	-	-	1,501,438	1,501,438
Unreserved fund balance at the beginning of the year	<u>5,653,601</u>	<u>-</u>	<u>5,653,601</u>	<u>927,662</u>	<u>(4,725,939)</u>
Unreserved fund balance at the end of the year	<u>\$ 5,653,601</u>	<u>\$ -</u>	<u>\$ 5,653,601</u>	<u>\$ 1,891,513</u>	<u>\$ (3,762,088)</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, 2008

	Fiscal Year 2008 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	203	-	203	13,093	12,890
Total revenues	<u>2,000,203</u>	<u>-</u>	<u>2,000,203</u>	<u>2,013,093</u>	<u>12,890</u>
Expenditures:					
Investment management fees	203	-	203	203	-
Total expenditures	<u>203</u>	<u>-</u>	<u>203</u>	<u>203</u>	<u>-</u>
Excess of revenues over expenditures	<u>2,000,000</u>	<u>-</u>	<u>2,000,000</u>	<u>2,012,890</u>	<u>12,890</u>
Other financing sources (uses):					
Transfers to Palau Community College	(2,000,000)	-	(2,000,000)	(2,000,000)	-
Net change in fund balance	-	-	-	12,890	12,890
Unreserved fund balance at the beginning of the year	<u>(619,112)</u>	<u>2,277,000</u>	<u>1,657,888</u>	<u>199,383</u>	<u>(1,458,505)</u>
Unreserved fund balance at the end of the year	<u>\$ (619,112)</u>	<u>\$ 2,277,000</u>	<u>\$ 1,657,888</u>	<u>\$ 212,273</u>	<u>\$ (1,445,615)</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, 2008

	Fiscal Year 2008 Budget	Continuing Appropriation	Total Available Budget	Actual	Variance
Revenues:					
Net increase in the fair value of investments	\$ 177	\$ -	\$ 177	\$ 12,080	\$ 11,903
Total revenues	<u>177</u>	<u>-</u>	<u>177</u>	<u>12,080</u>	<u>11,903</u>
Expenditures:					
Investment management fees	177	-	177	177	-
New public health building	-	-	-	-	-
Elementary school repairs	-	-	-	-	-
State capital improvement projects	-	-	-	-	-
Total expenditures	<u>177</u>	<u>-</u>	<u>177</u>	<u>177</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	-	-	-	11,903	11,903
Unreserved fund balance at beginning of year	<u>(1,046,934)</u>	<u>(24,339,101)</u>	<u>(25,386,035)</u>	<u>102,771</u>	<u>25,488,806</u>
Unreserved fund balance at end of year	<u>\$ (1,046,934)</u>	<u>\$ (24,339,101)</u>	<u>\$ (25,386,035)</u>	<u>\$ 114,674</u>	<u>\$ 25,500,709</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU  
OTHER GRANTS FUND

Schedule of Expenditures of Other Grants  
Year Ended September 30, 2008

Fund 360100 Grantor Account Title	Cost Center	Authorization	Receivable from Grantor (Deferred Revenue) at 10/01/07	(Revenues) Cash Receipts FY 2008	Expenditures FY 2008	Receivable from Grantor (Deferred Revenue) at 9/30/08
<u>UNFPA Grant</u>						
UNFPA FY 1996	H63920	\$ 57,889	\$ 1,058	-	-	1,058
<u>UN Pop Education Program</u>						
UN Pop Education Program 1995	E53921	22,940	(1,188)	-	-	(1,188)
Population Education Grants 1996	E63921	27,295	(1,894)	-	-	(1,894)
Population Education Grants 1998	E83921	9,180	(7,239)	-	-	(7,239)
UNFPA - Census Relates 1996	S63921	16,000	(606)	-	-	(606)
Total UN Pop Education Program		75,415	(10,927)	-	-	(10,927)
<u>UNCCD Grant Committee</u>						
UNCCD (SLM-PDF A)	A53923	25,000	(3,164)	(1,370)	1,793	(0)
Solar Energy MGMT Demo	A83923	90,000	-	54,000	56,000	2,000
UNCCD Gran Committee	S03923	22,950	(4,851)	-	-	(4,851)
Total UNCCD		137,950	(8,015)	52,630	57,793	(2,851)
<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	(5,488)	-	-	(5,488)
Total WHO APW health Career Trng		47,450	(6,446)	-	-	(6,446)
<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	-	10,125	5,359	(4,766)
UN DEVEL PROGRAMME (UNDP)	F53929	314,000	75,037	50,000	117,649	142,686
Total UNDP		806,642	84,998	60,125	123,008	147,881
<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	(5,079)	73,934	173,607	94,594
Total Climate Change (UN) GET		750,000	(17,262)	73,934	173,607	82,411
<u>National Biosafety Framework</u>						
National Biosafety Framework	A23931	131,000	74,350	32,000	-	42,350
<u>GEF Operational Focal Point</u>						
GEF Operational Plan	A23932	8,500	2,070	-	-	2,070
<u>SPREP (International Water IWP)</u>						
Int'l Water of the Pac	A23933	97,875	(568)	-	-	(568)
Int'l Water of the Pacific FY04	F43933	102,200	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)

REPUBLIC OF PALAU  
OTHER GRANTS FUND

Schedule of Expenditures of Other Grants  
Year Ended September 30, 2008

Fund 360100 Grantor Account Title	Cost Center	Authorization	Receivable from Grantor (Deferred Revenue) at 10/01/07	(Revenues) Cash Receipts FY 2008	Expenditures FY 2008	Receivable from Grantor (Deferred Revenue) at 9/30/08
<u>SPREP</u>						
Ozone Depleting Substance	A33936	50,000	7,563	-	210	7,773
Ozone Depleting Substance	A73936	3,400	(3,400)	23,333	5,144	(21,589)
		53,400	4,163	23,333	5,354	(13,816)
<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	(1,181)	-	12,997	11,816
<u>UNDP (NCSA) Global Env. Mgmt</u>						
UNDP (Global Env. Mgmt.)	A33939	25,000	24,838	-	-	24,838
<u>UNICEF</u>						
Justice Program	J33940	6,200	(345)	-	-	(345)
<u>PALAU NCSA</u>						
PALAU NCSA - TTP/03/G41	F43943	200,000	140,261	190,143	20,090	(29,792)
<u>National Capacity Self Assesment</u>						
National Capacity Self Assessment	F43944	25,000	(602)	(602)	-	0
<u>Access to Benefit Sharing</u>						
Access to Benefit Sharing Program	F43945	31,343	(19)	-	-	(19)
<u>FOOD &amp; AGRICULTURE</u>						
National Forest Policy	R53946	4,350	(7,622)	-	6,789	(833)
<u>3RD REPORT ON BIODIVERSITY</u>						
3rd Report on Biodiversity	A63947	16,500	(2,053)	-	1,854	(199)
<u>PW Feassibility Study Energy</u>						
PW Feasability Study	R83953	17,000	-	17,000	-	(17,000)
<u>2ND FRANCE-OCEANIA SUMMIT</u>						
2nd France-Oceania Summit	A63954	34,410	(1,652)	-	-	(1,652)
<u>Watercourse Splash</u>						
Watercourse Splash	A23955	6,000	(104)	-	-	(104)
<u>Japan Grant (Horifuma Arima)</u>						
Japan Grant (Horifuma Arima)	A23956	70,809	5	-	-	5
Ngchesar Elementary School Renovation	E43956	54,895	(52)	-	-	(52)
Nippon Foundation Grant	R63956	25,493	(23,574)	-	13,579	(9,995)
Total Japan Grant		151,197	(23,621)	-	13,579	(10,042)
<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  
Year Ended September 30, 2008

Fund 360100 Grantor Account Title	Cost Center	Authorization	Receivable from Grantor (Deferred Revenue) at 10/01/07	(Revenues) Cash Receipts FY 2008	Expenditures FY 2008	Receivable from Grantor (Deferred Revenue) at 9/30/08
<u>President (Korean Grant)</u>						
President (Korean Grant)	A23958	9,532	(509)	-	-	(509)
<u>Electronic Tech. Grants (Japan Grant)</u>						
Electronic Tech. Grants (Japan Grant)	A23959	500,000	(27,208)	-	-	(27,208)
<u>Canada Funds</u>						
Palau National Youth Policy	C43960	36,500	(1,468)	-	-	(1,468)
<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
Info Dev. Planning (IBRD)	A93965	103,627	(21,380)	-	-	(21,380)
Total Info Dev. Planning (IBRD)		303,627	(155)	-	-	(155)
<u>Republic of China Grants</u>						
China Grants - Sport Comm	A83966	56,087	55,761	55,761	-	-
National Youth Policies Development	C43966	6,000	(2,296)	-	-	(2,296)
PM & SP Capacity Building	F63966	200,000	(4,411)	-	2,561	(1,850)
PM & SP Capacity BLDG PRO	F73966		-	10,000	-	(10,000)
ROC-PAC Summit Security	J63966	30,000	(4,825)	-	(307)	(5,132)
Total Republic of China Grants		292,087	44,229	65,761	2,255	(19,277)
<u>Forum Secretariat Grants</u>						
Forum Sect. Drought Relief 1998	A83967	10,180	(2,156)	-	-	(2,156)
Forum Import Mang Wrkshp 2001	A13967	2,300	2,028	-	-	2,028
Education Awareness Week	E73967	95,040	-	-	-	-
Total Forum Sect. Drought Relief		107,520	(128)	-	-	(128)
<u>Computerization (State)</u>						
Computerization (State) 1998	S83968	10,000	(172)	-	-	(172)
<u>FFA - Grants (President's Office)</u>						
FAA - President's Office	A03969	19,941	(1,922)	-	705	(1,217)
FAA - President's Office	A13969	39,000	(2,074)	-	469	(1,605)
FAA - President's Office	A23969	61,195	(1,503)	-	1,453	(50)
FAA - President's Office	A33969	71,194	(11,110)	-	9,636	(1,474)
FAA - Conferences	A93969	4,975	(727)	-	-	(727)
PALM 2000 (Tokyo Japan)	S03969	16,656	(495)	-	-	(495)
36TH PACIFIC ISLS FORUM	A53969	68,360	(2,531)	-	769	(1,762)
FAA - President's Office	A73969	19,985	(80,662)	-	63,896	(16,766)
FAA - President's Office	A83969	14,980	(14,980)	-	-	(14,980)
TRAVEL - FOC/FORUM Meeting	P63969	65,000	(6,985)	-	-	(6,985)

REPUBLIC OF PALAU  
OTHER GRANTS FUND

Schedule of Expenditures of Other Grants  
Year Ended September 30, 2008

Fund 360100 Grantor Account Title	Cost Center	Authorization	Receivable from Grantor (Deferred Revenue) at 10/01/07	(Revenues) Cash Receipts FY 2008	Expenditures FY 2008	Receivable from Grantor (Deferred Revenue) at 9/30/08
Annual Meeting of IWC	P73969	18,600	(5,192)	-	-	(5,192)
Total FFA - Grants		399,886	(128,181)	-	76,929	(51,252)
<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	(2,392)	-	1,995	(397)
Total PMA Office Building/Infrastructure		115,679	(7,216)	-	1,995	(5,221)
<u>Fisheries Forum Agency</u>						
FAA Recrit Qualiry Pers	A13971	30,000	(1,154)	-	-	(1,154)
Fisheries & Maritime Cons.	R23971	30,000	25	-	-	25
Marine Law Observer	J8FFA1	25,000	-	25,000	-	(25,000)
FFA Sonsorol Fishing Boat	S53971	114,975	(2,337)	-	-	(2,337)
Boundary Delimitation Pro	S73971	16,985	(362)	-	-	(362)
FFA (PDF Conference)	S83971	4,980	(1,159)	-	-	(1,159)
FFC59 MEETING IN MAJURO	R53971	4,348	(27)	-	-	(27)
55th Tuna Conference	R43971	16,203	(190)	-	-	(190)
FFA-Palau PDF Fund- 15%	R83971	190,940	-	190,940	-	(190,940)
PI Forum Leaders Meeting	S8FFA1	100,000	-	100,000	56,639	(43,361)
Total Fisheries Forum Agency		533,431	(5,204)	315,940	56,639	(264,505)
<u>Foreign Grants State</u>						
Office Equip - Australia Grant	S50301	38,027	(1,639)	-	-	(1,639)
SPC Youth Skills Training	S53972	5,000	(2,706)	-	-	(2,706)
Total Foreign Grants State		43,027	(4,345)	-	-	(4,345)
<u>SPREP (Ngermeduu Conservation)</u>						
Marine Project / Area Project	B23972	13,252	(5,303)	-	-	(5,303)
Ngermeduu Conservation Area	R23972	27,500	(4,660)	-	942	(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	(16,243)	-	942	(15,301)
<u>GIS/GPS Taining (SPREP)</u>						
GIS/GPS Training	R23973	32,296	(21,112)	-	-	(21,112)
<u>Tax Equipment Furniture &amp; 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)

REPUBLIC OF PALAU  
OTHER GRANTS FUND

Schedule of Expenditures of Other Grants  
Year Ended September 30, 2008

Fund 360100 Grantor Account Title	Cost Center	Authorization	Receivable from Grantor (Deferred Revenue) at 10/01/07	(Revenues) Cash Receipts FY 2008	Expenditures FY 2008	Receivable from Grantor (Deferred Revenue) at 9/30/08
AUSAID	H73975	4,800	-	-	-	-
Ramsar Wetl'ds Cons Fund	S70201	6,796	(5,721)	-	-	(5,721)
Total Australian Grants		37,568	(12,181)	-	-	(12,181)
<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 Tairou 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	(5,697)	-	1,757	(3,940)
Packard EBM Project-EQPB	A63980	107,755	(92,527)	22,425	54,100	(60,852)
		180,622	(98,224)	22,425	55,857	(64,793)
<u>Marine Res Conservation</u>						
Marine Res Conservation	R53980	38,900	(4,764)	-	-	(4,764)
<u>CDC &amp; 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 &amp; TC Pacific Basin Grant</u>						
RR & TC Pacific Basin Grant	H63985	54,000	9,900	-	-	9,900
RR & TC Pacific Basin Grant	H83985	22,000	(479)	-	-	(479)
SDSU Foundation	H93985	23,100	(178)	-	-	(178)
Total RR &TC Pacific Basin Grant		99,100	9,243	-	-	9,243
<u>Pacific Basin Development Council</u>						
Pacific Basin Development Council	A63986	4,800	(1,011)	-	-	(1,011)
<u>DNA Project (University of Utah)</u>						
DNA Project (University of Utah)	H93987	16,700	(39)	-	-	(39)
Palau Youth Project	H83987	48,864	-	48,864	27,119	(21,745)
Palau Youth Project 2007	H73987	22,000	(2,268)	-	2,011	(257)
		87,564	(2,307)	48,864	29,131	(22,040)
<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)

REPUBLIC OF PALAU  
OTHER GRANTS FUND

Schedule of Expenditures of Other Grants  
Year Ended September 30, 2008

Fund 360100 Grantor Account Title	Cost Center	Authorization	Receivable from Grantor (Deferred Revenue) at 10/01/07	(Revenues) Cash Receipts FY 2008	Expenditures FY 2008	Receivable from Grantor (Deferred Revenue) at 9/30/08
Christa M. Fellowship Program 1999	E93990	10,279	(279)	-	-	(279)
Christa M. Fellowship Program 2000	E03990	10,279	(4,405)	-	-	(4,405)
Christa M. Fellowship Program 2002	E23990	10,003	(4,933)	-	-	(4,933)
Total Christa M. Fellowship Program		61,398	(14,415)	-	-	(14,415)
<u>LSTA State Grants</u>						
LSTA State Grants	E93992	44,274	(1,035)	-	-	(1,035)
LSTA State Grants	E13992	40,377	(801)	-	-	(801)
LSTA State Grants	E43992	68,499	-	-	-	-
LSTA State Grants FY05	E63992	43,687	-	-	-	-
LSTA State Grant FY07-FY08	E83992	37,000	-	-	37,000	37,000
LSTA State Grants FY07	E73992	54,349	41,115	-	-	41,115
Total LSTA State Grants		288,186	39,279	-	37,000	76,279
<u>Genetic Study (MOH)</u>						
Genetic Study	H13993	405,000	(3,816)	-	1,856	(1,960)
<u>Palau Public Library Grants</u>						
Palau Public Library Grant	E23994	39,630	(13,433)	-	-	(13,433)
<u>Census (Rare Ctr Trop Con)</u>						
Census	A33995	25,000	(5,060)	-	1,151	(3,909)
<u>Protected Areas Network</u>						
TNC MOU Assist to PAN	A83997	6,000	-	6,000	3,698	(2,302)
Protected Areas Network	R43997	39,700	(1,884)	-	841	(1,043)
		45,700	(1,884)	6,000	4,540	(3,344)
<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	(722)	-	-	(722)
<u>UNDP/UNCCD/GEF</u>						
UNDP (SEDREA) Energy	A68923	12,000	(8,455)	(6,455)	1,887	(113)
<u>10th International Coral Reef Sympto</u>						
International Coral Reef Sympto	F48961	1,400	1,400	-	-	1,400
<u>Giant Clam Farming Project</u>						
Giant Clam Farming Project	T88962	14,967	-	14,967	31	(14,936)
Giant Clam Farming Project	T48962	15,000	(1,168)	-	-	(1,168)
		29,967	(1,168)	14,967	31	(16,104)

REPUBLIC OF PALAU  
OTHER GRANTS FUND

Schedule of Expenditures of Other Grants  
Year Ended September 30, 2008

Fund 360100 Grantor Account Title	Cost Center	Authorization	Receivable from Grantor (Deferred Revenue) at 10/01/07	(Revenues) Cash Receipts FY 2008	Expenditures FY 2008	Receivable from Grantor (Deferred Revenue) at 9/30/08
<u>TUNA DATA COORDINATOR</u>						
<u>Tuna DATA Entry Technician</u>	R88963	8,756	-	8,756	360	(8,396)
Tuan Data Coordinator	R68963	11,575	(870)	11,575	12,438	(7)
		<u>20,331</u>	<u>(870)</u>	<u>20,331</u>	<u>12,798</u>	<u>(8,403)</u>
<u>HOUSEHOLD INCOME/EXP SURVEY</u>						
Househol Income/Expenditures Survey	F68964	26,684	(4,879)	14,331	17,693	(1,517)
<u>Fisheries Forum Association</u>						
HOSTING CONSULT NEGOTIATI	S5FFA1	7,081	(4,088)	-	-	(4,088)
Foreign Dignitary Housing	S4FFA1	51,310	(2,645)	-	-	(2,645)
Total FAA		<u>58,391</u>	<u>(6,733)</u>	<u>-</u>	<u>-</u>	<u>(6,733)</u>
<u>Cnesus of Population &amp; House Survey</u>						
Census of Pop & House Survey	F48966	185,000	96,266	109,767	13,501	-
<u>Korean Grants</u>						
Bur.of INT'L EXPO	S88967	7,085	-	7,067	7,085	18
<u>HOSPITAL EQUIP - IINDIA GRT</u>						
HOSPITAL EQUIP - INDIA GRT	H58968	149,841	(47,745)	-	47,655	(90)
<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	(9,461)	-	5,596	(3,865)
<u>INDEPENDENCE DAY (ROC)</u>						
12th Independence Day	P6R0C1	100,000	(1,074)	-	(866)	(1,940)
President's Expenses	P6R0C2	200,000	(2,754)	-	1,019	(1,735)
13th Independence Day	P7ROC1	50,000	35,841	50,000	11,679	(2,480)
Total Independence day		<u>350,000</u>	<u>32,013</u>	<u>50,000</u>	<u>11,831</u>	<u>(6,156)</u>
Total FAA						
<u>CZECH REPUBLIC GRANT</u>						
Czech Dentist Dr. Palek	H78973	23,953	618	-	3,593	4,211
<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	6,120	-	9,530	-	(9,530)
<u>PROTECT MARINE BIODIVERSITY</u>						
Protect Marine Biodiversity	A78976	43,000	(41,878)	-	8,679	(33,199)
<u>PRIDE GRANTS</u>						
Curriculum Frameworks	E7PRI1	150,000	143	150,000	38,717	(111,141)

REPUBLIC OF PALAU  
OTHER GRANTS FUND

Schedule of Expenditures of Other Grants  
Year Ended September 30, 2008

Fund 360100 Grantor Account Title	Cost Center	Authorization	Receivable from Grantor (Deferred Revenue) at 10/01/07	(Revenues) Cash Receipts FY 2008	Expenditures FY 2008	Receivable from Grantor (Deferred Revenue) at 9/30/08
Palau Achievement Tests	E7PRI2	150,000	143	150,000	30	(149,827)
Palauan Textbook	E7PRI3	88,899	143	88,899	30	(88,726)
MOE School Handbook	E8PRI1	43,000	-	-	359	359
Total PRIDE		431,899	429	388,899	39,136	(349,335)
<u>MICRONESIAN CHALANGE DONATION</u>						
Micronesia Chalange Donation	A78978	75,000	(75,000)	-	43,609	(31,391)
Micronesia Chalange Donation	A8TWN1	500,000	-	500,000	500,000	-
Micronesia Chalange Donation	A8GUM1	7,500	-	-	7,500	7,500
		582,500	(75,000)	500,000	551,109	(23,891)
<u>ENERGY SECT IN 5 ACP ISLS</u>						
Energy Sect in 5 ACP Isls	F88979	287,650	-	49,420	48,968	(452)
PAL renewable energy NPE2	F8PE02	430,170	-	215,085	24,124	(190,961)
		717,820	-	264,505	73,092	(191,413)
<u>NEMO PEACESAT ASSISTANCE</u>						
Nemo PEACESAT Assistance	J68980	1,938	(640)	-	102	(538)
<u>NATIONAL FISH &amp; WILDLIFE FOUNDATION</u>						
Coral Reef Conservation	J68981	41,152	7,684	-	3,855	11,539
<u>Sustainable Land MGMT</u>						
Sustainable Land MGMT	A88983	46,750	-	46,750	10,571	(36,179)
<u>Taiwan (ROC) Grants</u>						
Energy Support ASST-OPER	A88984	1,669,000	-	1,900,000	1,669,000	(231,000)
<u>Research CORP UH-RCUH</u>						
Research CORP of UH	R88985	5,000	-	5,000	4,700	(300)
<u>UN Grants</u>						
Biodiversity Cons Program	9935-PR0001	111,449	(975)	-	320	(655)
Total Other Grants		\$ 15,896,140	\$ (133,648)	\$ 4,232,244	\$ 3,165,599	\$ (1,200,293)

REPUBLIC OF PALAU  
OTHER COUNTRY GRANTS

Schedule of Expenditures of Other Country Grants  
Year Ended September 30, 2008

Grantor Account Title	Budget Authorizations	Receivable from Grantor (Deferred Revenue) at 10/01/07	Cash Receipts FY2008	Expenditures FY2008	Receivable from Grantor (Deferred Revenue) at 9/30/08
<b>ROC TAIWAN GRANT 2002</b>					
F03134 ACP-EU TFC/CSP/REP	\$ 35,250	\$ -	\$ -	\$ -	\$ -
F03135 FI/TAX ADVISORY SERVICES	69,625	(912)	-	-	(912)
R03094 NGCHESAR CAUSEWAY CONST	66,100	-	-	-	-
R03095 R0P KB BRIDGE REMOVE	47,000	-	-	-	-
R03096 NGCHESAR STATE BOAT	13,900	-	-	-	-
R03097 HATOHOBELI STATE PROJECT	80,000	(2,797)	-	-	(2,797)
R03099 SONSOROL STATE PROJECT	100,000	(1,492)	-	-	(1,492)
R03101 PELELIU PRIMARY RD (CIP)	971,642	-	-	-	-
R03102 ANGAUR STATE PRIMARY ROAD	483,895	-	-	-	-
R03108 PALAU INT'L AIRPORT IMPV	843,976	(1)	-	-	(1)
R03109 PELELIU PRIMARY RD ASPHLT	1,233,000	(6,737)	-	-	(6,737)
R03110 NGRCHLONG RD CONCRETE PAV	1,282,868	-	-	-	-
R03111 MALAKAL BRIDGE INSPECTION	37,637	(5)	-	-	(5)
R03112 NGERIKIIL RIVER DAM REPAI	200,000	-	-	-	-
R03113 SDA ELEM SCH ROAD IMPROV	238,633	-	-	-	-
R03114 NGERIKIIL PUMP REPLACEMENT	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	(16,109)	-	-	(16,109)
R03119 KAYANGEL STATE BOAT PROJ	25,000	-	-	-	-
R03120 AIRPORT GENERATOR	95,612	(6,367)	-	-	(6,367)
R03121 PA/GUM OFFICE & CULTURAL	65,000	-	-	-	-
R03122 ECHANG SEWER	27,726	-	-	-	-
R03128 PIGGERY & NURSING PROJECT	20,000	-	-	-	-
R03129 NGIWAL SAMBAS PIER REPAIR	6,000	-	-	-	-
R03130 NGIWAL CLAM PROJECT	20,000	-	-	-	-
R03132 NGIWAL GARBAGE&TRASH STDY	13,825	-	-	-	-
R03133 NGRNGEMELAS SQUARE PROJ.	20,175	-	-	-	-
R03136 NTF AGRICULTURE DEVEL	69,037	(317)	-	-	(317)
R03137 ROC PROJECT MANAGEMENT	106,563	29,104	-	-	29,104
SUB TOTAL	<u>7,783,076</u>	<u>(13,326)</u>	<u>-</u>	<u>-</u>	<u>(13,326)</u>
R24940 PALAU NAT'L MUSEUM COMPLX	2,600,000	(72,357)	-	-	(72,357)
SUB TOTAL	<u>2,600,000</u>	<u>(72,357)</u>	<u>-</u>	<u>-</u>	<u>(72,357)</u>
R24941 CENTRAL MRKT & CULT. CNTR	2,500,000	(107,572)	-	67,408	(40,164)
SUB TOTAL	<u>2,500,000</u>	<u>(107,572)</u>	<u>-</u>	<u>67,408</u>	<u>(40,164)</u>
<b>STATE ECONOMIC STIMULUS PACKAGE 2002</b>					
B20102 ELECHUI ROAD EXT/IMPROVMT	20,000	(876)	-	105	(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	(11,914)	-	-	(11,914)
B20304 ANGAUR WATER LINE PROJECT	50,000	(221)	-	-	(221)
B20701 HEADSTART BUILDING CONST	50,000	(990)	-	-	(990)
B20702 NGERULIANG ROAD PAVING	30,000	(578)	-	-	(578)
B20703 OLD AGE CENTER	20,000	(1,698)	-	-	(1,698)
B21001 NGARDMAU ROAD & DOCK PROJ	100,000	(530)	-	-	(530)
B21102 STATE ROAD IMPROVEMENTS	50,000	(9,870)	-	-	(9,870)

REPUBLIC OF PALAU  
OTHER COUNTRY GRANTS

Schedule of Expenditures of Other Country Grants  
Year Ended September 30, 2008

Grantor Account Title	Budget Authorizations	Receivable from Grantor (Deferred Revenue) at 10/01/07	Cash Receipts FY2008	Expenditures FY2008	Receivable from Grantor (Deferred Revenue) at 9/30/08
B21501 ELOCHEL DOCK TERMIAL/OFF	100,000	(94)	-	-	(94)
R24870 CLASSROOM & FACITILY PROJ	174,665	(25,335)	-	-	(25,335)
R24890 SDA SCHL ROAD IMPV PROJ	100,000	(4,497)	-	-	(4,497)
SUB TOTAL	<u>798,665</u>	<u>(67,791)</u>	<u>-</u>	<u>105</u>	<u>(67,686)</u>
<u>STATE ECONOMIC STIMULUS PACKAGE 2003</u>					
B30102 ELECHUI WATER SYSTEM	70,000	(66,339)	-	47,103	(19,236)
B30103 MEDORM ABAI ROOFING EXTEN	8,000	(700)	-	-	(700)
B30104 MEDORM RD EXTENTION/IMPRO	30,000	(30,000)	-	921	(29,079)
B30201 KESEBELAU ROAD EXTENSION	50,000	(907)	-	907	-
B30202 NGERIKIIL PUMP STATION	30,000	(30,000)	-	1,883	(28,117)
B30303 STATE BOAT DRYDOCK	35,000	(35,000)	-	-	(35,000)
B30306 ANGARU STATE OFFICE RENOV	15,000	(5,000)	-	-	(5,000)
B30502 DESPENSARY FACILITY IMPRV	120,000	(17,329)	-	-	(17,329)
B30602 CENTRAL FARMERS MARKET P1	-	-	-	-	-
B30603 NGERBECHED LANDFIL DRAINA	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)
B30607 KOROR ANIMAL SHELTER PROJ	50,000	-	-	-	-
B30702 MAIN ROAD STRIP CONCR PAV	100,000	(13)	-	-	(13)
B30802 CHOLL VARIOUS PROJECTS	50,000	(1,859)	-	1,722	(137)
B30902 OKOTOL ROAD CONSTRUCT/IMP	100,000	(2,994)	-	478	(2,516)
B30903 STEP TRAIL PROJECT	2,000	-	-	-	-
B30904 OLLEI STORAGE TANK PROJ	20,000	(7,155)	-	5,525	(1,630)
B31001 ROAD CONSTRUCTION & IMPRO	50,000	(4,660)	-	4,207	(453)
B31101 ROAD CONSTRUCTION & IMPRO	70,000	(14,537)	-	543	(13,994)
B31201 NGATPANG DOCK/AQUA IMPROV	50,000	(18)	-	-	(18)
B31202 AQUACULTURE PROJECT	50,000	(2,282)	-	250	(2,032)
B31301 CONCRETE ROAD PAVING/IMPR	100,000	(499)	-	-	(499)
B31401 WATER PUMP	8,000	(7,275)	-	-	(7,275)
B31403 CLAM FARM	10,000	(5,425)	-	-	(5,425)
B31404 PGGERY AND NURSERY PROJ	10,000	-	-	-	-
B31501 PELELIU INCINERATOR PROJ	46,000	(341)	-	-	(341)
B31502 CAMP BECK DREDGING	50,000	(3,893)	-	-	(3,893)
B31506 STATE STRUCTURES IMPROV	14,000	-	-	-	-
B31601 TELECOMMUNICATION UPGRADE	75,000	(74,851)	-	-	(74,851)
R34838 TEAKWOOD AND LUMBER	35,000	(62,579)	-	-	(62,579)
R34839 CLAM FARMING PROJECTS	100,000	(2,755)	-	-	(2,755)
R34840 FISHING AGGREGATE DEVICES	100,000	(30,046)	-	20,131	(9,915)
R34843 BLS LAND SURVEYING EQUIP	85,000	(473)	-	-	(473)
R34892 AIRPORT STANDBY GENERATOR	150,000	-	-	-	-
R34961 MALAKAL STP DESIGN COSTS	60,000	-	-	-	-
J34921 PSS REMELIHK HALFLIFE REF	64,000	-	-	-	-
F34817 NEW PRODUCT DEV COMMITTEE	75,000	(55,243)	-	55,000	(243)
SUB TOTAL	<u>1,909,000</u>	<u>(466,184)</u>	<u>-</u>	<u>138,670</u>	<u>(327,514)</u>
R34960 NORTHERN BABLD'D WTRLN	1,100,000	58,817	-	(77,139)	(18,322)
SUB TOTAL	<u>1,100,000</u>	<u>58,817</u>	<u>-</u>	<u>(77,139)</u>	<u>(18,322)</u>
R34841 NAT'L CAPITAL REL PH III	3,450,000	(22,059)	-	3,782	(18,277)
SUB TOTAL	<u>3,450,000</u>	<u>(22,059)</u>	<u>-</u>	<u>3,782</u>	<u>(18,277)</u>

REPUBLIC OF PALAU  
OTHER COUNTRY GRANTS

Schedule of Expenditures of Other Country Grants  
Year Ended September 30, 2008

Grantor Account Title	Budget Authorizations	Receivable from Grantor (Deferred Revenue) at 10/01/07	Cash Receipts FY2008	Expenditures FY2008	Receivable from Grantor (Deferred Revenue) at 9/30/08
R34891 PELELIU CONCRETE RD EXT	500,000	(142,709)	-	-	(142,709)
R44893 INTER-ISLAND WATER TRANS	791,000	(322)	-	-	(322)
J34920 BPS EQUIP IMPRV. GRANTS	664,000	(10,874)	-	-	(10,874)
SUB TOTAL	<u>1,955,000</u>	<u>(153,905)</u>	<u>-</u>	<u>-</u>	<u>(153,905)</u>
R24831 COMPLETION OF CAPITAL,ETC	6,799,000	(70,517)	-	-	(70,517)
R24832 ROADS,PARKING LOTS & ETC	2,750,000	70,343	-	-	70,343
R24834 LANDSCAPING & ETC	451,000	(20)	-	-	(20)
SUB TOTAL	<u>10,000,000</u>	<u>(194)</u>	<u>-</u>	<u>-</u>	<u>(194)</u>
<u>STATE ECONOMIC STIMULUS PACKAGE 2004</u>					
B40101 MEDORM/ELECHUI RD IMPROVE	735,001	(207)	-	65	(142)
B40201 KASEBELAU RD EXT/FIRE HYD	126,000	(777)	-	313	(464)
B40301 ANGAUR STATE BOAT DRYDOCK	35,000	-	-	-	-
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)
B40604 ENVIRON ASSESSMENT STUDY	-	(282,361)	-	-	(282,361)
B40701 MELEKEOK STATE BUILDING	11,000	(9,671)	-	-	(9,671)
B40702 MELEKEOK ROAD IMPROVEMENT	100,000	(100,000)	-	43,528	(56,472)
B40801 ROAD CONSTRUCT/IMPROVE	100,000	-	-	-	-
B41001 ROAD CONSTRUCT/IMPROVE	50,000	(694)	-	-	(694)
B41101 ROAD CONSTRUCT/IMPROVE	50,000	(2,728)	-	470	(2,258)
B41401 NGIRNGEMELAS SQUARE	50,000	(13,167)	-	-	(13,167)
B41501 ASPHALT RD REPAIR/IMPROV	300,000	(101)	-	-	(101)
B41502 PELELIU WAR MEMORIAL	5,000	(826)	-	-	(826)
R44847 NEW CAPITOL FINISHING PRO	100,000	(4,720)	-	4,720	-
R44873 PUBLIC SCHOOLS FAC IMPROV	200,000	(59,844)	-	893	(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 INTERNAT'L WATER TRANSPOR	137,000	-	-	-	-
F44818 NEW PRODUCT DEV COMMITTEE	25,000	(12)	-	-	(12)
SUB TOTAL	<u>3,027,449</u>	<u>(418,405)</u>	<u>-</u>	<u>49,989</u>	<u>(368,416)</u>
R44962 CAPITAL PH III - SEWER	2,783,000	48,177	-	823	49,000
SUB TOTAL	<u>2,783,000</u>	<u>48,177</u>	<u>-</u>	<u>823</u>	<u>49,000</u>
R44826 MELEKEOK/NGIWAL INCINERAT	495,000	49,488	49,582	-	(94)
SUB TOTAL	<u>495,000</u>	<u>49,488</u>	<u>49,582</u>	<u>-</u>	<u>(94)</u>
R54822 INT/EXTERIOR OF CAPITOL B	3,200,000	(14,490)	-	14,490	-
R54827 N BABELDAOB WATERLINE EXT	50,000	30,000	-	-	30,000
R54828 CUSTOMS MODERNIZATION PRO	360,000	29,560	-	5,334	34,894
R54829 GUAM/PALAU COMM CENTER	100,000	(20,145)	-	-	(20,145)
SUB TOTAL	<u>3,710,000</u>	<u>24,925</u>	<u>-</u>	<u>19,824</u>	<u>44,749</u>
<u>STATE ECONOMIC STIMULUS PACKAGE 2005</u>					
B50101 NEKKEN WATER SYS IMPROVE	150,000	(208)	-	-	(208)
B50104 MONGAMI ROAD IMPROVEMENT	25,000	(283)	-	-	(283)

REPUBLIC OF PALAU  
OTHER COUNTRY GRANTS

Schedule of Expenditures of Other Country Grants  
Year Ended September 30, 2008

Grantor Account Title	Budget Authorizations	Receivable from Grantor (Deferred Revenue) at 10/01/07	Cash Receipts FY2008	Expenditures FY2008	Receivable from Grantor (Deferred Revenue) at 9/30/08
B50202 AIRAI ROAD IMPROVEMENT	100,000	(2,288)	-	1,789	(499)
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	(426)	-	60	(366)
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	(14,892)	-	14,892	-
B50602 T-DOCK POOL FILL & PAVING	20,000	(19,000)	-	-	(19,000)
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	(6,373)	-	5,926	(447)
B50901 NGARCHELONG ROAD IMPROVE	100,000	(634)	-	63	(571)
B50902 MENGELLANG ABAI/TYPHOON S	50,000	(155)	-	150	(5)
B50904 OLLEI WATER STORAGE TANKS	-	-	-	-	-
B51001 NGARDMAU DOCK IMPROVEMENT	100,000	(24,450)	-	24,043	(407)
B51101 NGAREMLENGUI ROAD IMPROVE	170,000	-	-	-	-
B51203 NGATPANG AQUACULTURE PROJ	120,000	(1,184)	-	33	(1,151)
B51301 NGCHESAR ROAD IMPROVEMENT	200,000	(921)	-	-	(921)
B51401 NGIWAL ROAD IMPROVEMENT	100,000	(1,557)	-	-	(1,557)
B51402 NGIWAL 2007 IMPROV PROJ	75,000	33,500	-	200	33,700
B51501 PELELIU REV OSMOSIS WTR S	-	-	-	-	-
B51601 SONSOROL SOLAR LIGHTING S	92,000	(81,478)	-	365	(81,113)
B51602 SONSOROL WATER SYSTEM	8,000	(4,204)	-	-	(4,204)
B51604 SONSOROL STATE BOAT	100,000	-	-	-	-
R54847 NEW CAPITOL RELOCATION	55,000	(22,931)	-	22,931	-
H54852 MOH AHU SYSTEM	190,000	(13,910)	-	-	(13,910)
SUB TOTAL	<u>2,273,000</u>	<u>(245,447)</u>	<u>-</u>	<u>70,452</u>	<u>(174,995)</u>
C54964 SOUTH PACIFIC MINI GAMES	1,290,000	(1,538)	-	-	(1,538)
SUB TOTAL	<u>1,290,000</u>	<u>(1,538)</u>	<u>-</u>	<u>-</u>	<u>(1,538)</u>
<b>STATE ECONOMIC STIMULUS PACKAGE 2006</b>					
B60101 MEDORM ROAD IMPROVEMENT	100,000	(25,821)	65,000	81,377	(9,444)
B60102 ELECHUI ROAD IMPROVEMENT	20,000	(4,482)	15,000	2,145	(17,337)
B60201 ORDOMEL ROAD REPAIR PROJ	350,000	(2,685)	-	2,588	(97)
B60202 AIRAI ROAD IMPROVE PORJ.	200,000	(33,197)	-	-	(33,197)
B60301 ANGAUR ROAD IMP PROJ FY06	105,000	(1,597)	-	-	(1,597)
B60302 ANGAUR BAI RENOV FY06	21,500	(7,367)	-	1,001	(6,366)
B60303 ANGAUR BOAT REPAIR FY06	33,500	(23,500)	-	13,565	(9,935)
B60401 HELEN REEF CONSERV PROJ.	55,000	(30,000)	-	30,000	-
B60406 HATOHOBEL SOLAR PROJECT	25,000	5,601	50,000	4,740	(39,659)
B60407 TOBI WATER SYSTEM IMPROV	15,000	-	15,000	-	(15,000)
B60408 TOBI MEDICAL DISPENSARY	35,000	(5,000)	-	5,000	-
B60409 TOBI HOUSING PRESERVATION	35,000	(35,000)	-	35,000	-
B60501 KAYANGEL WATER SYSTEM P3	215,000	(50,483)	-	48,789	(1,694)
B60603 KB BRIDGE WTRLINE REPAIR	40,000	(5,779)	-	5,779	-
B60605 MARINE RESOURCE ROAD PROJ	100,000	(197)	-	-	(197)
B60606 KOROR PARKS IMPROVEMENT	50,000	5	50,000	-	(49,995)

REPUBLIC OF PALAU  
OTHER COUNTRY GRANTS

Schedule of Expenditures of Other Country Grants  
Year Ended September 30, 2008

Grantor Account Title	Budget Authorizations	Receivable from Grantor (Deferred Revenue) at 10/01/07	Cash Receipts FY2008	Expenditures FY2008	Receivable from Grantor (Deferred Revenue) at 9/30/08
B60701 MELKEOK MAIN ROAD REHAB	100,000	(543)	65,000	65,257	(286)
B60801 NGARAARD BASEBALL FIELD	150,000	(2,181)	-	480	(1,701)
B60901 MENGELLANG ABAI ADDTNL	10,000	(4,970)	-	4,970	-
B60902 NGARCHELONG ROAD IMPROV	100,000	9,967	65,000	44,962	(10,071)
B61001 NGARDMAU WATERFALL PARKIN	100,000	(20,740)	65,000	85,740	-
B61201 NGATPANG AQUACULTURE FY06	100,000	(63)	-	-	(63)
B61601 SOLAR LIGHTING SYSTEM	50,000	2,524	50,000	7,683	(39,793)
R64816 POST OFFICE BLDG EXPANSIO	45,000	40,770	45,000	-	(4,230)
R64819 CULTURAL CENTER AUDIO/VIS	175,000	-	-	-	-
R64827 NORTH BABELDAOB WATERLINE	115,000	4,198	115,000	105,289	(5,513)
R64836 WB PETROLEUM T/A MATCHING	200,000	(200,000)	-	-	(200,000)
R64846 PELELIU/ANGAUR RUNWAY LGH	58,000	(3,000)	-	-	(3,000)
R64847 CAPITOL FINISHING-ADDN'L	432,000	3,740	25,000	21,260	-
R64849 NTF AGRICULTURE DEV/BIODI	20,000	12,344	20,000	7,324	(332)
R64889 K/A RD REPAIR&LANDFILL 06	50,000	(7,021)	-	7,021	-
R64966 CAPITOL/MELEKEOK SEWER SY	300,000	192,133	200,000	7,813	(54)
R64967 AIRAI WTR TREATMENT SYSTE	250,000	(11,460)	50,000	30,519	(30,941)
R64968 STATE WATER SYSTEMS	150,000	109,715	100,000	-	9,715
R64969 WATER METERING	200,000	81,179	-	8,584	89,763
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	(28,936)	-	28,457	(479)
F64815 2007 FEMM	10,000	9,993	10,000	-	(7)
SUB TOTAL	<u>4,990,000</u>	<u>(35,795)</u>	<u>1,005,000</u>	<u>655,343</u>	<u>(385,452)</u>
R64970 KOROR WASTEWTR COLLECT SY	2,000,000	799,364	1,000,000	200,520	(116)
SUB TOTAL	<u>2,000,000</u>	<u>799,364</u>	<u>1,000,000</u>	<u>200,520</u>	<u>(116)</u>
R64873 SCHOOL FACILITIES FY'06	1,000,000	71,012	100,000	28,445	(543)
R64898 AIRPORT-NERIKIIL RD. FY06	3,000,000	(580,029)	-	-	(580,029)
R64899 NGARAARD ROAD FY'06	1,000,000	272,790	150,000	27,210	150,000
SUB TOTAL	<u>5,000,000</u>	<u>(236,227)</u>	<u>250,000</u>	<u>55,655</u>	<u>(430,572)</u>
R54845 OKOTOL HARBOR IMPROV PROJ	200,000	(27,674)	-	26,937	(737)
SUB TOTAL	<u>200,000</u>	<u>(27,674)</u>	<u>-</u>	<u>26,937</u>	<u>(737)</u>
R84898 PHASE IV-FINAL A/N ROAD	3,100,000	-	1,140,000	2,604,951	1,464,951
SUB TOTAL	<u>3,100,000</u>	<u>-</u>	<u>1,140,000</u>	<u>2,604,951</u>	<u>1,464,951</u>
<b><u>BABELDAOB INTRA-STATE ROADS &amp; DOCK IMPROVEM</u></b>					
B70901 NGARCHELONG ROAD REHAB	-	-	-	-	-
G70001 BABL INTRA ST RD IMPROVEM	-	-	-	-	-
G70101 MEDORM HAMLET RD REPAIR	200,000	332	200,000	162,115	(37,553)
G70102 AIMELIIK-COFA CONNECT RD	200,000	-	200,000	186,230	(13,770)
G70201 NGERUSAR-KED RD IMPROVE	200,000	12,864	200,000	153,954	(33,182)
G70801 NGARAARD STATE RD IMPROVE	245,000	50,796	225,000	154,624	(19,580)
G70901 NGARCHELONG MAIN RD REHAB	200,000	10,624	220,000	149,485	(59,891)
G71101 NGAREMLENGUI STATE RD IMP	100,000	3,626	100,000	28,283	(68,091)
G71301 NGCHESAR ROAD PROJECT	200,000	-	200,000	114,200	(85,800)

REPUBLIC OF PALAU  
OTHER COUNTRY GRANTS

Schedule of Expenditures of Other Country Grants  
Year Ended September 30, 2008

Grantor Account Title	Budget Authorizations	Receivable from Grantor (Deferred Revenue) at 10/01/07	Cash Receipts FY2008	Expenditures FY2008	Receivable from Grantor (Deferred Revenue) at 9/30/08
G71401 IMEKANG DOCK IMPROVE	200,000	403	200,000	166,707	(32,890)
F73966 PM & SP CAPACITY BLDG PRO	75,000	(8,374)	65,000	43,274	(30,100)
SUB TOTAL	<u>1,620,000</u>	<u>70,271</u>	<u>1,610,000</u>	<u>1,158,872</u>	<u>(380,857)</u>
R74898 AIRPORT TO NGERIKIIL ROAD	3,300,000	2,597,438	2,000,000	(597,438)	-
SUB TOTAL	<u>3,300,000</u>	<u>2,597,438</u>	<u>2,000,000</u>	<u>(597,438)</u>	<u>-</u>
R74845 OKOTOL DOCK IMPROVE PH II	1,000,000	(200,000)	800,000	816,173	(183,827)
SUB TOTAL	<u>1,000,000</u>	<u>(200,000)</u>	<u>800,000</u>	<u>816,173</u>	<u>(183,827)</u>
R74848 CAPITOL STANDBY GENERATOR	1,600,000	(474,947)	160,000	634,947	-
SUB TOTAL	<u>1,600,000</u>	<u>(474,947)</u>	<u>160,000</u>	<u>634,947</u>	<u>-</u>
<u>STATE ECONOMIC STIMULUS PACKAGE 2008</u>					
B80101 AIMELIIK ROAD REPAIR PROJ	25,000	-	-	25,000	25,000
B80102 ELECHUI WATER SYS - PH II	150,000	-	-	102,600	102,600
B80103 AIMELIIK PUBL WORKS BLDG	50,000	-	-	33,250	33,250
B80202 AIRAI ROAD IMPROVEMENT PR	200,000	-	-	-	-
B80401 TOBI VARIOUS IMPROV PROJ	-	-	-	-	-
B80501 KAYANGEL GARBAGE FACILITY	65,000	-	-	25,000	25,000
B80601 KOROR KB BRIDGE PARK PROJ	-	-	-	-	-
B80701 MELEKEOK ROAD IMPROVEMENT	100,000	-	-	-	-
B80801 CHOLL TYPHOON SHELTER	300,000	-	-	-	-
B80803 NGARAARD NEW ROAD PROJ	100,000	-	-	4,167	4,167
B80804 NGARAARD WATER PUMP STATI	50,000	-	-	933	933
B80805 ORREDAKL TO ULIMANG ROAD	300,000	-	-	-	-
B80901 NGARCHELONG MAIN ROAD IMP	200,000	-	-	1,489	1,489
B81001 NGARDMAU ROAD PAVING PROJ	250,000	-	-	-	-
B81101 NGERMETENGEL COMM BAI	225,000	-	-	59,141	59,141
B81102 NGERMETENGEL DOCK IMPROVE	125,000	-	-	52,396	52,396
B81103 NGAREM ROAD IMPR PH IV	40,000	-	-	36,057	36,057
B81104 NGAREML ELEM ROAD PAVEMNT	60,000	-	-	49,557	49,557
B81105 NGARMESKANG WTRFALLS ROAD	100,000	-	-	57	57
B81201 AQUACULTURE PROJ PHIV	150,000	-	-	143,646	143,646
B81301 NGCHESAR MAIN ROAD IMPROV	200,000	-	-	114	114
B81401 NGIWAL WATER SYSTEM IMPRO	160,000	-	-	17,234	17,234
B81402 NGIWAL DOCK REPAIR	40,000	-	-	-	-
B81501 PELELIU STATE BOAT REPAIR	269,000	-	150,000	255,396	105,396
S78969 PALAU DIGITAL ARCHIVING	125,000	69,065	125,000	52,744	(3,191)
S84813 CNMI CONSUL ABAI CONTRIB	25,000	-	-	25,000	25,000
P84810 COMPACT REVIEW	175,000	-	-	161,454	161,454
P84811 PRES DIGITAL ARCHIV/OTHER	225,000	-	-	203,071	203,071
F84812 CAPITOL COMPLX INFO SUPPL	347,000	-	-	-	-
SUB TOTAL	<u>4,056,000</u>	<u>69,065</u>	<u>275,000</u>	<u>1,248,306</u>	<u>1,042,371</u>
F84814 CAPITOL COMPLEX MIS-PH2	1,000,000	-	600,000	669,800	69,800
SUB TOTAL	<u>1,000,000</u>	<u>-</u>	<u>600,000</u>	<u>669,800</u>	<u>69,800</u>
H84854 HOSP SOLAR LIGHTING PROJ	2,500,000	-	750,000	683	(749,317)
SUB TOTAL	<u>2,500,000</u>	<u>-</u>	<u>750,000</u>	<u>683</u>	<u>(749,317)</u>

REPUBLIC OF PALAU  
OTHER COUNTRY GRANTS

Schedule of Expenditures of Other Country Grants  
Year Ended September 30, 2008

Grantor Account Title	Budget Authorizations	Receivable from Grantor (Deferred Revenue) at 10/01/07	Cash Receipts FY2008	Expenditures FY2008	Receivable from Grantor (Deferred Revenue) at 9/30/08
R84971 KOROR SEWER SYS PROJ PH 2	2,255,000	-	300,000	1,078,865	778,865
SUB TOTAL	2,255,000	-	300,000	1,078,865	778,865
GRAND TOTAL	\$ 78,295,190	\$ 1,174,124	\$ 9,939,582	\$ 8,827,528	\$ 62,070

REPUBLIC OF PALAU  
NATIONAL GOVERNMENT

INDEPENDENT AUDITORS' REPORTS ON  
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2008

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

His Excellency Johnson Toribiong  
President  
Republic of Palau:

We have audited the 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, 2008, which collectively comprise the Republic's basic financial statements and have issued our report thereon dated July 1, 2009. Our report was modified to include a reference to 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. Other auditors audited the financial statements of the Palau Community College and the Palau District Housing Authority, as described in our report on the Republic's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

For purposes of this report, our consideration of internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts and grants, and other matters did not include the National Development Bank of Palau, the Palau National Communications Corporation, the Palau International Coral Reef Center, the Palau Visitors Authority, and the Public Utilities Corporation, which were all audited by us. We have issued separate reports on our consideration of internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters for these entities. The findings, if any, included in those reports are not included herein.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the Republic's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Republic's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Republic's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs (pages 18 through 61) as items 2008-1 through 2008-4 to be significant deficiencies in internal control over financial reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 2008-2 and 2008-3 to be material weaknesses.

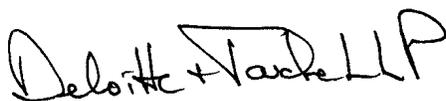
#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Republic's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards*, and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2008-5 through 2008-7.

We noted certain matters that we reported to management of the Republic in a separate letter dated July 1, 2009.

The Republic's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the Republic's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the management of the Republic of Palau, others within the entity, federal awarding agencies, pass-through entities and the cognizant audit and other federal agencies and is not intended to be and should not be used by anyone other than these specified parties.



July 1, 2009

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 AND ON THE  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

His Excellency Johnson Toribiong  
President  
Republic of Palau:

Compliance

We have audited the compliance of the Republic of Palau (the Republic) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2008. The Republic's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs (pages 18 and 19). Compliance with the requirements of laws, regulations, contracts and grant applicable to each of its major federal programs is the responsibility of the Republic's management. Our responsibility is to express an opinion on the Republic's compliance based on our audit.

As discussed in Note 2b to the Schedule of Expenditures of Federal Awards, the Republic's basic financial statements include the operations of certain entities whose federal awards are not included in the Schedule of Expenditures of Federal Awards for the year ended September 30, 2008. Our audit, described below, did not include the operations of the entities identified in Note 2b as these entities conducted separate audits in accordance with OMB Circular A-133, if required.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Republic's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Republic's compliance with those requirements.

As described in items 2008-8, 2008-9, 2008-10, 2008-11, 2008-12, 2008-16, 2008-19, 2008-20 and 2008-23 in the accompanying Schedule of Findings and Questioned Costs, the Republic did not comply with requirements regarding cash management, equipment and real property management, and procurement and suspension and debarment that are applicable to its CFDA # 15.875 OTIA Direct Grants major program; allowable costs/cost principles, cash management, equipment and real property management, matching, level of effort, earmarking, period of availability of federal funds, equipment and real property management, and procurement and suspension and debarment that are applicable to its CFDA # 93.283 Centers for Disease Control and Prevention - Investigations and Technical Assistance major program; equipment and real property management, and procurement and suspension and debarment that are applicable to its CFDA # 93.224 Community Health Centers major program; cash management that is applicable to its CFDA # 20.106 Airport Improvement Program major program; cash management, and equipment and real property management that are applicable to its CFDA # 84.027 Special Education - Grants to States major program; and cash management, equipment and real property management, and procurement and suspension and debarment that are applicable to its CFDA # 84.256 Territories and Freely Associated States Education Grant major program. Compliance with such requirements is necessary, in our opinion, for the Republic to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the Republic complied, in all material respects, with the requirements referred to above that are applicable to its CFDA # 15.875 OTIA Direct Grants major program, its CFDA # 93.283 Centers for Disease Control and Prevention - Investigations and Technical Assistance major program, its CFDA # 93.224 Community Health Centers major program, its CFDA # 20.106 Airport Improvement Program major program, its CFDA # 84.027 Special Education - Grants to States major program, and its CFDA # 84.256 Territories and Freely Associated States Education Grant major program. Also, in our opinion, the Republic complied, in all material respects, with the requirements referred to above that are applicable to its CFDA # 15.875 Compact of Free Association major program for the year ended September 30, 2008. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2008-13, 2008-14, 2008-15, 2008-17, 2008-18, 2008-21 and 2008-22.

#### Internal Control over Compliance

The management of the Republic is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Republic's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Republic's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weaknesses.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2008-4 and 2008-8 through 2008-23 to be significant deficiencies.

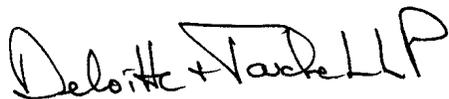
A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs, we consider item 2008-23 to be a material weakness.

The Republic's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the Republic's responses and, accordingly, we express no opinion on them.

#### Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Republic as of and for the year ended September 30, 2008, and have issued our report thereon dated July 1, 2009. Our report was modified to include a reference to other auditors. Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the Republic's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (pages 6 through 14) is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. This schedule is the responsibility of the management of the Republic. Such information has been subjected to the auditing procedures applied 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.

This report is intended solely for the information and use of the management of the Republic of Palau, others within the entity, federal awarding agencies, pass-through entities and the cognizant audit and other federal agencies and is not intended to be and should not be used by anyone other than these specified parties.



July 1, 2009

REPUBLIC OF PALAU

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED SEPTEMBER 30, 2008

Fund 350100 Grantor Account Title	Expenditures FY2008
<b>U.S. Department of Agriculture</b>	
<u>State Administrative Expenses for Child Nutrition CFDA #10.560</u>	
Sub-total CFDA #10.560	\$ -
<u>Cooperative Forestry Assistance CFDA #10.664</u>	
Sub-total CFDA #10.664	146,189
<u>Community Facilities Loans and Grants CFDA #10.766</u>	
Sub-total CFDA #10.766	7,345
<b>Total U.S. Department of Agriculture</b>	<b>\$ 153,534</b>
<b>U.S. Department of Commerce</b>	
<u>Special Oceanic and Atmospheric Projects CFDA# 11.460</u>	
Sub-total CFDA #11.460	\$ 306,600
<u>Pacific Fisheries Data Program CFDA #11.437</u>	
Sub-total CFDA #11.437	-
<u>Unallied Management Projects CFDA#11.454</u>	
Sub-total CFDA #11.454	22,729
<u>NOAA Donation to IRC Meeting</u>	
Sub-total IRC Meeting	-
<b>Total U.S. Department of Commerce</b>	<b>\$ 329,329</b>
<b>U.S. Department of Housing and Urban Development</b>	
<u>Emergency Shelter Grants Program CFDA #14.231</u>	
<b>Total U.S. Department of Housing and     Urban Development CFDA 14.231</b>	<b>\$ -</b>
<b>U.S. Department of Justice</b>	
<u>Juvenile Justice and Delinquency Prevention - Allocation to States CFDA #16.540</u>	
Sub-total CFDA #16.540	\$ -
<u>State Justice Statistics Program for Statistical Analysis CentersCFDA #16.550</u>	
Sub-total CFDA #16.550	-
<b>Total U.S. Department of Justice</b>	<b>\$ -</b>
<b>U. S. Department of Labor</b>	
<u>Workforce Investment Act CFDA #17.255</u>	
Sub-total CFDA #17.255	\$ -
<u>WIA Adult Program CFDA #17.258</u>	
Sub-total CFDA #17.258	70,660
<u>WIA Youth Activities CFDA #17.259</u>	
Sub-total CFDA #17.259	70,713
<u>WIA Dislocated Workers CFDA #17.260</u>	
Sub-total CFDA #17.260	107,380
<b>Total U.S. Department of Labor</b>	<b>\$ 248,753</b>

See accompanying notes to schedule of expenditures of federal awards.

REPUBLIC OF PALAU

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, CONTINUED  
YEAR ENDED SEPTEMBER 30, 2008

Fund 350100 Grantor Account Title	Expenditures FY2008
<b>U.S. Environmental Protection Agency</b>	
<u>Construction Grants for Wastewater Treatment Works CFDA #66.418</u>	
Sub-total CFDA #66.418	\$ -
<u>Environmental Education Grants CFDA #66.951</u>	
Sub-total CFDA #66.951	-
<b>Total U.S. Environmental Protection Agency</b>	<b>\$ -</b>
<b>U.S. Department of Energy</b>	
<u>State Energy Program CFDA #81.041</u>	
<b>Total U.S. Department of Energy</b>	<b>\$ -</b>
<b>FEMA</b>	
<u>Public Assistance Grants CFDA #83.544</u>	
<b>Total U.S. FEMA</b>	<b>\$ -</b>
<b>U.S. Department of Education</b>	
<u>Adult Education - State Grant Progm CFDA #84.002A</u>	
Sub-total CFDA #84.002A	\$ 36,436
<u>Special Education - Grants to States CFDA #84.027B</u>	
Sub-total CFDA #84.027B	368,453
<u>Special Education - Grants to States CFDA #84.027A</u>	
Sub-total CFDA #84.027A	873,401
<u>Rehabilitation Services - Client Assistance Program CFDA #84.161</u>	
Sub-total CFDA #84.161	-
<u>Special Education - Pre-School Grants CFDA #84.173A</u>	
Sub-total CFDA #84.173A	-
<u>Byrd Honors Scholarships CFDA #84.185A</u>	
Sub-total CFDA #84.185A	36,000
<u>Supported Employment Services for Individuals with Severe Disabilities CFDA #84.187A</u>	
Sub-total CFDA #84.187A	-
<u>Bilingual Education Support Services CFDA #84.194Q</u>	
Sub-total CFDA#84.194Q	-
<u>Freely Associated States - Education Grant Program CFDA #84.256A</u>	
Sub-total CFDA #84.256A	772,267
<u>Goals 2000 - State and Local Education Systemic Improvement Grants CFDA #84.276</u>	
Sub-total CFDA #84.276	-
<u>Twenty-First Century Community Learning Centers Program CFDA #84.287B</u>	
Sub-total CFDA #84.287B	-
<u>Gaining Early Awareness and Readiness for Undergraduate Programs CFDA #84.334S</u>	
Sub-total CFDA #84.334S	175,666

See accompanying notes to schedule of expenditures of federal awards.

REPUBLIC OF PALAU

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, CONTINUED  
YEAR ENDED SEPTEMBER 30, 2008

Fund 350100	Expenditures
<u>Grantor Account Title</u>	<u>FY2008</u>
<b>U.S. Department of Education, Continued</b>	
<u>Teacher Quality Enhancement Grants CFDA #84.336A</u>	
Sub-total CFDA #84.336A	48,468
<u>Vocational Education - Occupational and Employment Information State Grants CFDA #84.346A</u>	
Sub-total CFDA #84.346A	-
<u>Career and Technical Education -- Basic Grants to States CFDA #84.048</u>	
Sub Total CFDA #84.048	224,382
<b>Total U.S. Department of Education</b>	<b>\$ 2,535,073</b>
<b>U.S. Department of Health and Human Services</b>	
<u>Public Health Emergency Preparedness CFDA #93.069</u>	
Sub-total CFDA #93.069	\$ 426,488
<u>National Bioterrorism Hospital Preparedness Program CFDA #93.889</u>	
Sub-total CFDA #93.889	304,654
<u>Material and Child Health Federal Consolidated Programs CFDA # 93.110AR</u>	
Sub-total CFDA #93.110	261,082
<u>Project Grants and Cooperative Agreements for Tuberculosis Control Programs CFDA #93.116</u>	
Sub-total CFDA #93.116	116,793
<u>Family Planning - Services CFDA #93.217</u>	
Sub-total CFDA #93.217	159,457
<u>Consolidated Health Centers CFDA #93.224</u>	
Sub-total CFDA #93.224	664,930
<u>Substance Abuse and Mental Health Services - Projects of Regional and National Significance CFDA #93.243</u>	
Sub-total CFDA #93.243	387,447
<u>Universal Newborn Hearing Screening CFDA #93.251</u>	
Sub-total CFDA #93.251	151,444
<u>Immunization Grants CFDA #93.268</u>	
Sub-total CFDA #93.268	148,391
<u>CDC and Prevention - Investigations &amp; Technical Assistance CFDA# 93.283</u>	
Sub-total CFDA #93.283	1,073,015
<u>Consolidated Knowledge Development and Application (KD&amp;A) Program CFDA #93.230</u>	
Sub-total CFDA #93.230	86,157
<u>HIV Care Formula Grants CFDA #93.917</u>	
Sub-total CFDA #93.917	31,557
<u>Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems CFDA #93.938</u>	
Sub-total CFDA #93.938	94,815

See accompanying notes to schedule of expenditures of federal awards.

REPUBLIC OF PALAU

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, CONTINUED  
YEAR ENDED SEPTEMBER 30, 2008

Fund 350100	Expenditures
<u>Grantor Account Title</u>	<u>FY2008</u>
<b>U.S. Department of Health and Human Services, Continued</b>	
<u>Epidemiologic Research Studies of Acquired Immunodeficiency Syndrome (AIDS) and Human Immunodeficiency Virus (HIV) Infection in Selected Population Groups CFDA #93.943</u>	
Sub-total CFDA #93.943	250,674
<u>HIV/AIDS Surveillance CFDA #93.944</u>	
Sub-total CFDA #93.944	32,996
<u>Block Grants for Community Mental Health Services CFDA #93.958</u>	
Sub-total CFDA #93.958	50,117
<u>Block Grants for Prevention and Treatment of Substance Abuse CFDA #93.959</u>	
Sub-total CFDA #93.959	102,487
<u>Preventive Health Services - STD Control Grants CFDA #93.977</u>	
STD Program 2005	(145)
Sub-total CFDA #93.977	40,623
<u>Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation and Surveillance Systems CFDA #93.988</u>	
Sub-total CFDA #93.988	67,363
<u>Preventive Health and Health Services Block Grant CFDA #93.991</u>	
Sub-total CFDA #93.991	21,257
<u>Maternal and Child Health Services Block Grant to the States CFDA # 93.994</u>	
Sub-total CFDA #93.994	173,518
<u>State Capacity Building - DEH-PHCI CFDA # 93.240</u>	
Sub-total CFDA # 93.240	83,013
<u>Civil Rights and Privacy Rule Compliance Activities</u>	
Sub-total CFDA #93.001	9,713
<b>Total U.S. Department of Health and Human Services</b>	<b>\$ 4,737,991</b>
<b>Total Federal Grants (Fund 350100)</b>	<b>\$ 8,004,680</b>

Note: All of the awards per the above are received in a direct capacity from the specified grantor with the exception of CFDA #84.048, which is received from the Pacific Resources for Education and Learning (PREL).

During the year ended September 30, 2008, the Republic passed through federal funding to the Workforce Investment A

See accompanying notes to schedule of expenditures of federal awards.

REPUBLIC OF PALAU

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, CONTINUED  
 YEAR ENDED SEPTEMBER 30, 2008

Fund 350200 Grantor Account Title	Authorization	Receivable from Grantor (Deferred Revenue) at 10/01/07	Cash Receipts FY 2008	Expenditures FY 2008	Receivable from Grantor (Deferred Revenue) at 9/30/08
<b>OTIA Direct Grants</b>					
<u>Non-Capital CFDA #15.875</u>					
<b>Total Non-Capital</b>	<u>\$ 6,670.805</u>	<u>\$ 135,911</u>	<u>\$ 995,482</u>	<u>\$ 1,355,494</u>	<u>\$ 495,923</u>

The above awards are received in a direct capacity.

See accompanying notes to schedule of expenditures federal awards.

REPUBLIC OF PALAU

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, CONTINUED  
YEAR ENDED SEPTEMBER 30, 2008

Fund 420100 Grantor Account Title	Authorization	Receivable from Grantor (Deferred Revenue) at 10/01/07	Cash Receipts FY 2008	Expenditures FY 2008	Receivable from Grantor (Deferred Revenue) at 9/30/08
<b>U.S. Department of Homeland Security</b>					
<u>Public Assistance Grants CFDA #83.544</u>					
<b>Total U.S. Department of Homeland Security</b>	\$ 37,072	\$ 657	\$ -	\$ -	\$ 657
<b>U.S. Department of Housing and Urban Development</b>					
<u>Emergency Shelter Grants Program CFDA #14.231</u>					
<b>Total U.S. Department of Housing and Urban Development</b>	\$ 180,000	\$ (871)	\$ -	\$ -	\$ (871)
<b>U.S. Environmental Protection Agency</b>					
<u>Construction Grants for Wastewater Treatment Works CFDA #66.418</u>					
<b>Total U.S. Environmental Protection Agency</b>	\$ 632,216	\$ 1,897	\$ -	\$ -	\$ 1,897
<u>Capital Improvement Projects CFDA # 15.875</u>					
<b>Total U.S. Department of the Interior Capital</b>	\$ 395,400	\$ (34,029)	\$ -	\$ -	\$ (34,029)
<b>U.S. Department of Transportation</b>					
<u>Airport Improvement Program CFDA #20.106</u>					
<b>Total U.S. Department of Transportation</b>	\$ 29,188,224	\$ 2,771,805	\$ 8,813,727	\$ 6,912,628	\$ 870,706
<b>Total U.S. Federal (CIP Project)</b>	\$ 30,037,512	\$ 2,739,459	\$ 8,813,727	\$ 6,912,628	\$ 838,360

The above awards are received in a direct capacity.

See accompanying notes to schedule of expenditures of federal awards.

REPUBLIC OF PALAU

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, CONTINUED  
YEAR ENDED SEPTEMBER 30, 2008

Fund 430100 Grantor Account Title	Grant PGA	Cost Center	Authorization	Receivable from Grantor (Deferred Revenue) at 10/01/07	Cash Receipts FY 2008	Expenditures FY 2008	Receivable from Grantor (Deferred Revenue) at 9/30/08
<b>Capital Improvement Projects CFDA 15.875</b>							
<b>Total Capital Improvement Projects</b>			<u>\$ 9,165,525</u>	<u>\$ (180,453)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (180,453)</u>

The above awards are received in a direct capacity.

See accompanying notes to schedule of expenditures of federal awards.

REPUBLIC OF PALAU

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, CONTINUED  
YEAR ENDED SEPTEMBER 30, 2008

	Authorizations	FY 2008 Expenditures and Transfers	Excess (Deficit) of Authorizations Over Program Expenditures
<u>Compact of Free Association CFDA #15.875</u>			
<u>211(a) &amp; 215 Compact Current Account</u>			
Compact Section 211(a)	\$ 6,000,000	\$ 6,021,000	\$ (21,000)
Compact Section 215	3,960,000	3,960,000	-
Total 211(a) & 215 Current Account	<u>\$ 9,960,000</u>	<u>\$ 9,981,000</u>	<u>\$ (21,000)</u>
<u>211(b) &amp; 215 Energy Production</u>			
Investment Management Fees, 211(b) Funds	\$ 1,629	\$ 1,629	\$ -
Total 211(b) & 215 Energy Production	<u>\$ 1,629</u>	<u>\$ 1,629</u>	<u>\$ -</u>
<u>211(c) &amp; 215 Communications</u>			
Executive Branch	\$ 249,000	\$ 249,000	\$ -
Investment Management Fees, 211(c) Funds	108	108	-
Total 211(c) & 215 Communications	<u>\$ 249,108</u>	<u>\$ 249,108</u>	<u>\$ -</u>
<u>211(d) Maritime/Health/Scholarship</u>			
Patrol boat operations	\$ 631,000	\$ 631,000	\$ -
Investment Management Fees, 211(d) Funds	63	63	-
Total 211(d) Maritime/Health/Scholarship	<u>\$ 631,063</u>	<u>\$ 631,063</u>	<u>\$ -</u>
<u>211(e) Maritime</u>			
Investment Management Fees, 211(e) Funds	\$ 209	\$ 209	\$ -
Total 211(e) Maritime	<u>\$ 209</u>	<u>\$ 209</u>	<u>\$ -</u>
<u>211(f) Trust Fund</u>			
Executive Branch	\$ 3,000,000	\$ 3,000,000	\$ -
Judiciary	1,000,000	1,000,000	-
Legislative	1,000,000	1,000,000	-
Total 211(f) Trust Fund	<u>\$ 5,000,000</u>	<u>\$ 5,000,000</u>	<u>\$ -</u>
<u>213 Defense</u>			
Investment Management Fees, 213 Funds	\$ 12,180	\$ 12,180	\$ -
Executive Branch	-	-	-
Total 213 Defense	<u>\$ 12,180</u>	<u>\$ 12,180</u>	<u>\$ -</u>
<u>212(b) &amp; 215 Capital Account</u>			
Investment Management Fees	\$ 177	\$ 177	\$ -
Total 212(b) & 215 Capital Account	<u>\$ 177</u>	<u>\$ 177</u>	<u>\$ -</u>

The above awards are received in a direct capacity.

See accompanying notes to schedule of expenditures of federal awards.

REPUBLIC OF PALAU

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, CONTINUED  
YEAR ENDED SEPTEMBER 30, 2008

<u>Compact of Free Association CFDA #15.875</u>	<u>Authorizations</u>	<u>FY 2008 Expenditures and Transfers</u>	<u>Excess (Deficit) of Authorizations Over Program Expenditures</u>
<u>221(b)(1) &amp; (2) Special Block Grant &amp; Education Special Grant</u>			
Transfer to Palau Community College	\$ 2,000,000	\$ 2,000,000	\$ -
Investment Management Fees, 221(b) Funds	203	203	-
Total 221(b) Special Block Grant	<u>\$ 2,000,203</u>	<u>\$ 2,000,203</u>	<u>\$ -</u>
Total Compact of Free Association CFDA #15.875		\$ 17,875,569	
Less Compact Section 211(a) Current Account		(6,021,000)	
Less Compact Section 215 Current Account		(3,960,000)	
Less Compact Section 211(f) Trust Fund Investment Earnings		<u>(5,000,000)</u>	
Total Compact of Free Association CFDA #15.875 expenditures subject to detailed compliance testing		<u>\$ 2,894,569</u>	

The above awards are received in a direct capacity.

See accompanying notes to schedule of expenditures of federal awards.

REPUBLIC OF PALAU

Schedule of Programs Selected for Audit  
In Accordance With OMB Circular A-133  
Year Ended September 30, 2008

The following list specifies programs selected for detailed compliance testing in accordance with applicable OMB Circular A-133 requirements:

<u>Grantor</u>	<u>CFDA #</u>	<u>Description</u>	<u>Expenditures and Transfers</u>
U.S. Department of the Interior	15.875	Compact of Free Association	\$ 2,894,569
	15.875	OTIA Direct Grants	1,355,494
U.S. Department of Health and Human Services	93.283	Centers for Disease Control and Prevention - Investigations & Technical Assistance	1,073,015
	93.224	Consolidated Health Centers	664,930
U.S. Department of Transportation	20.106	Airport Improvement Program	6,912,628
U.S. Department of Education	84.027	Special Education – Grants to States	1,241,854
	84.256	Freely Associated States - Education Grant Program	<u>772,267</u>
			\$ <u>14,914,757</u>
Total federal program expenditures (excluding Compact Section 211(a) Current Account, \$6,021,000; Compact Section 215 Current Account, \$3,960,000; Compact Section 211(f) Trust Fund Investment Earnings, \$5,000,000)			\$ <u>19,167,371</u>
% of total federal program expenditures tested			<u>78%</u>

## REPUBLIC OF PALAU

### Notes to Schedule of Expenditures of Federal Awards Year Ended September 30, 2008

#### (1) Scope of Review

The Republic of Palau (the Republic) is a governmental entity governed by its own Constitution. The U.S. Department of the Interior has been designated as the Republic's cognizant agency for the OMB Circular A-133 audit (the "Single Audit").

The Schedule of Expenditures of Federal Awards is presented for each Federal program related to the following agencies:

- U.S. Department of Transportation
- U.S. Department of Education
- U.S. Department of Health and Human Services
- U.S. Department of Labor
- U.S. Department of Agriculture
- U.S. Environmental Protection Agency
- U.S. Department of Housing and Urban Development
- U.S. Department of Justice
- U.S. Department of Commerce
- U.S. Department of Energy
- U.S. Department of Homeland Security
- U.S. Department of the Interior

#### (2) Summary of Significant Accounting Policies

##### a. Basis of Accounting

For purposes of this report, certain accounting procedures were followed which help illustrate the authorizations and expenditures of the individual programs. The Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting. For federal direct assistance grants, authorizations represent the total allotment or grant award received. For Compact of Free Association programs, authorizations represent total current year allotments plus any prior year excess over program expenditures. All expenses and capital outlays are reported as expenditures.

##### b. Reporting Entity

For purposes of complying with The Single Audit Act of 1984, as amended in 1996, the Republic's reporting entity is defined in Note 1A to its September 30, 2008 basic financial statements and all of the discretely presented component units are excluded. Accordingly, the accompanying Schedule of Expenditures of Federal Awards presents the federal award programs administered by the Republic, as defined above, for the year ended September 30, 2008.

##### c. Indirect Cost Allocation

The Republic entered into an approved indirect cost negotiation agreement covering fiscal year 2008. The approved rate was 7.89%. Federal programs were charged for indirect costs at the approved rate, unless awards specified a lower allowable rate.

REPUBLIC OF PALAU

Notes to Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2008

(2) Summary of Significant Accounting Policies, Continued

d. Funding Passed Through to Other Entities

The Republic records as expenditures funding that is passed through to other entities.

As of September 30, 2008, none of the States had provided audit reports to the Republic. The Republic is considered to have responsibility for any questioned costs that could result from Single Audits of these entities.

During the year ended September 30, 2008, the Republic passed through federal funding to the following entities:

Palau Community College, Compact Section 221(b), CFDA #15.875	\$ <u>2,000,000</u>
	\$ <u>2,000,000</u>

This entity separately satisfies its OMB Circular A-133 reporting requirements.

e. Single Audit Excluded Funding

For purposes of the Single Audit, Compact Section 211(a) Current Account Funding and Compact Section 215 Current Account Funding have been excluded from the dollar threshold used to distinguish between Type A and Type B programs. The requirement to exclude such funding was recommended by the U.S. Department of the Interior, Office of the Inspector General (OIG). The OIG took this position since there were no compliance requirements imposed on the abovementioned funds. The same is the case for the Section 211(f) Compact Trust Fund. There are no compliance requirements associated with the use of this funding and therefore, such has been excluded from the dollar threshold used to distinguish between Type A and Type B programs, but such funding has been subject to Single Audit tests.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2008

**Part I - Summary of Auditors' Results**

*Financial Statements*

- |   |             |
|---|-------------|
| 1. Type of auditors' report issued:   | Unqualified |
| Internal control over financial reporting:  |             |
| 2. Material weakness(es) identified?  | Yes         |
| 3. Significant deficiency(ies) identified that is not considered to be a material weakness? | Yes         |
| 4. Noncompliance material to the financial statements noted?                                | Yes         |

*Federal Awards*

- |  |  |
|--|--|
| Internal control over major programs:  |  |
| 5. Material weakness(es) identified?   | Yes  |
| 6. Significant deficiency(ies) identified that is not considered to be a material weakness?                                    | Yes  |
| 7. Type of auditors' report issued on compliance for major programs:   |  |
| CFDA Program 15.875 Compact of Free Association  | Unqualified  |
| All other major programs   | Qualified  |
| 8. Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?      | Yes  |
| 9. The Republic's major programs were as follows:  |  |
| <u>CFDA Number</u> <u>Federal Program</u>  |  |
| 84.027   | Special Education – Grants to States                       |
| 84.256   | Freely Associated States – Education Grant Program         |
| 93.224   | Consolidated Health Centers                                |
| 93.283   | CDC and Prevention-Investigations and Technical Assistance |
| 15.875   | OTIA Direct Grants   |
| 20.106   | Airport Improvement Program                                |
| 15.875   | Compact of Free Association                                |
| 10. Dollar threshold used to distinguish between Type A and Type B Programs, as those terms are defined in OMB Circular A-133: | \$575,021  |
| 11. The Republic qualified as a low-risk auditee, as that term is defined in OMB Circular A-133?                               | No   |

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2008

**Part II - Financial Statement Findings Section**

<u>Reference Number</u>	<u>Findings</u>
2008-1	Revenues
2008-2	Payroll
2008-3	Expenditures
2008-4	Federal and Non-federal Grants Receivable
2008-5	Local Noncompliance
2008-6	Local Noncompliance
2008-7	Local Noncompliance

**Part III - Federal Award Findings and Questioned Cost Section**

<u>Reference Number</u>	<u>CFDA Number</u>	<u>Findings</u>	<u>Questioned Costs</u>
2008-4	Nonmajor	Cash Management	\$ -
2008-8	15.875/ 20.106/ 84.027/ 84.256/ 93.283	Cash Management	\$ -
2008-9	93.224	Procurement and Suspension and Debarment	\$ 62,326
2008-10	93.283	Procurement and Suspension and Debarment	\$ 40,292
2008-11	84.256	Procurement and Suspension and Debarment	\$ 36,924
2008-12	15.875	Procurement and Suspension and Debarment	\$ 366,661
2008-13	93.283/ 84.027/ 84.256	Procurement and Suspension and Debarment	\$ -
2008-14	93.283	Allowable Costs/Cost Principles	\$ 3,960
2008-15	93.283	Allowable Costs/Cost Principles	\$ -
2008-16	93.283	Allowable Costs/Cost Principles	\$ 23,231
2008-17	93.283/ 84.027	Allowable Costs/Cost Principles	\$ -
2008-18	15.875	Allowable Costs/Cost Principles	\$ -
2008-19	93.283	Period of Availability of Funds	\$ 22,083
2008-20	93.283	Matching	\$ 22,500
2008-21	93.224	Special Tests and Provisions	\$ -
2008-22	93.224	Program Income	\$ -
2008-23	84.027/ 84.256/ 93.283/ 93.224/ 15.875	Equipment and Real Property Management	\$ -

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2008

Revenues

Finding No. 2008-1

Criteria: An effective internal control provides for collections to be deposited in a timely manner (i.e., the next business day).

Condition: The following Division of Customs collections were not deposited to the bank in a timely manner (i.e., the next business day):

<u>Receipt no.</u>	<u>Date of Customs Daily Cash Transmittal Forms</u>	<u>Validated Deposit Date</u>	<u>Days Lapsed</u>	<u>Amount</u>
984052	11/12/2007	11/25/2007	13	\$ 30,208
1005525	03/06/2008	03/11/2088	5	\$ 27,029
1011973	04/10/2008	04/15/2008	5	\$ 20,775
1000363	02/08/2008	02/13/2008	5	\$ 15,857
983374	11/08/2007	11/13/2007	5	\$ 24,648
999574	02/04/2008	02/08/2008	4	\$ 69,604
1009251	03/27/2008	04/01/2008	4	\$ 114,000

Cause: The cause of the above condition is a lack of timely bank deposits.

Effect: The effect of the above condition is the potential for misappropriation of collections.

Recommendation: We recommend that the Republic ensure that collections are deposited within three business days.

Auditee Response and Corrective Action Plan: The Division of Customs improved their collection except for collecting offices outside their main office. Treasury Collection Section had been at fault sometimes for not entering the collection on the same day brought by the Division of Customs. We have resolved the issue by revising the collection procedures to have Customs office do night deposits and submit reports to Treasury Section for entry. Treasury monitors Customs office to ensure they make daily deposits by collecting the deposit bag from the bank on a daily basis.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2008

Payroll

Finding No. 2008-2

Criteria: Changes to payroll master files should be approved by an independent party.

Condition: Changes to electronic payroll master files are not reviewed by an independent party.

Cause: The cause of the above condition is the lack of procedures to provide an audit trail for changes made to payroll master file data.

Effect: The effect of the above condition is the potential for invalid changes to payroll master files.

Recommendation: We recommend that management implement procedures to require independent review of changes to payroll master files.

Auditee Response and Corrective Action Plan: Procedures in the past required Personnel Office to receive changes approved by the appropriate officials and enter into the system. Copies of the documents were forwarded to Payroll Section to ensure the changes were entered correctly. This has been the process over several years. We see the issue raised by the auditor that there maybe changes to the masterfile that maybe overlooked by Payroll Section if there was no supporting document submitted. For this reason, we now have Payroll Section print and save the masterfile audit trail right before final payroll processing that shows the ID of the person making the change, the date, and old and new contents so the person making the change without documents can be questioned and errors prevented. Personnel Office also has access to print the audit trail to ensure they entered correct information before submitting documents to Payroll Section.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2008

Expenditures

Finding No. 2008-3

Criteria: An effective system of internal control includes policies and procedures to ensure that expenditures are authorized, supported, approved prior to incurrence and recorded in the proper period.

Condition: Journal voucher entries and related supporting documents did not provide an adequate narrative description to explain the following entries made. Without adequate explanation, an outside party has substantial difficulty trying to understand the basis for the entry.

<u>Voucher no.</u>	<u>Amount</u>	
DF800170	\$ 1,669,000	There is no adequate and detail explanation documents attached
639888	\$ (36,642)	There is no adequate and detail explanation documents in the vendor file to support basis for entry and no rational reason why revised entry was made 3 months after the original entry.
DF800136	\$ 140,000	There is no evidence of service to date to justify transfer from prepaids to expenditures.
DF800187	\$ 1,396,863	There is no adequate and detail explanation documents.
DF800187	\$ 1,242,883	There is no adequate and detail explanation documents.

Cause: The cause of the above condition is the lack of control procedures for initiating journal voucher entries.

Effect: Transactions recorded through journal vouchers entries, although signed approved, are not adequately supported.

Recommendation: We recommend that all journal voucher entries be reviewed for propriety by appropriate management other than the preparer. The basis for all journal vouchers should be adequately documented.

Auditee Response and Corrective Action Plan: DF800170 was a transfer of electric charges from General Fund to a grant from Taiwan that covered electric expenses. Supporting document was a list of orgs and account the charge was transferred from. Detail report for these orgs and account would show detail information such as voucher and this can be traced to the file of paid vouchers.

There was no physical evidence attached to Journal Voucher (JV) DF800136 that supports the expenditures, but we were able to gather from various sources supporting documents to support the JV. We will ensure the expenditure will be supported by physical documents or reference to a physical document easily located.

DF800187 supporting documents were reports showing the transfer of expenditures from/to accounts. Detail report of the accounts would show reference to supporting documents. These were airport project expenditures funded by FAA. The agreement was to expense the account funded by ROC loan proceeds and when FAA projects were approved, expenses would be transferred to the appropriate account in the US CIP Fund. When supporting documents are requested of us we will provide.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2008

Federal and Non-federal Grants Receivables/Cash Management

Finding No. 2008-4

Criteria: Receivables from grantor agencies should be reconciled and differences resolved.

Condition: During tests of federal grants receivables, we noted the following:

- Four grants from the U.S. Department of Agriculture (CFDA #10.664) closed and were inactive during the year ended September 30, 2008. A balance of \$11,691 due to the grantor agency remains on the books as follows:

<u>Grant</u>	<u>Cost Center</u>	<u>9/30/2008 Balance</u>
Rural Fire Prev/Control	J63630	\$ 1,505
Palau Fire Prev/Control	J93630	600
Forest Stewardship	R63713	5,595
Urban Community Forestry	R03712	<u>3,991</u>
		<u>\$11,691</u>

- Three Capital Improvement Project awards (CFDA #15.875) closed and were inactive during the year ended September 30, 2008. A balance of \$180,453 due to the grantor agency remains on the books (grant nos. T-233, T-269, T-231);
- One grant award from the U.S. Department of the Interior (CFDA #15.875) closed and was inactive during the year ended September 30, 2008 with a balance of \$34,145 due to the grantor agency (cost center no. 4680);
- A grant award under the U.S. Department of Health and Human Services (CFDA #84.187A) was inactive during the year ended September 30, 2008. A balance of \$3,754 due to the grantor agency remains on the books;
- Grant awards under the U.S. Department of Homeland Security (CFDA #83.544) have closed. However, a balance due to the grantor agency of \$14,524 has not been returned as of September 30, 2008;
- Three grant awards from the U.S. Department of Commerce (CFDA #11.460), with a balance of \$136,095 due from the grantor agency, have not been collected as of September 30, 2008, and there were no records to determine the grant status (cost center #A23600, A73600, F83600);
- Two grant awards from the U.S. Department of Commerce (CFDA #11.460) have closed. However, a balance of \$43,760 due to the grantor agency has not been returned as of September 30, 2008:

<u>Grant</u>	<u>Cost Center</u>	<u>Balance</u>
National Weather Service	A33600	\$ 15,106
National Weather Service	A83600	<u>28,654</u>
Total due to grantor agency		<u>\$ 43,760</u>

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2008

Federal and Non-federal Grants Receivables/Cash Management, Continued

Finding No. 2008-4

Condition, Continued:

- One grant award from Other USDA programs (CFDA #10.766), with a balance of \$42,365 due from the grantor agency, has not been collected at September 30, 2008, and there were no records on file to determine the grant status (cost center no. R53728).
- Twelve grant awards from OTIA Direct Grants, U. S. Department of the Interior (CFDA #15.875) were inactive during the year ended September 30, 2008, with balances due to and from the grantor agency as follows:

<u>Grant</u>	<u>Cost Center</u>	9/30/2008 <u>Balance</u>
PIRRAF Grants Balance	A33833	\$ 15,000
Fixed Asset Accounting System	A13850	34,735
Health Information Sys Impr MCI-6	H23851	10,869
PUC GRT OMIP-PPUC-200101	R13871	3,840
Palau Wastewater Collection System	R33876	26,000
ROP / PCC Joint Training	R23880	6,988
Voc Educ Trng (Pcc)	R53880	<u>45,256</u>
Total due from grantor agency		<u>\$ 142,958</u>
PPUC OMIP Drawdown's Holding Acct.	A33871	(17,180)
Highway O&M Engineer	R23886	(30,302)
Gis Development & Training PAL-85	R23897	(2,946)
Trmnt/Prev Block Grants	J53836	(14,880)
Voc Educ Trng (Pcc)	R63880	<u>(74,819)</u>
Total due to grantor agency		<u>\$(140,127)</u>

- Ten grant award amounts per the schedule of expenditures of federal awards, could not be agreed to grant award notification:

<u>U.S. Department of</u>	<u>CFDA #</u>	<u>Cost Center</u>	9/30/2008 <u>Award amount</u>
Health and Human Services	93.069	H73679	\$ 361,520
Health and Human Services	93.069	H78654	\$ 136,883
Health and Human Services	93.224	H73690	\$ 581,240
Health and Human Services	93.224	I73690	\$ 107,569
Health and Human Services	93.943	H83687	\$ 320,054
Health and Human Services	93.110	H73651	\$ 140,000
Health and Human Services	93.110	H63651	\$ 140,000
Health and Human Services	93.110	H83680	\$ 91,644
Agriculture	10.664	R88704	\$ 57,000
Education	84.256A	E3595	\$ 629,982

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2008

Federal and Non-federal Grants Receivables/Cash Management, Continued

Finding No. 2008-4

Condition, Continued:

- Requests for grant funds receipts and supporting expenditure reports could not be provided for ten grant awards:

<u>U.S. Department of</u>	<u>CFDA # - Cost Center #</u>	<u>FY08 Receipts</u>
Health and Human Services	93.069 - H73679	\$ 195,419
Health and Human Services	93.994 - H63676	\$ 6,582
Health and Human Services	93.994 - H73676	\$ 91,949
Health and Human Services	93.994 - H83676	\$ 5,085
Health and Human Services	93.959 - H63658	\$ 979
Health and Human Services	93.959 - H73658	\$ 68,585
Commerce	11.460 - A73600	\$ 28,710
Commerce	11.460 - A83600	\$ 204,189
Commerce	11.460 - F83600	\$ 34,438
Education	84.048 - E73591	\$ 188,307

- Five grant award notifications could not be provided:

<u>U.S. Department of</u>	<u>CFDA # - Cost Center #</u>	<u>Award</u>
Health and Human Services	93.069 - I73679	\$ 32,415
Health and Human Services	93.994 - H63676	\$ 151,638
Health and Human Services	93.110 - H83651	\$ 140,000
Commerce	11.437 - A33601	\$ 31,000
Commerce	11.460 - A73600	\$ 318,566

- Related expenditures of one grant award from the U.S. Department of Agriculture (CFDA #10.766 - cost center #B80806) amounted to \$100,000 however, further investigation revealed that the project has not commenced as of September 30, 2008. An audit adjustment was proposed to correct this situation.
- Status of two grant awards from the U.S. Department of Agriculture (CFDA #10.766), could not be determined as of September 30, 2008:

<u>Grant</u>	<u>Cost Center</u>	<u>Balance</u>
EQPB Econ Fac Grant	R53728	\$ <u>49,710</u>
Total due from grantor agency		\$ <u>49,710</u>
Emergency communications equipment	J83642	\$ <u>27,500</u>
Total due to grantor agency		\$ <u>27,500</u>

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2008

Federal and Non-federal Grants Receivables/Cash Management, Continued

Finding No. 2008-4

Condition, Continued:

- There were no records provided to determine the status of the following grant awards from the U.S. Department of Agriculture (CFDA #10.664):

<u>Grant</u>	<u>Cost Center</u>	9/30/2008 <u>Balance</u>
CFHP Invasive Species	R53725	\$ 302
Conservation Education	R63723	6,952
Coop. Forestry Health Protection	R63724	3,310
CFA-Conservation Education	R78700	6,598
CFA-Coop Forest Hlth Protection	R78701	29,948
CFA-CFH Invasive	R78702	28,500
CFA-Forest Stewrarship	R78703	35,000
CFA-UCF	R78704	57,500
Coop. Forestry Health Protection	R88701	129
Forest Stewardshi	R88703	194
Urban & Community Forest	R88704	<u>126</u>
		<u>\$ 168,559</u>

- There were no records provided to determine the status of one grant award from the U.S. Department of Commerce (CFDA #11.437) with a balance of \$26,036 due from grantor agency as of September 30, 2008.
- One non-federal grant award was inactive during the year ended September 30, 2008, with a balance due to the grantor agency as follows:

<u>Grant</u>	<u>Cost Center</u>	<u>Balance</u>
Humanitarian Assistance to PSB	F78974	\$ (51,616)
Total due to grantor agency		\$ (51,616)

- Two non-federal grant awards have closed at September 30, 2008, and it was represented that the amounts due from the grantor agency are not collectible. An audit adjustment was proposed to correct this situation:

<u>Grant</u>	<u>Cost Center</u>	<u>Balance</u>
Census of Pop & House Survey	F48966	\$ 109,767
China Grants - Sport Comm	A83966	<u>55,761</u>
Total due from grantor agency		<u>\$ 165,528</u>

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2008

Federal and Non-federal Grants Receivables/Cash Management, Continued

Finding No. 2008-4

Condition, Continued:

- Two non-federal grant awards with balances due from grantor agencies have not been collected as of September 30, 2008, and there were no records on file to determine the grant status:

<u>Grant</u>	<u>Cost Center</u>	<u>Balance</u>
UN Devel Programme (UNDP)	F53929	\$142,686
2nd National Comm. UNFCCC	A63930	<u>94,594</u>
		\$ <u>237,280</u>

- One non-federal grant award (cost center #A88984) closed as of September 30, 2008 with balance due to the grantor agency of \$231,000. It was represented that balance should have been moved to fund other project (cost center #F84812) as approved;
- Five non-federal grant awards were inactive during the year ended September 30, 2008. A balance of \$806,291 due to the grantor agency remains on the books as follows:

<u>Grant</u>	<u>Cost Center</u>	<u>Balance</u>
Airport-Ngerikiil Rd. FY06	R64898	\$580,029
Peleliu Concrete Rd Ext	R34891	\$142,709
Inter-Island Water Trans	R44893	\$ 322
BPS Equip Improv. Grants	J34920	\$ 10,874
Palau Nat'l Museum Complx	R24940	\$ 72,357

- There were no records to determine the grant status as of September 30, 2008 for eleven non-federal grants as follows:

<u>Grant</u>	<u>Cost Center</u>	<u>Balance</u>
Phase IV-Final A/N Road	R84898	\$ 1,464,951
Ngaraard Road FY'06	R64899	<u>150,000</u>
Total due from grantor agency		\$ <u>1,614,951</u>
State Economic Stimulus Package 2003	none noted	\$ (327,513)
State Economic Stimulus Package 2004	none noted	(368,414)
State Economic Stimulus Package 2006	none noted	(385,455)
School Facilities FY'06	R64873	(543)
Babeldaob Intra-State Roads & Dock Improvements	none noted	(406,578)
Okotol Dock Improve PH II	R74845	(211,699)
Hosp Solar Lighting Proj	H84854	(749,317)
Central Mrkt & Cult. Cntr	R24941	( 40,164)
Stimulus Economic Package 2002		<u>(67,687)</u>
Total due to grantor agency		\$ <u>2,557,370</u>

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2008

Federal and Non-federal Grants Receivables/Cash Management, Continued

Finding No. 2008-4

Condition, Continued:

- One non-federal grant award (cost center #S8FFA1) with a balance due to the grantor agency of \$ 43,361 at September 30, 2008, did not have status on file.

Cause: There are no defined policies and procedures requiring the reconciliation of the schedules of expenditures of federal and non-federal awards. The schedules of expenditures of federal and non-federal awards are provided through the audit request process. Much time is spent in the audit request process due to lack of systematic filing system for grant-related documents, such as approved grant extension, grants drawdown request and recorded expenditures supporting the drawdown request. In addition, balances due to grantors are not returned after program completion.

Effect: The effect of the above condition is a potential misstatement of federal grants receivable.

Recommendation: We recommend that management communicate with the affected grantor agencies to resolve and close the above mentioned programs.

Prior Year Status: The lack of reconciliation of the federal grants receivable subledger was reported as a finding in the Single Audits of the Republic for fiscal years 2005 through 2007.

Auditee Response and Corrective Action Plan: ROP concurs with this finding, Ministry of Finance will contact appropriate grantor agency to resolve the balances of the closed grants. ROP have recently hired new staff to assist in reconciliation and documentation of all receivables related to assistance and grants.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2008

Local Noncompliance

Finding No. 2008-5

Criteria: It is the policy of the Republic that all purchases and procurement actions be executed in a manner that provides open and free competition and avoids purchasing unnecessary or duplicative items. When appropriate, an analysis shall be made of lease and purchase alternatives to determine which would be the most economical practical procurement.

Condition: Of nineteen Hospital Trust Fund expenditures tested, totaling \$654,403, of a total population of \$1,794,443, we noted the following:

- A contract was awarded to both bidders (RFP no. 08-07) in equal amounts without documentation or analysis to evidence the basis of selection and deviations from the original proposal:

<u>Bidder</u>	<u>Proposed Amount</u>	<u>Awarded Amount</u>
Vendor #30196	\$ 479,764	\$ 300,000
Vendor #30145	\$ 701,403	\$ 300,000

- Contract was awarded to three bidders (RFP no. 01-8) without documentation or analysis to evidence the basis of selection and deviations from the original proposal:

	<u>Hemodialysis Solution &amp; Supplies</u>		<u>Pharmaceutical Supplies</u>	
	<u>Proposed Amount</u>	<u>Awarded Amount</u>	<u>Proposed Amount</u>	<u>Awarded Amount</u>
Vendor #30196	-	\$ 242,150	\$ 3,096,377	\$ 3,000,000
Vendor #30145	\$ 302,143	\$ 300,000	\$ 2,926,348	\$ 2,500,000
Vendor #225	-	-	\$ 2,514,209	\$ 1,400,000

Cause: There was no comparative analysis or written documentation to ensure that the basis of the award was the most economical practical procurement. It was verbally explained that the awards were based on the ability of vendors to deliver pharmaceutical supplies in a timely manner and to deal with the delay in vendor payments by the Republic. However, these matters were not specifically encompassed in the bidding requirements.

Effect: The effect of the above condition is potential local noncompliance with procurement rules and regulations.

Recommendation: We recommend that the Republic implement procedures to ensure compliance with the local procurement regulations. Negotiation and deviations from original proposals should be documented in writing and attached to bidding documents.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2008

Local Noncompliance

Finding No. 2008-5, Continued

Prior Year Status: Noncompliance with local procurement policies was reported as a finding in the Single Audit of the Republic for fiscal year 2007.

Auditee Response and Corrective Action Plan: The above two bullets are similar contracts that had extensive documentation from RFP to the recommendation of the department to the awarding of the contract. The recommendation of the department was not to place any order to more than one company for the same item, unless, the first company was either out of stock or could not supply the product. Procurement Officer awarded each vendor for different group of class of product for different department at the Ministry of Health. Purchases were based on the recommendation of the department to purchase items from different vendor when items were out of stock from vendor who won the award. Procurement officer will ensure the purchase of items is consistent from the Request of Proposal to the awarding of the contract showing clear analysis of the basis for award.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2008

Local Noncompliance

Finding No. 2008-6

Criteria: Per Chapter IV, Section 205.1, it is the policy of the Republic to document receipt of all government property, regardless of the method of source of acquisition. This includes, but is not limited to, property that is acquired from commercial sources, donated, recovered or obtained by transfer. Property received will be recorded on a receiving report to:

- (a) Provide a record of receipt;
- (b) Provide a document of entry to the records and accounts; and
- (c) Substantiate the disbursement voucher.

Condition: Our test of disbursements noted lack of receiving report or equivalent to support one disbursement for \$389,800 (check no. 268837).

Cause: The cause of the above condition is a lack of documentation evidencing receipt of equipment.

Effect: The effect of the above condition is noncompliance with the above criteria.

Recommendation: We recommend that the Republic implement procedures for receipt of property.

Auditee Response and Corrective Action Plan: The disbursement was made consistent with the term of the contract. The process for payment of a contract is usually based on progress of the project. This particular payment did have a certificate of completion that equipment was delivered signed by three employees. However, because equipment was included in the contract, they were not picked up by Supply Office on a timely manner as the usual receiving report was not used and the equipment was not entered into the equipment account. We will begin checking all contracts to ensure if equipment is included, we make sure it is charged to equipment account and that there is evidence that equipment was received and given to Property and Supply Division for appropriate action.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2008

Local Noncompliance

Finding No. 2008-7

Criteria: Per Title 40, Chapter 5, § 504 of the Palau National Code, the National Government Private Borrowing Authority Act, the Republic, by and through the President, shall have the authority to borrow money or goods and incur long-term obligations and repay the same with interest, from any private persons. In addition, the annual unified budget shall reflect all private borrowings, obligations and issuances of securities and bonds of the Republic in detail, for every year such borrowing is in effect.

Condition: On June 28, 2002, the Republic's Washington Embassy entered into a loan agreement with a bank in the amount of \$160,000. Although the loan was due on May 30, 2004, including interest at 7.00% per annum, \$198,142 remained outstanding at September 30, 2008.

Cause: The cause of the above condition is a lack of authorization for loan repayment.

Effect: The effect of the above condition is noncompliance with the National Government Private Borrowing Authority Act.

Recommendation: We recommend that the Republic address the Republic's Washington Embassy loan.

Prior Year Status: The lack of authorization for loan payment was reported as a finding in the Single Audits of the Republic for fiscal years 2002 through 2007.

Auditee Response and Corrective Action Plan: As of this date, nothing definite has been taken by the new administration regarding this outstanding loan. The senior financial advisor to the President and the Vice President/Minister of Finance has been informed of this issue. We have yet to see what the decision will be.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2008

Finding No. : 2008-8  
 CFDA Program: U.S. DOI 15.875 Economic, Social and Political Development of the Territories  
 CFDA Program: U.S. DOT 20.106 Airport Improvement Project  
 CFDA Program: U.S. ED 84.027 Special Education – Grants to States  
 CFDA Program: U.S. ED 84.256 Territories and Freely Associated States Education Grant  
 CFDA Program: U.S. HHS 93.283 CDC and Prevention – Investigations & Technical Asst  
 Grant no.: MOU-2007, MOU-Supplement 2008, NAT-I-4416-1-1-07, NAT-I-4416-1-1-01, NAT-I-4416-1-1-05, 3 -70-0001-09, H027A070006-6A, H027B030001-05, S256A060001, S256A060001-07, U58/DP000776-01, 3U58/DP922936-05W1  
 Requirement: Cash Management  
 Questioned Costs: \$0

**Criteria:** In accordance with applicable cash management requirements, the time elapsed between the receipt of Federal funds and the payout of funds for program costs should be minimized.

**Condition:** For 56 (or 17%) of 330 transactions tested, the time elapsed between the receipt of Federal funds and the clearance of disbursed checks exceeded three days, ranging from 1 to 170 days, as follows:

<u>CFDA # no.</u>	<u># of Transactions</u>
15.875	14
20.106	6
84.027	15
84.256	10
93.283	11

Receipt of Federal funds for two transactions, totaling \$3,516, for the month of June 2008, could not be traced, and therefore, we were not able to determine whether such transactions were paid within three days of receipt of Federal funds:

<u>Cost Center</u>	<u>Check No.</u>	<u>Voucher No.</u>	<u>Amount</u>	<u>Clearing Date</u>
E63561	264592	685726	\$ 3,516	06/27/08

Receipt of Federal funds for four transactions, totaling \$28,245, for the months of October 2007 and March 2008, could not be traced, and therefore, we were not able to determine whether such transactions were paid within three days of receipt of Federal funds:

<u>Check No.</u>	<u>Voucher No.</u>	<u>Amount</u>	<u>Clearing Date</u>
262436	675505	\$ 12,500	05/01/08
262436	675509	\$ 6,250	05/01/08
261401	675863	\$ 3,000	04/07/08
255459	662736	\$ 6,495	12/03/07

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2008

Finding No. : 2008-8, Continued  
CFDA Program: U.S. DOI 15.875 Economic, Social and Political Development of the Territories  
CFDA Program: U.S. DOT 20.106 Airport Improvement Project  
CFDA Program: U.S. ED 84.027 Special Education – Grants to States  
CFDA Program: U.S. ED 84.256 Territories and Freely Associated States Education Grant  
CFDA Program: U.S. HHS 93.283 CDC and Prevention – Investigations and Technical Assistance  
Grant no.: MOU-2007, MOU-Supplement 2008, NAT-I-4416-1-1-07, NAT-I-4416-1-1-01, NAT-I-4416-1-1-05, 3 -70-0001-09, H027A070006-6A, H027B030001-05, S256A060001, S256A060001-07, U58/DP000776-01, 3U58/DP922936-05W1  
Requirement: Cash Management  
Questioned Costs: \$0

Cause: The cause of the above condition is lack of internal controls over cash management and lack of audit trail for requesting reimbursements. Additionally, due to the Republic's remote location, it is not currently possible to utilize ACH as that service is not offered.

Effect: The effect of the above condition is noncompliance with applicable cash management requirements. However, no questioned costs result from the condition as the estimated interest liability to the U.S. Department of Education, the U.S. Department of the Interior and the U.S. Department of Transportation is less than \$10,000 per major program.

Recommendation: We recommend that the Republic establish internal controls over cash management that ensure compliance with federal requirements. Cash drawdowns, related expenditures and other supporting documentation should be filed adequately and completely to improve audit trail. We realize that compliance with cash management requirements will be difficult to achieve until the Republic is afforded the ability to ACH transactions. Until that time, the Republic should continue to utilize its best efforts to comply with the criteria. Additionally, we recommend that this matter be discussed with the applicable grantor officials and the Republic perform a requisite analysis of its clearance patterns.

Prior Year Status: Lack of internal controls over cash management was reported as a finding in the Single Audits of the Republic for fiscal years 2004 through 2007.

Auditee Response and Corrective Action Plan: ROP concurs and continues to make improvements on its cash management. List of all pending payments are immediately submitted to Treasury the day after drawdowns are requested. Treasury understands now that it has only three days to make sure checks are cleared thru the banks. ROP Continues to encourage off island vendors to provide their bank information so that Treasury can wire payments instead of mailing checks. ROP recently hired additional staff to assist in documentation and filing for audit trail.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2008

Finding No.: 2008-9  
Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.224 Consolidated Health Centers  
Grant No.: H80CS02467-22-01, 2H80CS02467-23-00  
Requirement: Procurement and Suspension and Debarment  
Questioned Costs: \$62,326

**Criteria:** In accordance with applicable procurement requirements, procurement shall provide full and open competition among vendors. Any allowable exceptions must be properly documented and approved in accordance with applicable Republic of Palau procurement requirements and such approvals should be documented in the procurement file. For small purchases over \$2,000, and for the purchase of event hosting services over \$5,000 not put to bid, the procurement officer concerned or his designee shall obtain price quotations from at least three vendors and base the selection on competitive price, quality, delivery time and other relevant factors. Written documentation of the three price quotes, the vendors submitting the quotes and the basis for the selection shall be maintained in the purchase order file. Small purchases under \$5,000 may be limited to local vendors. Three price quotations are not required on small purchase under \$10,000 if there is adequate documentation that there are fewer than three suppliers of the items within the Republic. Specifying a brand name product instead of allowing an equal product to be offered and describing the performance of other relevant requirement restrict full and open completion.

Additionally, purchases over \$10,000 require formal bidding process. Public notice of the invitation for bids shall be announced on all radio or television stations and shall be made a reasonable time at least fifteen days prior to the date of the initial day of the bidding time.

**Condition:** Of the twenty-five expenditures tested, totaling \$121,335, of a total population of \$291,102, the following were noted:

- Price quotations were obtained from an adequate number of qualified sources. However, the price quotations provided were for one airline, while there is more than one airline that provides service from Guam to other destinations (for one disbursement):

<u>Voucher no.</u>	<u>Check no.</u>	<u>Amount</u>	<u>Grant Number</u>	<u>Cost Center</u>	<u>Description</u>
688585	265358	\$ 2,618	2H80CS02467-23-00	H83690	airline ticket
678684	262560	<u>3,789</u>	2H80CS02467-23-00	H83690	airline ticket
	Questioned cost	<u>\$ 6,407</u>			

- Price quotations were obtained from an adequate number of qualified sources; however, there was no evidence of written rationale on file in support of two disbursements:

<u>Voucher no.</u>	<u>Check no.</u>	<u>Amount</u>	<u>Grant Number</u>	<u>Cost Center</u>	<u>Description</u>
678689	262560	\$ 3,790	2H80CS02467-23-00	H83690	airline ticket
678688	262560	<u>3,790</u>	2H80CS02467-23-00	H83690	airline ticket
	Questioned Cost	<u>\$ 7,580</u>			

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2008

Finding No.: 2008-9, Continued  
Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.224 Consolidated Health Centers  
Grant No.: H80CS02467-22-01, 2H80CS02467-23-00  
Requirement: Procurement and Suspension and Debarment  
Questioned Costs: \$62,326

Condition, Continued:

- Public notice of the invitation for bid was not made a reasonable time at least fifteen days prior to the date of the initial day of the bidding time for the following:

<u>Voucher no.</u>	<u>P.O. no.</u>	<u>Amount</u>	<u>Grant Number</u>	<u>Cost Center</u>	<u>Description</u>
DF800127	L80748	\$ <u>37,559</u>	H80CS02467-22-01	H73690	medical equipment
	Questioned Cost	\$ <u>37,559</u>			

- There was no evidence in file that public notices were announced on all radio or television stations (for two purchase orders tested):

<u>Voucher no.</u>	<u>Check no.</u>	<u>Amount</u>	<u>Grant Number</u>	<u>Cost Center</u>	<u>Description</u>
DF800127	261755	\$ 37,559	H80CS02467-22-01	H73690	medical equipment
676146	262373	<u>10,780</u>	H80CS02467-22-01	H73690	two vehicles
Total		\$ 48,339			
Less questioned above		( <u>37,559</u> )			
Questioned Cost		\$ <u>10,780</u>			

- Specifications provided in support of a request for proposal specified a brand name of items procured and did not specify "or equivalent"(for one disbursement):

<u>Voucher no.</u>	<u>Check no.</u>	<u>Amount</u>	<u>Grant Number</u>	<u>Cost Center</u>	<u>Description</u>
676146	262373	\$ 10,780	H80CS02467-22-01	H73690	two vehicles
Less questioned above		\$ <u>10,780</u>			
Questioned cost		\$ _____			

Cause: The cause of the above condition is inadequate documentation for small purchases and weak controls over ensuring that competition remains open among vendors. ROP regulations indicate that if no more than two vendors possess the required merchandise or service, no competitive procurement is required. However, no documentation was available to indicate compliance with the regulation.

Effect: The effect of the above condition is potential noncompliance with applicable Federal and local procurement regulations. A questioned cost of \$62,326 exists.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2008

Finding No.: 2008-9, Continued  
Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.224 Consolidated Health Centers  
Grant No.: H80CS02467-22-01, 2H80CS02467-23-00  
Requirement: Procurement and Suspension and Debarment  
Questioned Costs: \$62,326

Recommendation: We recommend that the Republic strengthen internal controls over procurement to maximize competition while maintaining the best interests of the Republic. If exceptions are allowed by procurement regulations, they should be reviewed and approved and the reasons should be documented in the procurement file.

Prior Year Status: Noncompliance with local procurement policies was reported as a finding in the Single Audits of the Republic for fiscal years 2004 through 2007.

Auditee Response and Corrective Action Plan: ROP does not concur with this finding. Open purchase order for fuel file has all the required price quotations attached. ROP does not concur with questioned cost because the expenditures are reasonable, necessary, and allowable for the interest of the Federal Program and ROP.

Bullet 2 & 3, ROP does not concur with this finding. Price quotes from different airlines are filed with the airline ticket payment and not with the advance per diem payment. MOF will retrain staff to document their rationale in writing and file accordingly. ROP does not concur with questioned cost because the expenditures are reasonable, necessary, and allowable for the interest of the Federal Program and ROP.

Bullet 4, 5 & 6, Ministry of Finance will strengthen its controls on procurement documentation by using this finding in their staff training this year. This will increase capacity in regards to Federal and Local procurement knowledge. ROP does not concur with questioned cost because the expenditures are reasonable, necessary, and allowable for the interest of the Federal Program and ROP.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2008

Finding No.: 2008-10  
 Federal Agency: U.S. Department of Health and Human Services  
 CFDA Program: 93.283 CDC and Prevention – Investigations and Technical Assistance  
 Grant Number: U55/CCU922043-05, 1U58/DP000776-01, U58/CCU922936-05  
 Requirement: Procurement and Suspension and Debarment  
 Questioned Costs: \$40,292

**Criteria:** In accordance with applicable procurement requirements, procurement shall provide full and open competition among vendors. Any allowable exceptions must be properly documented and approved in accordance with applicable Republic of Palau procurement requirements, and such approvals should be documented in the procurement file. For small purchases over \$2,000 and for the purchase of event hosting services over \$5,000 not processed through bid procedures, the procurement officer concerned or his designee shall obtain price quotations from at least three vendors and base the selection on competitive price, quality, delivery time and other relevant factors. Written documentation of the three price quotes, the vendors submitting the quotes and the basis for the selection shall be maintained in the purchase order file. Small purchases under \$5,000 may be limited to local vendors. Three price quotations are not required on small purchases under \$10,000 if there is adequate documentation that there are fewer than three suppliers of the items within the Republic.

**Condition:** Of thirty-eight expenditures tested, totaling \$198,303, of a total population of \$571,265, the following were noted:

- There was no evidence on file that quotations were obtained from an adequate number of qualified sources for six expenditures:

<u>Voucher no.</u>	<u>Check no.</u>	<u>Amount</u>	<u>Grant Number</u>	<u>Cost Center</u>	<u>Description</u>
DF800004	71117850	\$ 7,283	U55/CCU922043-05	H63683	supplies for mammography processor
672425	259552	3,250	1U58/DP000776-01	H73683	2,600 brochures to be used in the clinics
DF800006	253304	3,500	U55/CCU922043-05	I63683	production and air public service announcement
661046	254535	3,500	U55/CCU922043-05	I63683	production and aired cancer messages, aired cancer talk show and other cancer educational messages to the public.
698980	269834	7,000	U58/DP922936-05	H73661	grant writing, monitoring capacity building.
687189	264900	<u>4,200</u>	1U58/DP000776-01	H73683	annual mammography equipment evaluation.
		<u>\$ 28,733</u>			

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2008

Finding No.: 2008-10, Continued  
 Federal Agency: U.S. Department of Health and Human Services  
 CFDA Program: 93.283 CDC and Prevention – Investigations and Technical Assistance  
 Grant Number: U55/CCU922043-05, 1U58/DP000776-01, U58/CCU922936-05  
 Requirement: Procurement and Suspension and Debarment  
 Questioned Costs: \$40,292

- Price quotations were obtained from an adequate number of qualified sources; however, there was no evidence of written rationale on file for three expenditures:

<u>Voucher no.</u>	<u>Check no.</u>	<u>Amount</u>	<u>Grant Number</u>	<u>Cost center</u>	<u>Description</u>
678733	262560	\$ 3,765	1U58/DP000776-	H73683	airline ticket
662420	255474	3,747	01U58/DP922936-05	H73661	airline ticket
662416	255474	<u>4,047</u>	U58/DP922936-05	H73661	airline ticket
Questioned Cost		<u>\$11,559</u>			

Cause: The cause of the above condition is inadequate documentation of small purchases and a lack of controls over ensuring that competition remains open among vendors. The ROP regulations indicate that if no more than two vendors possess the required merchandise or service, no competitive procurement is required. However, no documentation was readily available to indicate compliance with the regulation. Verbal explanations, rationale and references of the above expenditures were provided upon issuance of draft findings. The current filing system of disbursements does not provide an adequate audit trail to substantiate that compliance with procurement requirements and related documentation have been met.

Effect: The effect of the above condition is noncompliance with applicable federal or local procurement regulations. A questioned cost of \$40,292 exists.

Recommendation: We recommend that the Republic strengthen internal controls over procurement to maximize competition while maintaining the best interests of the Republic. If exceptions are allowed by procurement regulations, they should be reviewed and approved and the reasons should be documented in the procurement file. The filing system should provide adequate audit trail to substantiate evidence of compliance with procurement regulations.

Prior Year Status: Lack of adequate documentation of small purchases and controls over ensuring that competition remains open among vendors was reported as a finding in the Single Audits of the Republic for fiscal years 2005 through 2007.

Auditee Response and Corrective Action Plan: Bullet 1, Supplies for mammography processor was procured through sole source procurement method. That is the reason why there were no price quotations in file. Ministry of Health stated reasons for sole source in its letter to ROP Procurement Officer, ROP Procurement officer accepted and certified reasons for sole source procurement.

Bullet 1 & 2, ROP accepted quotations from companies that stated “items out of stock” as one of the required three price quotations. Due to limited vendors on island, obtaining adequate number of qualified sources is a challenge that ROP has to address. ROP will strengthen its controls to maximize competition by retraining staff to become more aware of Federal and Local procurement policies. ROP will train staff to document their rationale in writing and file accordingly. ROP does not concur with questioned cost because the expenditures are reasonable, necessary, and allowable for the interest of the Federal Program and ROP.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2008

Finding No.: 2008-11  
Federal Agency: U.S. Department of Education  
CFDA Program: 84.256 Territories and Freely Associated States Education Grant  
Grant No.: S256A060001, S256A060001-07  
Requirement: Procurement and Suspension and Debarment  
Questioned Costs: \$36,924

Criteria: In accordance with applicable procurement requirements, procurement shall provide full and open competition among vendors. Any allowable exceptions must be properly documented and approved in accordance with applicable Republic of Palau procurement requirements and such approvals should be documented in the procurement file. For small purchases over \$2,000, and for the purchase of event hosting services over \$5,000 not processed through bid procedures, the procurement officer concerned or his designee shall obtain price quotations from at least three vendors and base the selection on competitive price, quality, delivery time and other relevant factors. Written documentation of the three price quotes, the vendors submitting the quotes and the basis for the selection shall be maintained in the purchase order file. Small purchases under \$5,000 may be limited to local vendors. Three price quotations are not required on small purchase under \$10,000 if there is adequate documentation that there are fewer than three suppliers of the items within the Republic. Specifying a brand name product instead of allowing an equal product to be offered and describing the performance of other relevant requirements of the procurement restricts full and open competition. Determination of airfare cost should be based available airlines between Palau and the destination.

Additionally, the procurement law specifically provides for the following:

- For items purchased through competitive sealed bidding, invitation for bids shall be issued and shall contain a clear and, complete and accurate description of the goods or services to be procured. The law provides for the minimum requirements that an invitation for bids must have;
- Public notice of the invitation for bids shall be made a reasonable time at least 15 days prior to the date of initial day of the bidding time and shall be furnished to all required public sites as enumerated in the law, be published in a newspaper of general circulation, and shall be announced on all radio and television stations within the Republic;
- Bidding time of at least thirty days shall be provided unless the procurement officer makes a written and substantiated determination that a shorter time period is reasonable and necessary. The minimum time period should not be less than fifteen days after the notice of invitation for bids is posted;
- The bid opening shall be conducted by the procurement officer or his designee. The bids will be opened publicly in the presence of at least two witnesses at the time and place designated in the invitation. The procurement officer shall record the amount of each bid together with the name of each bidder and prepare a written summary of the bid opening to be countersigned by the witnesses;
- The contract must be awarded with reasonable promptness, but in no event later than thirty days after opening the bids, by written notice to the responsive bidder whose bid fully meets the requirements of the invitation for bids.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2008

Finding No.: 2008-11, Continued  
 Federal Agency: U.S. Department of Education  
 CFDA Program: 84.256 Territories and Freely Associated States Education Grant  
 Grant No.: S256A060001, S256A060001-07  
 Requirement: Procurement and Suspension and Debarment  
 Questioned Costs: \$36,924

**Condition:** Of thirty-two expenditures tested, totaling \$479,089, of a total population of \$695,066, the following were noted:

- For two disbursements related to one contract (contract #D70202), a copy of contract award letter was not made available, thus, awarding of the contract within the reasonable time could not be verified. Further, there was no evidence that the public notice was announced in all radio stations.

<u>Check No.</u>	<u>Voucher no.</u>	<u>Amount</u>	<u>Grant Award No.</u>	<u>Description</u>
260237	663944	\$ 13,168	S256A060001	Independent contract services
262490	675339	\$ 13,168	S256A060001	Independent contract services

- For two disbursements related to one contract (contract # D80037), there was lack of evidence that the public notice was adequately advertised and publicized:

<u>Check No.</u>	<u>Voucher No.</u>	<u>Amount</u>	<u>Grant Award No.</u>	<u>Description</u>
266040	685718	\$ 20,000	S256A060001	Independent contract services
unpaid	693281	\$ 30,000	S256A060001	Independent contract services

- For six disbursements related to two purchase orders (PO #P7003, P70038), the related request for proposal could not be located. Further, there was lack of evidence that the public notice was adequately advertised and publicized

<u>Wire Transfer No.</u>	<u>Voucher No.</u>	<u>Amount</u>	<u>Description</u>	<u>Grant Award No.</u>
78187494	674002	\$ 605	Books and instructional materials	S256A060001
78186962	674003	\$ 6,588	Books and instructional materials	S256A060001
70154592	674004	\$ 165,712	Books and instructional materials	S256A060001
78186138	674007	\$ 17,302	Books and instructional materials	S256A060001
71181053	674006	\$ 18,772	Books and instructional materials	S256A060001
87186551	674005	\$ 9,883	Books and instructional materials	S256A060001

- For one disbursement related to one contract (contract #D70176), the contract was not awarded within thirty days upon bid opening. Further, there was no evidence that the public notice was announced in all radio stations:

<u>Check No.</u>	<u>Voucher No.</u>	<u>Amount</u>	<u>Description</u>	<u>Grant Award No.</u>
255692	663457	\$ 12,390	Independent contract services	S256A060001-07

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2008

Finding No.: 2008-11, Continued  
Federal Agency: U.S. Department of Education  
CFDA Program: 84.256 Territories and Freely Associated States Education Grant  
Grant No.: S256A060001, S256A060001-07  
Requirement: Procurement and Suspension and Debarment  
Questioned Costs: \$36,924

Condition, Continued:

- For two disbursements related to one contract (contract # D70189), the contract was not awarded within thirty days upon bid opening. Further, there was no evidence that the public notice was announced in all radio stations and posted to required sites and government offices:

<u>Check No.</u>	<u>Voucher No.</u>	<u>Amount</u>	<u>Description</u>	<u>Grant Award No.</u>
260236	665761	\$ 13,000	Independent contract services	S256A060001-07
253609	637911	\$ 7,000	Independent contract services	S256A060001-07

- For two disbursements related to one contract (contract #D80095), the independent contractor was not the last one to sign the contract. Further, a copy of contract award letter was not made available, thus, awarding of the contract within the reasonable time could not be verified. Finally, there was no evidence that the related public notice was announced in all radio stations:

<u>Check No.</u>	<u>Voucher No.</u>	<u>Amount</u>	<u>Description</u>	<u>Grant Award No.</u>
265776	685716	\$ 12,500	Independent contract services	S256A060001-07
unpaid	693280	\$ <u>12,500</u>	Independent contract services	S256A060001-07
Total Questioned Costs		\$ <u>25,000</u>		

- For one disbursement pertaining to one purchase order (PO#S80406), adequate number of price quotations was not obtained to ensure open and free competition:

<u>Check No.</u>	<u>Voucher No.</u>	<u>Amount</u>	<u>Description</u>	<u>Grant Award No.</u>
263865	682962	\$ <u>1,924</u>	Space and equipment rental	S256A060001-07
Total Questioned Costs		\$ <u>1,924</u>		

- For one disbursement related to one contract (contract #D70200), the project was completed after the agreed contract period, however, there was no contract amendment to support the extension of contract term. Further, a copy contract award letter was not made available, thus, awarding of the contract within the reasonable time could not be verified. There was also no evidence that the public notice was announced in all radio stations and posted to all required sites within the Republic:

<u>Check No.</u>	<u>Voucher No.</u>	<u>Amount</u>	<u>Description</u>	<u>Grant Award No.</u>
255696	663458	\$ <u>10,000</u>	Independent contract services	S256A060001-07
Total Questioned Costs		\$ <u>10,000</u>		

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2008

Finding No.: 2008-11, Continued  
Federal Agency: U.S. Department of Education  
CFDA Program: 84.256 Territories and Freely Associated States Education Grant  
Grant No.: S256A060001, S256A060001-07  
Requirement: Procurement and Suspension and Debarment  
Questioned Costs: \$36,924

Cause: The cause of the above condition is inadequate procurement documentation and weak controls over ensuring that competition remains open among vendors.

Effect: The effect of the above condition is noncompliance with applicable federal and local procurement regulations and questioned costs. Except for amounts identified as total questioned costs, all other matters are not questioned as we were able to determine that adequate competition occurred, however noncompliance with local laws result from these conditions.

Recommendation: We recommend that the Republic strengthen internal controls over procurement to maximize competition while maintaining the best interests of the Republic. If exceptions are allowed by procurement regulations, they should be reviewed and approved and the reasons should be documented in the procurement file.

Auditee Response and Corrective Action Plan: ROP concurs with this finding with reservations. Contract D70202 (PCS-2007-14), ROP will strengthen its controls by retraining staff to adequately document procurements. This contract was advertised on one of three major news paper, and one of the three major radio station, and on television. ROP does not concur with the questioned cost because advertising is very costly and not all radio stations are understood by English or Palauan speaking people. Expenditures are reasonable, necessary, and allowable for the interest of the Federal Program and ROP.

ROP concurs with this finding with reservations, Contract D80037, public notice was publicized on one of the three major news paper and one of the three major radio station. Although local procurement policy states "all radio stations", it would be unnecessary and unpractical to advertise on all radio stations for such a small population and for the same reason previously stated. ROP does not concur with the questioned cost because expenditures are reasonable, necessary, and allowable for the interest of the Federal Program and ROP.

ROP concurs with all the findings with reservations. ROP will strengthen internal controls over procurement to maximize competition by retraining staff to become more aware of Federal and Local procurement policies. ROP does not concur with the questioned cost because expenditures are reasonable, necessary, and allowable for the interest of the Federal Program and ROP.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2008

Finding No.: 2008-12  
Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social and Political Development of the Territories  
Grant No.: OMIP-ROP-2007-2, OMIP-ROP-2007-1, PAL-115  
Requirement: Procurement and Suspension and Debarment  
Questioned Costs: \$366,661

Criteria: In accordance with applicable procurement requirements, procurement shall provide full and open competition among vendors. Any allowable exceptions must be properly documented and approved in accordance with applicable Republic of Palau procurement requirements and such approvals should be documented in the procurement file. For items purchased through competitive sealed bidding, invitation for bids shall be issued and shall contain a clear, complete and accurate description of the goods or services to be procured. The law provides for the minimum requirements that an invitation for bids must have.

Public notice of the invitation for bids shall be made a reasonable time at least 15 days prior to the date of initial day of the bidding time and shall be furnished to all required public sites as enumerated in the law, be published in a newspaper of general circulation, and shall be announced on all radio and television stations within the Republic.

Bidding time of at least thirty days shall be provided unless the procurement officer makes a written and substantiated determination that a shorter time period is reasonable and necessary. The minimum time period should not be less than fifteen days after the notice of invitation for bids is posted.

The bid opening shall be conducted by the procurement officer or his designee. The bids will be opened publicly in the presence of at least two witnesses at the time and place designated in the invitation. The procurement officer shall record the amount of each bid together with the name of each bidder and prepare a written summary of the bid opening to be countersigned by the witnesses. The contract must be awarded with reasonable promptness, but in no event later than thirty days after opening the bids, by written notice to the responsive bidder whose bid fully meets the requirements of the invitation for bids.

Award shall be made to the reasonable offeror whose proposal is determined in writing to be most advantageous to the Republic taking into consideration price and other evaluation factors set forth in the request for proposals. No other factors or criteria shall be used in the evaluation, and the contract file shall contain a detailed description of the findings and the basis on which the award is made.

Contracts which require an expenditure of \$10,000 or less may be awarded without competition when the Procurement Officer determines in a substantiated writing that there is only one reliable source of the required supply, service or construction item.

Condition: Of forty-three expenditures tested, totaling \$1,054,039, of a total population of \$1,299,565, the following were noted:

- For three disbursements related to one contract (contract #D80054), a copy of the proposal for one of the two bidders was not made available. The related award letter could not be provided, thus, we could not verify if the contract was awarded within a reasonable time frame. Although both bidders met minimum requirements, factors noted in the justification for selecting the higher bidder were not set forth in the request for proposal:

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2008

Finding No.: 2008-12, Continued  
Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social and Political Development of the Territories  
Grant No.: OMIP-ROP-2007-2, OMIP-ROP-2007-1, PAL-115  
Requirement: Procurement and Suspension and Debarment  
Questioned Costs: \$366,661

Condition, Continued:

<u>Check No.</u>	<u>Amount</u>	<u>Description</u>	<u>Grant No.</u>
257680	\$ 41,500	Computer maintenance management system	OMIP-ROP-2007-2
257848	41,500	Computer maintenance management system	OMIP-ROP-2007-2
264013	<u>83,000</u>	Computer maintenance management system	OMIP-ROP-2007-2
	<u>\$ 166,000</u>		

- For two disbursements related to one contract (contract #C80011), the related procurement documents (request for proposal, public notice, copies of proposals received, bids summary, award letter, among others) evidencing competitive procurement were not made available:

<u>Check No.</u>	<u>Amount</u>	<u>Description</u>	<u>Grant No.</u>
		Structural consultancy services	OMIP-ROP-2007-1
255758	\$ 29,880	Structural consultancy services	OMIP-ROP-2007-1
267974	<u>69,720</u>		
	<u>\$ 99,600</u>		

- For two disbursements under an agreement to transfer a sub-component of contract #D80111, there was no evidence of competitive procurement or written determination by the Procurement Officer that there is only one reliable source of the required service:

<u>Check No.</u>	<u>Amount</u>	<u>Description</u>	<u>Grant No.</u>
265076	\$ 48,000	Wireless connectivity	PAL-115 Amendment
268896	<u>48,000</u>	Wireless connectivity	PAL-115 Amendment
	<u>\$ 96,000</u>		

- For one disbursement, the bids summary, copies of public notice and newspaper advertisements and related invoices supporting newspaper, television and radio advertisements, and any evidence that the public notice was posted/distributed to required sites/government places were not made available:

<u>Check No.</u>	<u>Voucher No.</u>	<u>Amount</u>	<u>Description</u>	<u>Grant No.</u>
262909	677274	\$ 5,061	Professional services fees	R13873

Cause: The cause of the above condition is inadequate procurement documentation and weak controls over ensuring that competition remains open among vendors.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2008

Finding No.: 2008-12, Continued  
Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social and Political Development of the Territories  
Grant No.: OMIP-ROP-2007-2, OMIP-ROP-2007-1, PAL-115  
Requirement: Procurement and Suspension and Debarment  
Questioned Costs: \$366,661

Effect: The effect of the above condition is noncompliance with applicable federal and local procurement regulations and questioned costs.

Recommendation: We recommend that the Republic strengthen internal controls over procurement to maximize competition while maintaining the best interests of the Republic. If exceptions are allowed by procurement regulations, they should be reviewed and approved and the reasons should be documented in the procurement file.

Auditee Response and Corrective Action Plan: ROP does not concur with the questioned cost of \$166,000. ROP concurs that both bidders met minimum requirements. Recommendations from Ministry of Education Evaluation Team are documented and the ROP procurement officer concurred with the MOE Evaluation Team's recommendations in writing. ROP concurs that factors noted in the evaluation were not set forth in the request for proposal. However, ROP Procurement Officer determined that such factors are reasonable and appropriate for the interest of the Republic of Palau and Grantor Agency.

ROP does not concur with the questioned cost of \$99,600. CIP Office already had an open contract with an Engineer since 2005 before this project. ROP Concur that there are no evidence of competition for Engineering Services for this particular contract because this was done in 2005 when CIP office entered into an open contract with this Engineer. Both disbursements are reasonable, necessary, and allowable under this grant.

There were two vendors, Palau Telecoms and Palau Mobile. The committee selected Palau Telecoms because the company had registration provided by office of Communication and Transportation reflecting that Palau Telecoms had the frequencies to perform the service while, the other vendor had no Frequencies and or right to provide internet services. At the moment Palau Mobile CANNOT provide internet services. ROP does not concur with questioned cost because expenditures are reasonable, necessary, and allowable for the interest of the Federal Program and ROP.

This contract was executed in 2002. All the required procurement documents for this project were forwarded to grantor agency per letter to DOI dated February 12, 2002. This is a part of reconciliation and closeout of old grants between DOI and grantee.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2008

Finding No.: 2008-13  
 CFDA Program: U.S. HHS 93.283 CDC and Prevention - Investigations & Technical Asst.  
 CFDA Program: U.S. ED 84.027 Special Education - Grants to States  
 CFDA Program: U.S. ED 84.256 Territories and Freely Associated States Education Grant  
 Grant No.: 3U58/DP922936-05W1, H027A070006-6A, H027B030001-05, S256A060001, S256A060001-07  
 Requirement: Procurement and Suspension and Debarment  
 Questioned Costs: \$0

**Criteria:** The grant terms and conditions require that when issuing statements, press releases, requests for proposals, bid solicitations, and other documents describing projects or programs funded in whole or in part with Federal money, all grantees receiving federal funds, shall clearly state the (1) dollar amount of federal funds for the project, (2) the percentage of the total cost of the project that will be financed by federal funds, and (3) the percentage and dollar amount of the total cost of the project that will be financed by non-governmental sources.

**Condition:** Of 182 expenditures tested, totaling \$315,118, of a total population of \$513,060 (CFDA #84.027), two requests for proposals (RFP #2007-017 and RFP #07-201) for which the awarded amounts were \$27,003 and \$22,399, respectively, did not indicate the percentage and amount of federal funds. Further, for one local purchase order (PO #L80448) amounting to \$2,750, we could not verify if the percentage and amount of federal funds was indicated as the written request for price quotation was not made available.

Of thirty-eight expenditures tested, totaling \$198,303, of a total population of \$571,265 (CFDA #93.283), the following expenditure did not have procurement documents on file evidencing compliance with the above criteria or we were not able to substantiate through other means that the above criteria was met:

<u>Check no.</u>	<u>Voucher no.</u>	<u>Contract amount</u>	<u>Description</u>
261427	666619	\$ 12,000	Rental payment for the Division of Behavioral Health, Tobacco Prevention and Control Program

Of thirty-two expenditures tested, totaling \$479,089, of a total population of \$695,066 (CFDA #84.256), public notice issued for four contracts and two purchase orders (contract #D70202, #D70176, #D70189, #D70200, #P70035, #P70038) did not indicate the percentage and amount of federal funds.. Further, one request for proposal (RFP #PCS-2007-01) did not indicate the amount and percentage of federal funds for the project.

**Cause:** The cause of the above condition may be a lack of awareness of this provision.

**Effect:** The effect of the above condition is noncompliance with procurement guidelines. No questioned costs result from the above conditions as we were able to determine that adequate competition occurred.

**Recommendation:** We recommend that the Republic comply with the criteria.

**Prior Year Status:** Noncompliance with grant terms and conditions was reported as a finding in the Single Audits of the Republic for fiscal years 2006 and 2007.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2008

Finding No.: 2008-13, Continued  
CFDA Program: U.S. HHS 93.283 CDC and Prevention - Investigations & Technical Assistance  
CFDA Program: U.S. ED 84.027 Special Education - Grants to States  
CFDA Program: U.S. ED 84.256 Territories and Freely Associated States Education Grant  
Grant No.: 3U58/DP922936-05W1, H027A070006-6A, H027B030001-05, S256A060001, S256A060001-07  
Requirement: Procurement and Suspension and Debarment  
Questioned Costs: \$0

Auditee Response and Corrective Action Plan: ROP will use this finding in staff training to increase their knowledge on this provision. ROP have revised their price solicitation forms to include such provisions.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2008

Finding No.: 2008-14  
 Federal Agency: U.S. Department of Health and Human Services  
 CFDA Program: 93.283 CDC and Prevention – Investigations and Technical Assistance  
 Grant Number: U58/DP000776-01, U58/DP922936-05  
 Program Name: National Comprehensive Cancer Control Program, Prostate Cancer and Colorectal, Chronic Disease Prevention and Health Promotion Programs  
 Requirement: Allowable Costs/Cost Principles  
 Questioned Costs: \$3,960

Criteria: Expenditures charged to the program should be in accordance with approved grant award and the budget justification.

Condition: Of thirty-eight disbursements tested, totaling \$198,303, of the total population of \$571,265, two expenditures were charged to the program; however they were not included in the grant award’s approved budget justification:

<u>Voucher no.</u>	<u>Check no.</u>	<u>Amount</u>	<u>Grant Number</u>	<u>Cost Center</u>	<u>Description</u>
694480	267592	\$ 3,960	U58/DP00076-01	H73683	airline ticket of an elected legislative member to attend World Health Assembly in Geneva
698980	269834	<u>7,000</u>	U58/DP922936-05	H73661	service contract for grant writing, monitoring and capacity building
		\$10,960			
Less questioned at finding 2008-10		<u>7,000</u>			
Total questioned cost		<u>\$ 3,960</u>			

Cause: The cause of the above condition is lack of control over expenditures charged to the program.

Effect: The effect of the above condition is questioned costs.

Recommendation: We recommend that management ensure expenditures charged to the program are in line with the approved grant award budget justification.

Auditee Response and Corrective Action Plan: ROP concurs with the finding although the justification at the time related the travel to the overall program benefit. Finance Office will ensure program expenditures are approved in the grant award budget justification. Otherwise a grantor’s approval is requested and granted.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2008

Finding No.: 2008-15  
Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.283 CDC and Prevention – Investigations and Technical Assistance  
Grant Number: U58/DP000776-01, U58/DP922936-05  
Requirement: Allowable costs/Cost Principles  
Questioned Costs: \$0

Criteria: The U.S. Public Health Service Grants Policy Statement Section 8-1 allows for cumulative amounts of transfers among direct cost categories for the current budget period without prior grantor approval not to exceed 25% of the total amount awarded, or \$250,000, whichever is less.

Condition: Transfers among cost categories for the year ended September 30, 2008 were not documented and filed (cost center nos. H73660, H73661, H73683, I73683, H83683, H78652).

Cause: The cause of the above condition is a lack of documentation substantiating the manner in which the program budget is allocated in the allotment process.

Effect: The effect of the above condition is lack of audit trail between the approved grant budget and the Republic's internal program budget. No questioned cost result from this finding as we could not determine the cumulative amount of transfers based on available evidence

Recommendation: We recommend that the program budget allocation/allotment form be prepared based on the actual cost categories of the grant award. Changes to the grant cost categories should be documented accordingly.

Prior Year Status: Lack of audit trail between the approved grant budget and the Republic's internal program budget was reported as a finding in the Single Audits of the Republic for fiscal years 2006 and 2007.

Auditee Response and Corrective Action Plan: ROP started assigning codes that matches grantor's budget categories for all new grants. Cost Centers mentioned above are the last ones that does not have the new codes. These codes will help with audit trail from grant cost categories to ROP cost categories.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2008

Finding No.: 2008-16  
 Agency: U.S. Department of Health and Human Services  
 CFDA Program: 93.283 CDC and Prevention – Investigations and Technical Assistance  
 Grant Number: 1U58DP000776-01  
 Requirement: Allowable Costs/Cost Principles  
 Questioned Costs: \$23,231

**Criteria:** The grant terms and conditions allow for administrative costs of maximum of 10% of the grant award.

**Condition:** Of six administrative costs tested, totaling \$28,155, of total population of \$81,410, four did not appear to have direct or indirect benefit to the grant:

<u>Check no.</u>	<u>Voucher no.</u>	<u>Amount</u>	<u>Description</u>
262560	678705	\$ 2,400	travel to Sydney, Australia to attend Diving and Hyperbaric Medicine Course for 12 days
263908	684267	7,631	Attend first annual conference "facing tomorrow" in Jerusalem with the President
267554	692334	3,700	32 chairs for Ministry of Health Library Conference Room
261374	676741	<u>9,500</u>	Retainer fee for representation of an orthopedist in a legal fees for case representation/retainer
		\$ <u>23,231</u>	

**Cause:** The cause of the above condition is direct costs of a local program and/or another federal grant are charged to this grant.

**Effect:** The effect of the above condition is questioned costs.

**Recommendation:** We recommend that management implement control procedures to prevent costs of local and/or other Federal grants from charging the grant.

**Auditee Response and Corrective Action Plan:** The above expenditures were charged to the administrative cost of the Cancer program. Earlier we received a clarification from a cancer program agency that we could use the administrative cost like we do with the indirect cost. The indirect cost recoveries we receive are spent for project or programs unrelated to the grants. We took it to mean that we could use the administrative cost this way too. We are yet to be told otherwise. In the mean time we will work with the cancer program to come up with ways to spend the administrative cost on related projects.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2008

Finding No.: 2008-17  
CFDA Program: U.S. HHS 93.283 CDC and Prevention – Investigations and Technical Assistance  
CFDA Program: U.S. ED 84.027 Special Education – Grants to States  
Grant Number: 3U58/DP922936-05W1, 1U58/DP000776-01, H027B030001-05  
Requirement: Allowable Costs/Cost Principles  
Questioned Costs: \$0

Criteria: If an employee spends less than 100% of his or her time on one federal program, the employee is required to maintain contemporaneous records documenting the time per applicable program serve, unless an alternative method has been authorized by the funding agency.

Condition: Of forty payroll expenditures tested, totaling \$42,829, of the total population of \$501,750 (CFDA #93.283), we noted that not all personnel spend 100% of their time on the Chronic Disease Prevention and Health Promotion Programs and National Comprehensive Cancer Control Program, Prostate Cancer and Colorectal (check nos. 1129896, 1157462, 1142328, 1172672, 1132409, 1163770, 1171349, 1171352, 1171353, 1173875).

Of forty-six payroll expenditures tested, totaling \$21,364, of a total population of \$728,793 (CFDA #84.027), we noted four teachers who did not spend 100% of their time working for the Special Education program but the entire salaries were charged to the program (employee nos. 9553, 65051, 49748, 32993)..

Cause: The cause of the above condition is the lack of policy to maintain contemporaneous records documenting the time per applicable program.

Effect: The effect of the above condition is potential noncompliance with applicable cost allocation principles requirements. Salaries unrelated to the program could not be determined based on available evidence and therefore, no questioned costs are estimated for the programs.

Recommendation: We recommend that the Republic discuss this matter with the funding agency and an approved method of cost allocation be adopted.

Prior Year Status: Noncompliance with cost allocation principles requirements was reported as a finding in the Single Audits of the Republic for fiscal years 2004 through 2007.

Auditee Response and Corrective Action Plan: Ministry of Finance will conduct training workshop with Ministry of Health and Ministry of Education in regards to this finding. MOF, MOH, and MOE will draft policies to address cost allocations accordingly.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2008

Finding No.: 2008-18  
 Federal Agency: U.S. Department of the Interior  
 CFDA Program: 15.875 Economic, Social and Political Development of the Territories  
 Grant No.: PAL-115 Amendment  
 Requirement: Allowable Costs/Cost Principles  
 Questioned Costs: \$ 0

Criteria: Per the Property Management Policies and Procedures manual, Chapter IV, Section 205.1, it is the policy of the Republic to document the receipt of all government property, regardless of the method or source of acquisition. This includes, but is not limited to, property that is acquired from commercial sources, fabricated in the government shops, donated, recovered or obtained by transfer. Property received will be recorded on a receiving report to:

- a) Provide record of receipt;
- b) Provide a document of entry to the records and account; and
- c) Substantiate the disbursement voucher.

Condition: Of forty-three expenditures tested, totaling \$1,054,039, of a total population of \$1,299,565, we noted the following:

- two disbursements represented payment for hardware and there was no receiving report or equivalent to substantiate that the hardware was actually received by the Republic:

<u>Check no.</u>	<u>Amount</u>	<u>Description</u>	<u>Voucher no.</u>	<u>Grant no.</u>
267147	\$ 17,488	Hardware	691111	PAL-115 Amendment
265339	17,487	Hardware	687697	PAL-115 Amendment
	<u>\$ 34,975</u>			

- expenditures in the amount of \$140,000 lacked evidence of work progress to date to substantiate the amount paid (JV #DF800136). Internal progress reports were provided upon request and there were no progress reports from the contractor to confirm project status. Progress report dated June 8, 2009 indicated under Phase I that cash drawers and hardware installation are completed however, various scanners, printers, cash drawers and computers were still packed in boxes in the stockroom of the National Hospital as of that date.

No questioned cost result from this finding as we subsequently sighted existence of the hardware and the overall contract has not completed as of report date.

Cause: The above criteria have not been implemented for acquisition of property based on executed contracts. Receiving reports are only utilized for property acquired through purchase orders. Disbursements and/or journal voucher entry are made based on the assumption of the status to date without requiring status report to date.

Effect: The effect of the above condition is noncompliance with the above criteria.

Recommendation: We recommend that the Republic implement procedures to comply with the above criteria.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2008

Finding No.: 2008-18, Continued  
Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social and Political Development of the Territories  
Grant No.: PAL-115 Amendment  
Requirement: Allowable Costs/Cost Principles  
Questioned Costs: \$ 0

Auditee Response and Corrective Action Plan: The hardware in question was purchased through a contract. ROP Contracts are assigned differently from requisitions where the system does not print out a receiving report. Normally contracts are for services requiring progress reports used to request payments. Currently, MOF substantiates disbursement vouchers using the progress reports for the user department or Ministry. These reports certify that vendor has fulfilled their part of the contract and therefore, payment is due. Most of the executed contracts have payment schedules based upon progress and not each line item. Because there was no physical receiving report, progress report was used to as a proof to initiate payment. Property and Supply had records of tagging the equipment as evidence that the ROP had actually received the equipments. An oral agreement was reached where officer of contractual services that include equipment in a contract, should make a list of all equipment contained in the contract and submit to the procurement of goods and a copy to the department contracting the service to ensure the list of equipments are signed when equipments are received.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2008

Finding No.: 2008-19  
 Federal Agency: U.S. Department of Health and Human Services  
 CFDA Program: 93.283 CDC and Prevention – Investigations & Technical Assistance  
 Grant Number: U90/CCU921820, U55/CCU922043, 1U58DP000776-01  
 Requirement: Period of Availability of Funds  
 Questioned Costs: \$22,083

**Criteria:** A grantee must liquidate all obligations incurred under the award not later than 90 days after the end of the funding period (or as specified in a program regulation) to coincide with the submission of the annual Financial Status Report (SF-269). The Federal agency may extend this deadline at the request of the grantee.

**Condition:** Of sixteen expenditures tested totaling \$83,157, the following were noted:

- Two expenditures on February 29, 2008, were supported by internal progress report, without supporting vendor invoice or equivalent and evidence of service completion:

<u>Cost Center</u>	<u>Date</u>	<u>Voucher no.</u>	<u>Amount</u>
H63679	02/29/08	DF800060	\$ 6,300
H63679	02/29/08	DF800060	<u>6,300</u>
			\$ <u>12,600</u>

- Two were paid later than 90 days after the end of the funding period or the extended date:

<u>Cost Center</u>	<u>Check Date</u>	<u>Voucher no.</u>	<u>Amount</u>
H63683	JV approved 11/06/07	DF800004	\$ 7,283
H73683	11/20/08	699498	<u>2,200</u>
			\$ <u>9,483</u>

**Cause:** The cause of the above condition is lack of controls over period of availability of funds. There are no records on file evidencing grantor approval for a grant/extension and/or liquidation, if any. There is no mechanism in place to freeze accounts of expired grants. In addition, internal progress report is supporting expenditures instead of vendor invoices or equivalent.

**Effect:** The effect of the above condition is noncompliance with period of availability requirements and questioned costs.

**Recommendation:** We recommend that management establish policies and procedures to prevent obligation or expenditure outside of the period of availability.

**Prior Year Status:** Lack of controls over period of availability of funds was reported as a finding in the Single Audit of the Republic for fiscal years 2006 and 2007.

**Auditee Response and Corrective Action Plan:** ROP does not concur with the questioned cost of \$12,600. ROP has been relying on Final Progress Reports for service type requisitions. Ministry of Health submitted their “After Action Report”, which clearly states the start date, end date, event site and location, purpose, event descriptions, and corrective action plans for upcoming events. ROP finds this report superior to a plain receiving report that signifies completion of project.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2008

Finding No.: 2008-19, Continued  
Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.283 CDC and Prevention – Investigations & Technical Assistance  
Grant Number: U90/CCU921820, U55/CCU922043, 1U58DP000776-01  
Requirement: Period of Availability of Funds  
Questioned Costs: \$22,083

Auditee Response and Corrective Action Plan, Continued:

ROP concurs with this finding. This was an advance payment moved to this grant after all the required document were submitted. This payment was considered as expenditures and drawn as it was within the budget period. ROP will make sure to make such transfers within the budget period.

ROP does not concur with the questioned cost of \$2,200. This payment was for services within the budget period. ROP concurs that although issuance of check and drawdown of funds were beyond liquidation period, obligations and services received were within the budget period

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2008

Finding No.: 2008-20  
Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.283 CDC and Prevention – Investigations & Technical Assistance  
Grant Number: 5U58DP000776-02  
Requirement: Matching, Level of Effort, Earmarking  
Questioned Costs: \$22,500

Criteria: Per the grant terms and conditions section 4, the level of non-federal financial participation for National Breast and Cervical Cancer Early Detection Program (NBCCEDP) is \$22,500.

Condition: There are no records evidencing non-federal match for the year ended September 30, 2008.

Cause: The cause of the above condition is lack of records to support the in kind non-federal participation.

Effect: The effect of the above condition is the lack of records to evidence compliance with the criteria. A questioned cost of \$22,500 exists.

Recommendation: We recommend that management implement policies and procedures to adhere to the above criteria.

Prior Year Status: Lack of records to evidence compliance with matching requirement was reported as a finding in the Single Audits of the Republic for fiscal years 2006 and 2007.

Auditee Response and Corrective Action Plan: Ministry of Finance will work with Ministry of Health to address documentation of in-kind. ROP does not concur with questioned cost as Ministry of Health is currently sending the required reports to Grantor Agency.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2008

Finding No.: 2008-21  
Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.283 CDC and Prevention – Investigations and Technical Assistance  
Grant Number: H80CS02467-22-01, 2H80CS02467-23-00  
Requirement: Special Tests and Provisions

Criteria: Unless the requirement for a governing board is waived by HRSA or the center is operated by an Indian tribe or tribal or Indian organization under the Indian Self-Determination Act or an urban Indian organization under the Indian Health Care Improvement Act, the health center must have a governing board that (1) is composed of individuals, a majority of whom are being served by the center and who, as a group, represent the individuals being served by the center; (2) meets at least once a month; (3) selects the services to be provided by the center; (4) schedules the hours during which services will be provided by the center; (5) approves the center's annual budget; (6) approves the selection of a director for the center; and (7) except in the case of a public center, establishes general policies for the center (42 USC 254b(k)(3)(H)).

Condition: During the test of special tests and provisions, we noted the following:

- We examined the board minutes from October 30, 2007 through April 14, 2009 and there was no evidence that the board approved the annual fiscal year 2008 budget;
- The board did not meet during the month of November 2007.

Cause: The cause of the above condition is a lack of compliance with program requirements.

Effect: The effect of the above condition is noncompliance with special tests and provisions. We are unable to quantify questioned costs, if any, resulting from noncompliance.

Recommendation: We recommend that the Republic establish procedures to ensure compliance with special provisions of grant awards.

Auditee Response and Corrective Action Plan: Ministry of Finance will work with Ministry of Health to ensure compliance with special provisions of grant awards are complied with.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2008

Finding No.: 2008-22  
Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.224 CDC and Prevention – Investigations and Technical Assistance  
Grant Number: H80CS02467-22-01, 2H80CS02467-23-00  
Requirement: Program Income

Criteria: Non grant funds (State, Local and other operational funding and fees, premiums, and third party reimbursements) which the project may reasonably be expected to receive, including any such funds in excess of those originally expected, shall be used as permitted under law and may be used for such other purposes as are not specifically prohibited under the law if such use further the objectives of the project.

Condition: During tests of program income, we noted that the program does not perform its own billing and collection. Rather, the National Hospital, which is part of the Special Revenue Fund of the ROP, performs this function. There was no formal agreement or understanding between the program and the hospital with respect to fulfilling the underlying CHC federal requirements.

Cause: The cause of the above condition is a lack of compliance with the program income requirements.

Effect: The effect of the above condition is unrecorded revenues collected through CHC programs. No questioned cost is presented from the above condition as we were not able to determine the program income received by the CHC program.

Recommendation: We recommend that the Republic establish procedure to ensure compliance with program income requirements.

Auditee Response and Corrective Action Plan: Program income of the public health was agreed to be retained by the hospital for medical purpose, but agreement has been misplaced and employees who knew of the agreement are long gone and no longer working for the Ministry of Health. That was the reason Hospital Trust Fund was created by law to account for all hospital income. Ministry of Health is reporting their program income to their appropriate agencies. A letter was written to Dr. Kuartei last year regarding options to account for their program income. We will work with the Ministry of Health to come up with appropriate spending plan for program income.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2008

Finding No.: 2008-23  
 CFDA Program: U.S. DOI 15.875 Economic, Social and Political Development of the Territories  
 CFDA Program: U.S. ED 84.027 Special Education – Grants to States  
 CFDA Program: U.S. ED 84.256 Territories & Freely Associated States Education Grant  
 CFDA Program: U.S. HHS 93.283 CDC and Prevention – Investigations & Technical Asst  
 CFDA Program: U.S. HHS 93.224 CDC and Prevention – Investigations & Technical Assistance  
 Grant no.: MOU-2007, MOU-Supplement 2008, H027A070006-6A, H027B030001-05, S256A060001, S256A060001-07, U58/DP000776-01, 3U58/DP922936-05W1, H80CS02467-22-01, 2H80CS02467-23-00  
 Area: Equipment and Real Property Management  
 Questioned Costs: \$0

Criteria: The Republic of Palau Property Management (RPPM) Policies and Procedures, Chapter IV, stipulates the following:

- Sections 203.7: Accountable officers will maintain complete property management records, and a physical inventory must take place annually.
- Section 202.3: The Accountable Officer shall be the manager at the Director level of each respective organization entity (or Chief of Staff at the President’s Office). The Boards, Commissions and Authorities will advise the Minister of Finance of the person delegated to control fixed assets. These officers will be responsible for:...(d) ensuring the proper and effective maintenance, control and safeguarding of government property assigned to or utilized by their respective entities;
- Section 202.4: The Property Custodians...assist the Accountable Officer, as designated in writing, to discharge his/her responsibilities relative to the property management system. This will also include proper record keeping for the system, with the following basic steps taken to provide up-to-date accurate information:...(d) When property is unserviceable...the accountable officer will issue a *Property Requested for Survey Action* form and send the item with the completed form to the RPPM...(e) Any item of property missing or not properly accounted for, as soon as known, will be made the subject of a report of survey with the issuance of a *Property Requested for Survey Action* form...(f) To insure proper record keeping practices, for each item that is to be transferred from any location, division or section, a *Request to Transfer Property* form will be completed and forwarded to RPPM office.

Condition: There was no evidence to indicate annual physical inventory performance by accountable officers at the department level. Attendant physical inventory records do not appear to be complete. Additionally, our tests of fixed assets noted the following:

- There was no evidence of effective maintenance of assets during the year ended September 30, 2008:

	9/30/2008
<u>CFDA #</u>	<u>Assets cost</u>
15.875	\$ 337,978
84.256	\$ 256,785
93.283	\$ 415,689
93.224	\$ 103,879
84.027	\$ 207,975

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2008

Finding No.: 2008-23, Continued  
CFDA Program: U.S. DOI 15.875 Economic, Social and Political Development of the Territories  
CFDA Program: U.S. ED 84.027 Special Education – Grants to States  
CFDA Program: U.S. ED 84.256 Territories & Freely Associated States Education Grant  
CFDA Program: U.S. HHS 93.283 CDC and Prevention – Investigations & Technical Asst  
CFDA Program: U.S. HHS 93.224 CDC and Prevention – Investigations & Technical Assistance  
Grant no.: MOU-2007, MOU-Supplement 2008, H027A070006-6A, H027B030001-05, S256A060001, S256A060001-07, U58/DP000776-01, 3U58/DP922936-05W1, H80CS02467-22-01, 2H80CS02467-23-00  
Area: Equipment and Real Property Management  
Questioned Costs: \$0

Condition, Continued:

- Of seven assets sighted totaling \$76,729 (CFDA #93.224), one in the amount of \$6,765 (tag no. RP-3387) could not be located; and there was no request for a Transfer of Property form or a transfer of Property Authorization form prepared for one in the amount of \$9,250 (tag no. RP3408);
- Of ten assets sighted totaling \$179,100 (CFDA #84.027), one in the amount of \$8,000 (tag no. RP-3431) was not operable as of September 30, 2008; however, there has been no report of survey as of November 2008; and one in the amount of \$6,385 (tag no. RP-98406) was noted on the property record but could not be located for testing as of November 19, 2008, however, there was no report of survey as of November 2008;
- Of seventeen assets sighted totaling \$234,217 (CFDA #84.256), one in the amount of \$23,000 (tag no. RP-98467) was not operable as of September 30, 2008; however, it was transferred to different org # as of September 30, 2008. There is no report of transfer documents provided for examination.

Cause: The cause of the above conditions is a lack of controls over fixed assets.

Effect: The effect of the above condition is noncompliance with fixed assets policies and procedures. There is no questioned cost as noncompliance with local laws result from these conditions.

Recommendation: We recommend that property management policies and procedures be implemented.

Prior Year Status: Weaknesses in controls over fixed assets were reported as findings in the Single Audits of the Republic for fiscal years 1988 through 2007.

Auditee Response and Corrective Action Plan: The Property Management Office has been understaffed for some time. The Vice President/Minister of Finance has hired a special assistant to ensure ROP properties are accounted for and adequately monitored.

REPUBLIC OF PALAU

Unresolved Prior Year Findings and Questioned Costs  
Year Ended September 30, 2008

Questioned Costs

The prior year Single Audit report on compliance with laws and regulations noted the following questioned costs and comments which were unresolved at September 30, 2007:

Questioned costs as previously reported	\$ 801,692
Questioned costs for the year ended September 30, 2008	<u>577,977</u>
Unresolved questioned costs at September 30, 2008	\$ <u>1,379,669</u>

Findings

The status of unresolved prior year findings is discussed within the Schedule of Findings and Questioned Costs (pages 18 through 61).