

REPUBLIC OF PALAU

**REPORT ON THE AUDIT OF FINANCIAL
STATEMENTS IN ACCORDANCE
WITH THE UNIFORM GUIDANCE**

YEAR ENDED SEPTEMBER 30, 2018

REPUBLIC OF PALAU

**BASIC FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION AND
INDEPENDENT AUDITORS' REPORT**

YEAR ENDED SEPTEMBER 30, 2018

REPUBLIC OF PALAU

**FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2018**

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INDEPENDENT AUDITORS' REPORT

His Excellency Tommy Remengesau, Jr.
President
Republic of Palau:

Report on the Financial Statements

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, 2018, and the related notes to the financial statements, which collectively comprise the Republic's basic financial statements as set forth in Section III of the foregoing table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Belau Submarine Cable Corporation, the Palau International Coral Reef Center, the Palau Community College, the Palau National Communications Corporation, and the Palau District Housing Authority, which represent 35%, 4%, and 46%, respectively, of the assets and deferred outflows of resources, net position, and operating revenues of the Republic's discretely presented component units. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Belau Submarine Cable Corporation, the Palau International Coral Reef Center, the Palau Community College, the Palau National Communications Corporation, and the Palau District Housing Authority, is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Republic of Palau, as of September 30, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matter

Uncertainty

As discussed in Note 13H the Republic of Palau Civil Service Pension Trust Fund's actuarial valuation has determined that the Fund has a net pension liability of \$259,395,005 which would cause the Fund's fiduciary net position to become negative in 2022. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

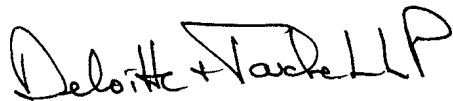
Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 16 as well as the Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund and notes thereto, on pages 83 and 84, the Schedule of the Proportionate Share of the Net Pension Liability, on page 85, and the Schedule of Pension Contributions, on page 86, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Republic's basic financial statements. The Other Supplementary Information, as set forth in Section V of the foregoing table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Other Supplementary Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, based on our audit, and the procedures performed as described above, the additional information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2019 on our consideration of the Republic'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 solely 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 effectiveness of the Republic's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Republic's internal control over financial reporting and compliance.

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

June 30, 2019

REPUBLIC OF PALAU

Management's Discussion and Analysis Year Ended September 30, 2018

As management of the Government of the Republic of Palau (the "Republic"), we offer readers of the Republic's financial statements this narrative overview and analysis of the financial activities of the Republic for the fiscal year ended September 30, 2018. We encourage readers to consider the information presented here in conjunction with the Republic's basic financial statements, which follow this section. Fiscal year 2017 comparative information has been included, where appropriate.

FINANCIAL HIGHLIGHTS

- The assets of the Republic exceeded its liabilities at the close of the most recent fiscal year by \$316.8 million (net position), increased by 94.4 million (or 42.4%) from net position of \$222.4 million in the prior year. Of this amount, \$121.7 million represents the Republic's investment in capital assets; \$318 million represents amounts restricted for various purposes, with the remaining deficiency of \$122.8 million to be funded from future governmental activities.
- During the current fiscal year, the Republic's expenses for governmental activities were \$127.6 million and were funded in part by \$131.9 million in program revenues and \$74.8 million in taxes and other general revenues. General revenues increased by \$9.4 million (or 14.4%) from \$65.5 million in the prior year to \$74.8 million, which was attributable primarily to the increase in unrestricted grant revenues of \$11.4 million. Expenses decreased by \$3.8 million (or down 2.9%) from \$131.4 million in the prior year to \$127.6 million, which was attributable primarily to the decrease in general government expenses.
- The Permanent Fund generated a net gain of \$78 million in the current fiscal year offset by an appropriation of \$5 million representing the transfer out to the General Fund as budgetary support, increasing the Republic's trust fund balance to \$297.5 million from \$219.5 million in the prior year (up 35.5%).
- For the current fiscal year, the General fund revenues (and other financing sources) of \$114.9 million exceeded general fund expenditures (and other financing uses) of \$85.3 million. General fund revenues (and other financing sources) were up \$13.1 million (or 12.9%) from prior year primarily due to increase in Compact Funding received in 2018. General Fund appropriations (and other financing uses) also went up \$3.3 million (or 4.0%) from prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Republic's basic financial statements, which comprise of the following three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains additional required supplementary information in the form of a budgetary schedule, which is prepared on the budgetary basis of accounting, and other supplementary information, in addition to the basic financial statements themselves, which includes combining statements for governmental funds, fiduciary funds and other supplemental information.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Republic's finances, in a manner similar to a private-sector business. The statement of net position presents information on all of the Republic's assets and liabilities, with the difference between the two reported as net position. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

REPUBLIC OF PALAU

Management's Discussion and Analysis Year Ended September 30, 2018

The two government-wide financial statements report the Republic's net position and how they have changed. Net position, being the difference between the Republic's assets and liabilities, is one way to measure the Republic's financial health or position.

- Over time, increases or decreases in the Republic's net position are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the Republic, additional non-financial factors such as changes in the Republic's tax base, the condition of the Republic's roads and infrastructure, and the quality of services needs to be considered.

The government-wide financial statements of the Republic are divided into two categories:

- Primary government – this grouping comprises governmental activities, which includes most of the Republic's basic services such as education, health and welfare, public safety, and general administration. Compact and other federal grants finance most activities of the primary government.
- Discretely presented component units – the Republic includes numerous other entities in its report. Although legally separate, these "component units" are important because the Republic is financially accountable for them.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Republic, like other governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal matters.

- Some funds are required by Olbiil Era Kelulau legislation.
- The Republic establishes other funds to control and manage money for particular purposes (like the Other Country Grants Fund) or to show that it is properly using certain grants (like federal grants reported in the U.S. Federal Grants and Other Assistance Funds).

All of the funds of the Republic can be divided into two categories – governmental and fiduciary.

Governmental funds – These are used to account for essentially the same functions reported as government activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements 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 financial statements provide a detailed short-term view of the Republic'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 Republic's programs.

REPUBLIC OF PALAU

Management's Discussion and Analysis Year Ended September 30, 2018

Fiduciary funds – These are used to account for resources held for the benefit of parties outside of the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Republic's programs. The Republic is the trustee, or fiduciary, for other assets because of trust arrangements that can be used only for the trust beneficiaries. The Republic is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the Republic's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position.

Discretely presented component unit financial statements are presented for entities where the Republic has financial accountability, but are independent of the core Republic operations. Most operate similar to private-sector businesses.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning budgetary comparisons.

The other supplementary information referred to earlier is presented immediately following the required supplementary information on budgetary comparisons.

A FINANCIAL ANALYSIS OF THE REPUBLIC AS A WHOLE

Net Position

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Republic, assets exceeded liabilities by \$316.8 million at the close of the most recent fiscal year. However, net position is either restricted for its intended purpose or are invested in capital assets. The Republic uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Republic's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate the liabilities. Majority of the Republic's net position is comprised of its capital assets net of long-term liabilities. Current assets and liabilities are amounts that are available in the current period and obligations that will be paid within one year, respectively. The Republic's current assets amounted to \$77.2 million while its current liabilities were \$20.5 million. Restricted net position represents resources that are subject to external constraints. The table below summarizes the Republic's net position at the close of the current year compared with prior year.

REPUBLIC OF PALAU

Management's Discussion and Analysis Year Ended September 30, 2018

Net Position As of September 30

	Governmental Activities <u>2018</u>	Governmental Activities <u>2017</u>	Total Percentage Change <u>2018-2017</u>
Current and other assets	\$ 417,270,528	\$ 310,026,285	34.6%
Capital assets	<u>126,908,385</u>	<u>124,233,771</u>	2.2%
Total assets	<u>544,178,913</u>	<u>434,260,056</u>	25.3%
Deferred outflows of resources	<u>43,946,710</u>	<u>34,115,432</u>	28.8%
Long-term debt outstanding	59,940,891	50,323,941	19.1%
Other liabilities	<u>182,104,401</u>	<u>178,094,888</u>	2.3%
Total liabilities	<u>242,045,292</u>	<u>228,418,829</u>	6.0%
Deferred inflows of resources	<u>29,247,364</u>	<u>17,511,231</u>	67.0%
Net position:			
Net investment in capital assets	121,651,224	117,376,610	3.6%
Restricted	317,980,804	227,454,519	39.8%
Unrestricted	<u>(122,799,061)</u>	<u>(122,385,701)</u>	0.3%
Total net position	<u>\$ 316,832,967</u>	<u>\$ 222,445,428</u>	42.4%

At the end of the current fiscal year, the Republic's unrestricted net position deficiency was \$122.8 million, an increase from the prior year amount by \$.4 million (or 0.3%). This deficiency is the result of having long-term commitments that are greater than currently available resources including the Republic's share of the net pension liability. Specifically, the Republic did not include in past annual budgets the full amounts needed to finance future liabilities arising from Mega International Commercial Bank (MICB) and Asian Development Bank (ADB) loans as well as unused employee annual leave balances. The Republic will include these amounts in future years' budgets as they become due.

Changes in Net Position

As noted earlier, net position of the primary government increased by \$94.4 million, representing an increase of 42.4% from the prior year's amount of \$222.4 million. This result indicates that the Republic's financial condition, as a whole, improved from the prior year. The table below summarizes the Republic's change in net position for the current fiscal year as compared with prior year.

REPUBLIC OF PALAU

Management's Discussion and Analysis
Year Ended September 30, 2018

Changes in Net Position
For the Years Ended September 30

	Governmental Activities 2018	Governmental Activities 2017	Total Percentage Change 2018-2017
Revenues:			
Program revenues:			
Charges for services	\$ 29,607,630	\$ 28,253,939	4.8%
Operating grants & contributions	88,064,658	18,668,205	371.7%
Capital grants and contributions	14,210,551	2,188,000	549.5%
	<u>131,882,839</u>	<u>49,110,144</u>	168.5%
General revenues:			
Taxes	49,145,898	50,796,783	-3.2%
Other general revenues	25,703,487	14,658,132	75.4%
	<u>74,849,385</u>	<u>65,454,915</u>	14.4%
Total revenues	<u>206,732,224</u>	<u>114,565,059</u>	80.4%
Expenses:			
General government	38,189,575	34,980,188	9.2%
Education	19,281,713	18,609,261	3.6%
Health and welfare	22,800,241	22,641,799	0.7%
Public safety	9,310,184	6,822,826	36.5%
Cultural affairs and recreation	5,495,830	4,702,426	16.9%
Transportation and commerce	23,585,405	35,181,301	-33.0%
State government appropriations	7,576,000	7,089,275	6.9%
Depreciation – unallocated	787,173	787,173	0.0%
Interest	617,537	617,999	-0.1%
Total expenses	<u>127,643,658</u>	<u>131,432,248</u>	-2.9%
Contributions to permanent funds	<u>15,298,973</u>	<u>29,150,815</u>	-47.5%
Change in net position	94,387,539	12,283,626	668.4%
Net position at beginning of year	<u>222,445,428</u>	<u>210,161,802</u>	5.8%
Net position, end of year	<u>\$316,832,967</u>	<u>\$222,445,428</u>	42.4%

Key elements of the increase in net position are as follows:

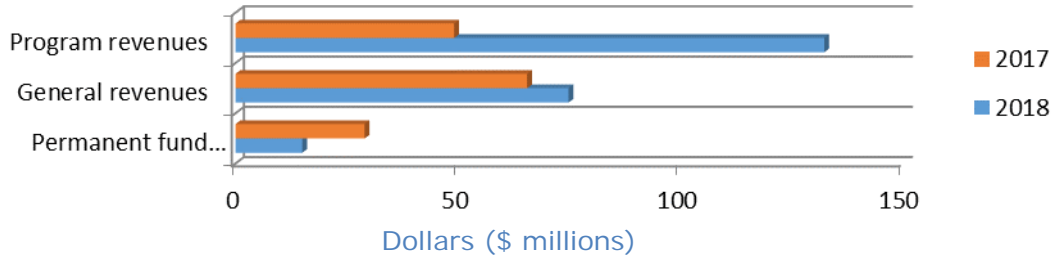
- The Permanent Fund contribution of \$15.3 million decreased by \$13.9 million (or down 47.5%) from prior fiscal year when the fund earnings contributed \$29.2 million. Overall revenues increased in the current year by \$92.2 million (or 80.4%). Concurrently total expenditures decreased by \$3.8 million (or down 2.9%) in the current year.

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Management's Discussion and Analysis
Year Ended September 30, 2018

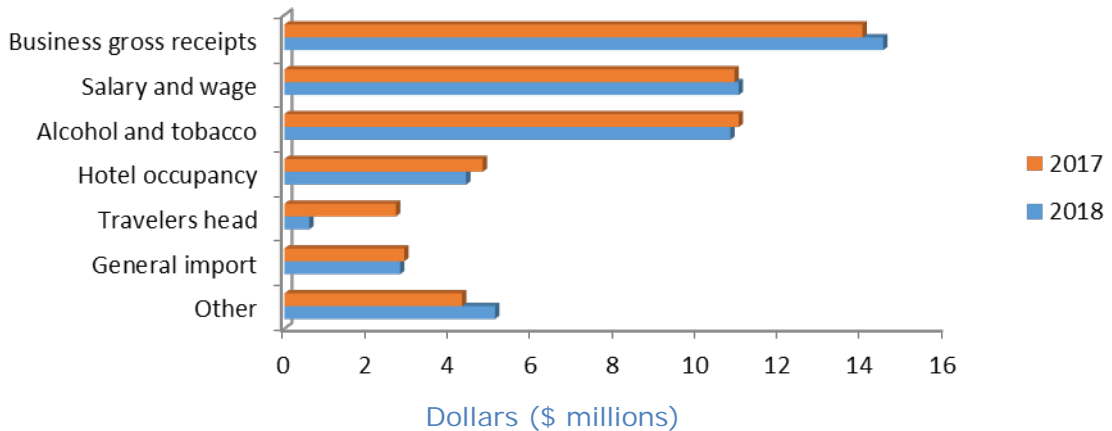
A graphic summary of program revenues, general revenues and permanent fund contributions received by the Republic for the current year compared with prior year follows:

Graph 1
Revenues
For the Years Ended September 30



A significant portion of the Republic's general revenues involves tax revenue collections. At \$49 million in the current year, tax revenues were lower than the \$50 million collected in the prior year. A graphic summary of the Republic's tax revenue collections for the current year compared with prior year follows:

Graph 2
Tax Revenues
For the Years Ended September 30



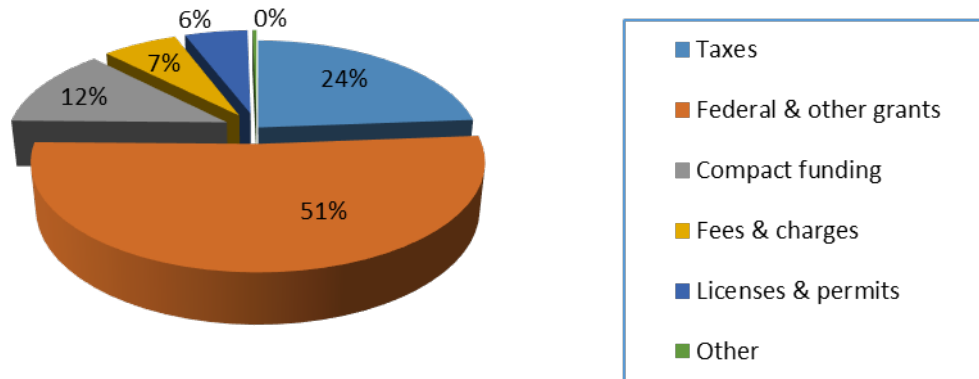
- Cost of governmental activities decreased in the current year by \$3.8 million (down 2.9%) compared with prior year. General government increased by \$3.2 million (or 9.2%) compared with prior year. Cost of Education increased by \$.7 million (up 3.6%) in the current year as well as the cost of Health by \$.2 million (up 0.7%) compared with prior year. Cost of Transportation and commerce significantly decreased by \$11.6 million (or down 33.0%) from prior.

REPUBLIC OF PALAU

Management's Discussion and Analysis
Year Ended September 30, 2018

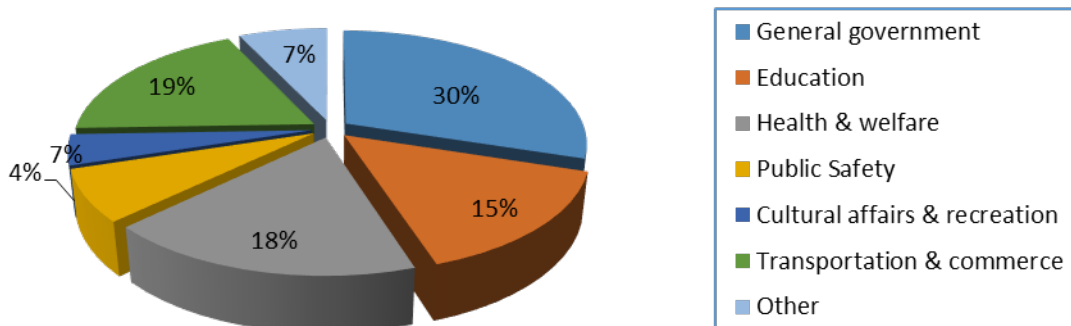
Graphs 3 and 4 below indicate the major component of revenues and cost of governmental activities.

Graph 3
Revenue Sources
For the Year Ended September 30, 2018



Compact funding, local taxes and federal and other grants are the major sources of revenue for the Republic, which comprise over 93% of the total revenues for the current year. The remaining 7% is primarily comprised of various fees and service charges.

Graph 4
Cost of Governmental Activities
For the Year Ended September 30, 2018



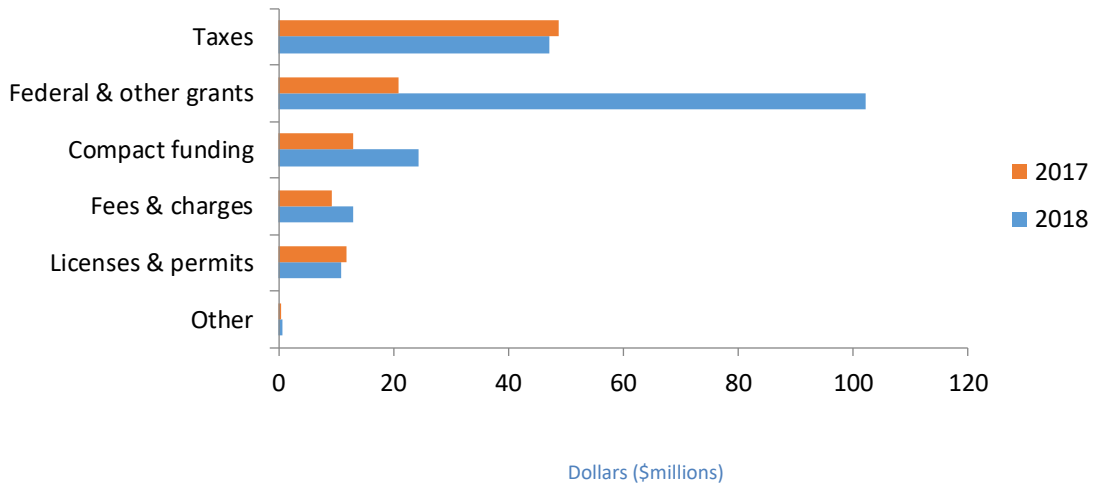
Other expenses that make up a portion of the costs of governmental activities include State government appropriations (\$7.6 million), unallocated depreciation expense (\$0.8 million), and interest expense (\$0.6 million).

Graphs 5 and 6 below show a comparison of the major components of revenues and cost of governmental activities for fiscal years 2018 and 2017.

REPUBLIC OF PALAU

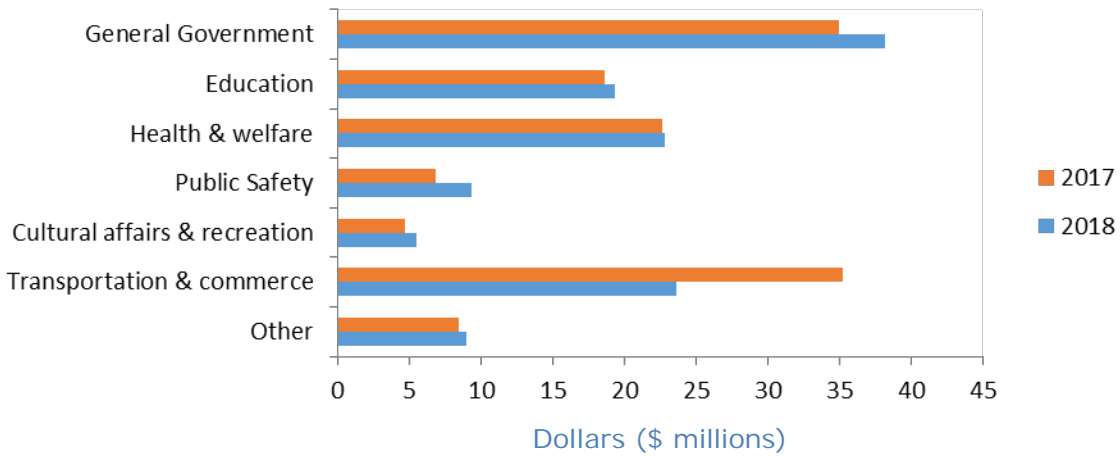
Management's Discussion and Analysis
Year Ended September 30, 2018

Graph 5
Revenue sources
For the Years Ended September 30



Graph 6

Cost of Governmental Activities
For the Years Ended September 30



Other expenses in the current year include State government appropriations of \$7.6 million, which increased by \$0.5 million from the prior year. Overall cost of governmental activities decreased by \$3.8 million (down 2.9%) compared to prior fiscal year.

General revenues increased by \$9.4 million (or 14.4%) from the previous fiscal year. The increase was primarily due to other grants and contributions of \$11.4 million (or 86.9%) compared with prior year.

REPUBLIC OF PALAU

Management's Discussion and Analysis Year Ended September 30, 2018

FINANCIAL ANALYSIS OF THE REPUBLIC'S FUNDS

As noted earlier, the Republic uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Governmental Funds

The focus of the Republic's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Republic's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. As of the end of the current fiscal year, the Republic's governmental funds reported combined ending fund balances of \$403.1 million, which represents an increase of \$105.4 million (or 35.4%) in comparison with the prior year. This increase is primarily attributable to the receipt of the US Compact Funding and loan proceeds. Of this total combined fund balance, \$341.9 million is designated as non spendable and cannot be spent either because it is not in a spendable form or because of legal or contractual constraints; \$11.4 million is designated as restricted and is constrained for specific purposes which are externally imposed; and \$8.8 million is designated as committed and is constrained for specific purposes which are internally imposed. The combined unassigned fund balance of the Republic's governmental funds is \$41 million.

The General Fund is the chief operating fund of the Republic. At the end of the current fiscal year, the unassigned fund balance of the General fund was \$41 million. Total fund balance was \$96.8 million compared with a total fund balance of \$67.2 million at the end of the prior fiscal year.

The Permanent Fund has a total fund balance of \$297.5 million, all of which is restricted for the funding of future operations of the primary government. The net increase in fund balance during the current year in the Permanent Fund was \$78 million (or 35.5%), which reflects a transfer of \$5 million to the Republic's General Fund and a net increase in the value of trust fund investments of \$15.3 million.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the course of the fiscal year, budget revisions of \$5 million were made by management and elected officials of the Republic to the General Fund budget. Revenues collected (including other financing sources) of \$92.3 million were higher than budgeted amounts of \$79.1 million due primarily to an increase in local revenue collections and loan proceeds. In addition, charges to appropriations (including other financing uses) of \$77.2 million were lower than budgeted amounts of \$80.2 million due primarily to expenditures associated with the executive branch and other appropriations of \$44.8 million and \$.2 million, respectively, which were lower than budgeted amounts of \$47.3 million and \$.4 million, respectively.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The Republic's investment in capital assets for its governmental activities as of September 30, 2018 amounted to \$468.2 million (including \$14.4 million of land and construction in progress), net of accumulated depreciation of \$341.3 million, leaving a net book value of \$126.9 million. This represents an increase of \$2.7 million from the amount of \$124.2 reported in the prior year. The Republic's capital assets include machinery and equipment, vehicles, infrastructure, roads, bridges, buildings, land and various projects under construction.

REPUBLIC OF PALAU

Management's Discussion and Analysis
Year Ended September 30, 2018

Capital Assets
September 30,
(Net of depreciation)

	Governmental Activities 2018	Governmental Activities 2017	Total Percentage Change 2018-2017
Buildings and other improvements	\$ 72,465,474	\$ 79,314,300	-8.6%
Machinery and equipment	17,552,671	5,006,900	250.6%
Vehicles	1,747,460	1,975,386	-11.5%
Infrastructure	20,729,679	24,984,500	-17.0%
Land	3,899,403	3,899,403	0.0%
Construction in progress	10,513,698	9,053,282	16.1%
Total	\$ 126,908,385	\$ 124,233,771	2.2%

Major capital asset additions during the current year were as follows:

- Completion of the following infrastructure projects:

<u>Infrastructure Project</u>	<u>Current Year Additions (\$ millions)</u>	<u>Completed (Cost (\$ millions))</u>
Aimeliik-COFA Road	\$ 0.15	\$ 0.15
Aimeliik-Mongami Road	\$ 0.06	\$ 0.06
Airai Road	\$ 0.30	\$ 0.30
Melekeok Road	\$ 0.23	\$ 0.23
Ngaraard Road	\$ 0.24	\$ 0.24
Ngaremlengui Road	\$ 0.12	\$ 0.12
Ngatpang Road	\$ 0.00	\$ 0.00
Ngchesar Road	\$ 0.01	\$ 0.01
Ngiwal Road	\$ 0.17	\$ 0.17

- Acquisition of the following machinery and equipment:

<u>Machinery & Equipment</u>	<u>Current Year Additions (\$ millions)</u>
Speedboat, 27' Open boat	\$ 0.06
X-ray, Radiographic mobile system	\$ 0.12
X-ray, Radiographic mobile system	\$ 0.12
Patrol Boat, 40m, "Kedam"	\$ 12.28
Patrol Boat, yanmar	\$ 1.68
Small craft boat, aluminum	\$ 0.05

REPUBLIC OF PALAU

Management's Discussion and Analysis Year Ended September 30, 2018

- Ongoing construction in progress of the following infrastructure projects:

<u>Infrastructure Project</u>	<u>Current Year Additions (\$ millions)</u>	<u>Completed (Cost (\$ millions))</u>
Rehab Apron Phase II (Tarmac)	\$ 0.33	\$ 7.47
Capital Archives Building	\$ 0.01	\$ 0.26
Civic Center Renovation	\$ 0.02	\$ 0.59
BOA Slaughterhouse Building	\$ 0.00	\$ 0.69
New Correctional Facility	\$ 0.19	\$ 0.59
Babeldaob Cross-over Road	\$ 0.04	\$ 0.04
BMR Hatchery Matching	\$ 0.27	\$ 0.27
Babeldaob Compact Rd Solar Lighting	\$ 0.30	\$ 0.30
One Stop Shop Ph1	\$ 0.30	\$ 0.30

Additional information on the Republic's capital assets can be found in note 5 to the financial statements.

Long-term Debt

The Republic has entered into ten separate loans with the Mega International Commercial Bank and the Asian Development bank (ADB) (See table below). Long-term debt obligations increased by \$9.6 million (or 19.1%) in the current fiscal year.

Outstanding Long-term Debt September 30

	<u>Governmental Activities 2018</u>	<u>Governmental Activities 2017</u>	<u>Total Percentage Change 2018-2017</u>
Republic of Palau Capitol Building	\$ 2,285,701	\$ 3,428,559	-33.3%
Palau International Airport Repaving	2,971,460	3,428,600	-13.3%
Agriculture & Aquaculture Projects-NDBP	5,000,000	5,000,000	0.0%
Palau Housing Projects-PHA	5,000,000	5,000,000	0.0%
Water Sector Improvement (Loan #2691)	9,478,012	10,294,724	-7.9%
Water Sector Improvement (Loan # 2692)	3,472,734	3,472,734	0.0%
Koror-Airai Sanitation Loan (Loan #3060)	12,211,842	4,990,986	144.7%
Koror-Airai Sanitation Loan SDR (Loan #3061)	1,276,270	1,018,470	25.3%
North Pacific Regional Connectivity Inv. Loan (Loan # 3346)	12,011,324	8,991,307	33.6%
North Pacific Regional Connectivity Inv. Loan (Loan # 3347)	<u>6,233,548</u>	<u>4,698,561</u>	32.7%
Total	<u>\$ 59,940,891</u>	<u>\$ 50,323,941</u>	<u>19.1%</u>

Additional information on the Republic's long-term debt can be found in note 8 to the financial statements.

REPUBLIC OF PALAU

Management's Discussion and Analysis Year Ended September 30, 2018

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

In Fiscal Year 2018, growth is estimated at 1.7 percent, primarily due to the positive growth in the construction industry driven primarily by the public sector infrastructure projects. Ongoing agriculture and aquaculture projects and affordable housing development in Babeldaob contributes to the sustained construction and expanded economic activities. These developments will support continued growth in the future.

In FY2018 tourist arrivals were 115,964 a decline of 5 percent over previous year with People's Republic of China comprising 43.3 percent of overall arrivals. Contributing factors to the decline include the cessation of Delta Airlines. Overall tourism revenue declined, including the total tourism revenue per visitor night by 4.8 percent and 0.9 percent, respectively. The total tourism revenue per arrival increased slightly by 0.2 percent. This development highlights the importance of a tourism policy that promotes high-value tourism rather than mass tourism, to ensure sustainable carrying capacity of our natural environment, which is the key attraction for tourists.

Government tax revenue saw a 3.2 percent decline in FY2018 largely from the decline in tourist arrivals along with the decrease in foreign grants. Total expenditures increased by 3.1 percent compared to a 4.6 percent drop in FY 2017. Expenditures on wages and salaries increased with an average growth of 5 percent over the last five years. External grants represented 42.6 percent in FY2017 and 30.8 percent in FY2018 of the annual national budget.

The number of employed persons in FY2018 increased by 0.5 percent compared to FY2017. Total Palauans employed was 5,669 and 6,227 non-Palauans. The total average wage and salary levels increased by 2.1 percent from \$11,125 in FY2017 to \$11,356 in FY2018. The average wage and salary level for Palauans is \$13,826 and \$9,107 for non-Palauans. Gender wise, the total average wage and salary level for females is \$11,722 and \$11,118 for males. Anticipated increases in benefit payments will contribute to sustained growth in consumer spending and tax receipts for the government.

With a decrease of 3.2 tax revenue collection in 2018, the government continues to struggle to balance its budget mainly due to increasing maintenance costs. Additionally, the government has completed some major infrastructure projects that we now have to maintain. The government continues to seek other revenue sources to meet these anticipated costs. New measures have been introduced to try and raise additional revenue, i.e. tax reforms, eliminating import duty exemptions, moving to CIF (cost, insurance, and freight) valuation, and adopting a value-added tax (VAT); however, the proposals have yet to be enacted.

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

REPUBLIC OF PALAU

Management's Discussion and Analysis Year Ended September 30, 2018

Looking beyond Fiscal Year 2018, revenue collections will gradually improve going forward. This can be attributed to the improving global economies as well as improved collections processes by the Bureau of Taxation and Bureau of Customs. Wage gains, tourism, and construction that drove growth in FY2018 are expected to continue in FY2019 and FY2020. Scheduled and planned increases in wages and benefit payments will continue to contribute to consumer spending. Expected expansion of room capacity should support sustained tourism growth. Construction is also expected to perform strongly due to continued construction and improvements to new and existing visitor accommodations, housing developments (subdivision) in Babeldaob, road, sewer-lines and water lines construction. Existing financing to Agriculture and Aquaculture will further encourage commercial activities and increased incomes. The current account deficit is anticipated to continue to narrow with increased tourist arrivals and stable oil import payments.

CONTACTING THE REPUBLIC'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and investors and creditors a general overview of the Republic's finances and to demonstrate its accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Minister of Finance, P.O. Box 6011, Koror, Republic of Palau 96940.

REPUBLIC OF PALAU

Statement of Net Position
September 30, 2018

	<u>Primary Government</u>	<u>Component Units</u>
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 51,126,182	\$ 27,823,012
Investments	4,536,422	4,734,482
Receivables, net of allowance for uncollectibles	17,623,403	-
Inventories	-	9,265,078
Due from primary government	-	506,951
Due from component units	894,449	-
Other current assets	1,749,801	646,470
Restricted assets:		
Cash and cash equivalents	1,317,281	-
Time certificates of deposit	-	457,494
Total current assets	<u>77,247,538</u>	<u>43,433,487</u>
Noncurrent assets:		
Investments	-	1,415,252
Receivables	-	25,196,591
Capital assets:		
Nondepreciable capital assets	14,413,101	18,490,888
Capital assets, net of accumulated depreciation	112,495,284	95,103,815
Indefeasible right to use	-	6,422,095
Foreclosed real estate	-	407,199
Due from component units	41,378,397	-
Other noncurrent assets	1,191,965	81,180
Restricted assets:		
Cash and cash equivalents	-	5,852,702
Investments	297,452,628	5,173,656
Total noncurrent assets	<u>466,931,375</u>	<u>158,143,378</u>
Total assets	<u>544,178,913</u>	<u>201,576,865</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>		
Deferred outflows from pensions	<u>43,946,710</u>	<u>11,387,629</u>
	<u>\$ 588,125,623</u>	<u>\$ 212,964,494</u>
<u>LIABILITIES</u>		
Current liabilities:		
Note payable	\$ 198,142	\$ -
Current portion of long-term obligations	3,342,150	3,454,815
Current portion of compensated absences payable	2,328,299	-
Accounts payable	5,748,119	8,744,217
Bank overdraft	1,184,770	-
Contracts payable	1,444,632	-
Due to State governments	355,629	-
Due to primary government	-	453,820
Due to fiduciary funds	-	348,159
Accrued payroll and others	2,604,095	2,638,358
Unearned revenue	1,328,889	1,503,619
Other liabilities	937,186	2,038,579
Income tax refunds	998,453	-
Total current liabilities	<u>20,470,364</u>	<u>19,181,567</u>
Noncurrent liabilities:		
Noncurrent portion of long-term obligations	56,598,741	36,866,827
Compensated absences payable, net of current portion	2,318,238	-
Net pension liability	162,657,949	43,348,290
Due to primary government	-	28,845,817
Due to fiduciary funds	-	2,331,983
Total noncurrent liabilities	<u>221,574,928</u>	<u>111,392,917</u>
Total liabilities	<u>242,045,292</u>	<u>130,574,484</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>		
Deferred inflows from pensions	<u>29,247,364</u>	<u>8,495,907</u>
<u>NET POSITION</u>		
Net investment in capital assets:	121,651,224	66,589,682
Restricted for:		
Future operations	297,452,628	-
Endowment	-	5,035,088
Debt service	-	15,007,800
Compact related	11,426,909	-
Other purposes	9,101,267	15,773,838
Unrestricted	<u>(122,799,061)</u>	<u>(20,467,544)</u>
Total net position	<u>316,832,967</u>	<u>81,938,864</u>
	<u>\$ 588,125,623</u>	<u>\$ 221,009,255</u>

See accompanying notes to basic financial statements.

REPUBLIC OF PALAU

Statement of Activities
Year Ended September 30, 2018

Functions/Programs	Program Revenues				Net (Expenses) Revenues and Changes in Net Position	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	Component Units
Primary government:						
Governmental activities:						
General government	\$ 38,189,575	\$ 24,196,111	\$ 73,360,580	\$ -	\$ 59,367,116	\$ -
Education	19,281,713	909,699	2,574,145	-	(15,797,869)	-
Health and welfare	22,800,241	4,433,490	5,606,248	-	(12,760,503)	-
Public safety	9,310,184	68,330	703,411	-	(8,538,443)	-
Cultural affairs and recreation	5,495,830	-	58,760	-	(5,437,070)	-
Transportation and commerce	23,585,405	-	5,761,514	14,210,551	(3,613,340)	-
State government appropriations	7,576,000	-	-	-	(7,576,000)	-
Depreciation - unallocated	787,173	-	-	-	(787,173)	-
Interest (unallocated)	617,537	-	-	-	(617,537)	-
Total primary government	\$ 127,643,658	\$ 29,607,630	\$ 88,064,658	\$ 14,210,551	4,239,181	-
Component units:						
National Development Bank of Palau	\$ 1,527,336	\$ 2,056,231	\$ 6,100	\$ -	-	534,995
Palau Community College	7,238,609	1,034,946	4,227,906	-	-	(1,975,757)
Palau National Communications Corporation	13,873,949	15,953,878	-	-	-	2,079,929
Palau International Coral Reef Center	1,714,391	680,305	252,162	-	-	(781,924)
Palau Visitors Authority	1,691,129	46,996	-	-	-	(1,644,133)
Public Utilities Corporation	32,290,805	26,307,567	45,000	5,259,673	-	(678,565)
Palau District Housing Authority	261,332	114,090	-	-	-	(147,242)
Protected Areas Network Fund	2,250,524	-	270,775	-	-	(1,979,749)
Belau Submarine Cable Corporation	1,796,886	2,185,996	-	-	-	389,110
Total component units	\$ 62,644,961	\$ 48,380,009	\$ 4,801,943	\$ 5,259,673	-	(4,203,336)
General revenues:						
Taxes:						
Business gross receipts					14,494,423	-
Salary and wage					10,970,116	-
Alcohol and tobacco					10,783,144	-
Hotel occupancy					4,405,299	-
Travelers head					612,240	-
General import					2,787,294	-
Road use					825,150	-
Fuel export					886,990	-
Other					3,381,242	-
Grants and contributions not restricted for specific programs					24,573,909	-
Unrestricted investment earnings					395,592	927,740
Contributions from primary government					-	7,550,027
Other					733,986	-
Total general revenues					74,849,385	8,477,767
Contributions from permanent funds					15,298,973	-
Total general revenues and contributions					90,148,358	8,477,767
Change in net position					94,387,539	4,274,431
Net position at beginning of year					222,445,428	77,664,433
Net position at end of year					\$ 316,832,967	\$ 81,938,864

See accompanying notes to basic financial statements.

REPUBLIC OF PALAU

Balance Sheet
Governmental Funds
September 30, 2018

	General	Special Revenue Grants	Permanent Fund	Other Governmental Funds	Total
ASSETS					
Cash and cash equivalents	\$ 51,126,182	\$ -	\$ -	\$ -	\$ 51,126,182
Investments	4,536,422	-	-	-	4,536,422
Receivables, net:					
Taxes	4,753,645	-	-	-	4,753,645
General	6,244,047	2,940,410	-	314,097	9,498,554
Federal agencies	-	3,371,204	-	-	3,371,204
Due from component units	42,272,846	-	-	-	42,272,846
Due from other funds	3,981,661	1,255,574	-	9,377,473	14,614,708
Advances	380,943	383,605	-	2,536	767,084
Prepaid items	946,173	36,544	-	-	982,717
Other assets	1,191,965	-	-	-	1,191,965
Restricted assets:					
Cash and cash equivalents	1,317,281	-	-	-	1,317,281
Investments	-	-	297,452,628	-	297,452,628
	<u>\$ 116,751,165</u>	<u>\$ 7,987,337</u>	<u>\$ 297,452,628</u>	<u>\$ 9,694,106</u>	<u>\$ 431,885,236</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Note payable	\$ 198,142	\$ -	\$ -	\$ -	\$ 198,142
Accounts payable	3,682,904	1,202,256	-	862,959	5,748,119
Bank overdraft	1,184,770	-	-	-	1,184,770
Contracts payable	-	1,444,632	-	-	1,444,632
Due to State governments	355,629	-	-	-	355,629
Due to other funds	10,633,048	3,979,490	-	2,170	14,614,708
Accrued payroll and others	1,998,709	-	-	5,553	2,004,262
Other liabilities	721,971	215,215	-	-	937,186
Unearned revenues	180,453	1,148,436	-	-	1,328,889
Income tax refunds	998,453	-	-	-	998,453
Total liabilities	<u>19,954,079</u>	<u>7,990,029</u>	<u>-</u>	<u>870,682</u>	<u>28,814,790</u>
Fund balances:					
Nonspendable	44,410,984	36,544	297,452,628	-	341,900,156
Restricted	11,426,909	-	-	-	11,426,909
Committed	-	-	-	8,825,046	8,825,046
Unassigned:					
General fund	40,959,193	-	-	-	40,959,193
Special revenue funds	-	(39,236)	-	(1,622)	(40,858)
Total fund balances	<u>96,797,086</u>	<u>(2,692)</u>	<u>297,452,628</u>	<u>8,823,424</u>	<u>403,070,446</u>
	<u>\$ 116,751,165</u>	<u>\$ 7,987,337</u>	<u>\$ 297,452,628</u>	<u>\$ 9,694,106</u>	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	126,908,385
Long-term liabilities, including loans payable, are not due and payable in the current period and therefore are not reported in the funds. The liabilities include:	
Long-term obligations	(59,940,891)
Compensated absences	(4,646,537)
Accrued interest payable	(599,833)
Net pension liability	<u>(162,657,949)</u>
	(227,845,210)
Deferred outflows of resources are charged to future periods and are not reported in the funds. Those deferred outflows consist of deferred outflows on the net pension liability	43,946,710
Deferred inflows of resources benefit future periods and are not reported in the funds. Those deferred inflows consist of deferred inflows on the net pension liability	<u>(29,247,364)</u>
Net position of governmental activities	<u>\$ 316,832,967</u>

See accompanying notes to basic financial statements.

REPUBLIC OF PALAU

Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended September 30, 2018

	General	Special Revenue Grants	Permanent Fund	Other Governmental Funds	Total
Revenues:					
Taxes	\$ 47,242,574	\$ -	\$ -	\$ 1,903,324	\$ 49,145,898
Federal and other grants	-	19,314,658	-	500,000	19,814,658
Compact funding	24,573,909	-	65,250,000	-	89,823,909
Net change in the fair value of investments	385,933	-	15,298,973	9,659	15,694,565
Fees and charges	12,999,482	-	-	5,583,381	18,582,863
Licenses and permits	10,961,170	-	-	63,597	11,024,767
Other	733,987	-	-	-	733,987
Total revenues	96,897,055	19,314,658	80,548,973	8,059,961	204,820,647
Expenditures:					
Current:					
Judicial Branch	3,186,074	-	-	-	3,186,074
Legislative Branch	5,789,296	-	-	-	5,789,296
Office of the President	1,373,588	1,913,082	-	-	3,286,670
Office of the Vice-President	560,779	27,627	-	-	588,406
Ministry of Finance	3,885,621	380,486	-	-	4,266,107
Ministry of State	4,003,437	82,884	-	9,052	4,095,373
Ministry of Community and Cultural Affairs	1,442,742	58,760	-	-	1,501,502
Ministry of Education	8,431,022	2,574,145	-	-	11,005,167
Ministry of Public Infrastructure, Industry and Commerce	7,308,641	121,549	-	377,127	7,807,317
Ministry of Justice	6,574,524	703,411	-	32,490	7,310,425
Ministry of Health	10,450,204	5,606,248	-	4,802,322	20,858,774
Ministry of Natural Resources, Environment and Tourism	1,806,251	1,522,835	-	95,277	3,424,363
Boards, Commissions, and Authorities	1,007,630	-	-	-	1,007,630
State Block Grants	7,576,000	-	-	-	7,576,000
Independent Agencies	3,325,658	599,844	-	158,251	4,083,753
Other Agencies and Activities	3,859,336	-	-	-	3,859,336
Education assistance	6,746,877	-	-	-	6,746,877
Micronesia Games	200,000	-	-	-	200,000
Financial and Compliance Audit	-	520,070	-	-	520,070
Civil Service Pension Plan	1,098,958	-	-	-	1,098,958
Investment management fees	-	-	1,444,673	-	1,444,673
PPUC Water and Sewer Operations	1,895,000	-	-	-	1,895,000
Social Security Fund Contributions	1,077,958	-	-	-	1,077,958
Capital projects	215,814	5,735,034	-	-	5,950,848
Debt service:					
Principal retirement	2,416,711	-	-	-	2,416,711
Interest	438,175	-	-	-	438,175
Total expenditures	84,670,296	19,845,975	1,444,673	5,474,519	111,435,463
Excess of revenues over expenditures	12,226,759	(531,317)	79,104,300	2,585,442	93,385,184
Other financing sources (uses):					
Loan proceeds	12,033,661	-	-	-	12,033,661
Operating transfers in	5,987,614	649,701	3,870,380	-	10,507,695
Operating transfers out	(649,702)	(253,451)	(5,000,000)	(4,604,542)	(10,507,695)
Total other financing sources (uses), net	17,371,573	396,250	(1,129,620)	(4,604,542)	12,033,661
Net change in fund balances	29,598,332	(135,067)	77,974,680	(2,019,100)	105,418,845
Fund balances at beginning of year	67,198,754	132,375	219,477,948	10,842,524	297,651,601
Fund balances at end of year	\$ 96,797,086	\$ (2,692)	\$ 297,452,628	\$ 8,823,424	\$ 403,070,446

See accompanying notes to basic financial statements.

REPUBLIC OF PALAU

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities Year Ended September 30, 2018

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

Net change in fund balances - total governmental funds \$ 105,418,845

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 depreciation exceeds capital outlays in the current period. For the current year, these activities consist of:

Capital outlays, net of disposals	\$ 17,657,258	
Depreciation expense, net	<u>(14,982,644)</u>	
		2,674,614

Liability to U.S. Government waived in the current year: 3,000,000

The incurrence of long-term debt (e.g., loans) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position. For the current year, these amounts consist of:

Proceeds from ADB loans	\$ (12,033,661)	
Repayment of MICB loans	1,599,998	
Repayment of ADB loan	<u>816,713</u>	
		(9,616,950)

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 pension costs, accrued annual leave and interest payable that are reported in the statement of activities, but not in funds. For the current year, these activities consist of:

Change in compensated absences payable	\$ (170,303)	
Change in accrued interest payable	(179,362)	
Net pension activity	<u>(6,739,305)</u>	
		<u>(7,088,970)</u>

Change in net position of governmental activities. \$ 94,387,539

See accompanying notes to basic financial statements.

REPUBLIC OF PALAU

Statement of Fiduciary Net Position
Fiduciary Funds
September 30, 2018

	<u>Private Purpose Trust</u>	<u>Pension (and Other Employee Benefit) Trust</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 161,125	\$ 627,833	\$ 788,958
Time certificates of deposit	-	1,920,899	1,920,899
Receivables, net:			
Contributions	4,139,570	270,471	4,410,041
Accrued interest and dividends	327,261	-	327,261
Other	308,927	62,424	371,351
Investments	117,918,272	26,597,091	144,515,363
Due from component units	2,680,142	-	2,680,142
Prepaid items	17,830	-	17,830
Capital assets, net	86,943	16,786	103,729
Total assets	<u>125,640,070</u>	<u>29,495,504</u>	<u>155,135,574</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			
Deferred outflows from pensions	<u>698,490</u>	<u>221,518</u>	<u>920,008</u>
	<u>\$ 126,338,560</u>	<u>\$ 29,717,022</u>	<u>\$ 156,055,582</u>
<u>LIABILITIES</u>			
Benefits payable	\$ 945,605	\$ -	\$ 945,605
Other liabilities and accruals	29,773	25,585	55,358
Net pension liability	<u>2,903,556</u>	<u>865,567</u>	<u>3,769,123</u>
Total liabilities	<u>3,878,934</u>	<u>891,152</u>	<u>4,770,086</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Deferred inflows from pensions	<u>561,751</u>	<u>212,764</u>	<u>774,515</u>
<u>NET POSITION</u>			
Held in trust for:			
Social security benefits	121,897,875	-	121,897,875
Pension benefits	<u>-</u>	<u>28,613,106</u>	<u>28,613,106</u>
Total net position	<u>121,897,875</u>	<u>28,613,106</u>	<u>150,510,981</u>
	<u>\$ 126,338,560</u>	<u>\$ 29,717,022</u>	<u>\$ 156,055,582</u>

See accompanying notes to basic financial statements.

REPUBLIC OF PALAU

Statement of Changes in Fiduciary Net Position
Fiduciary Funds
Year Ended September 30, 2018

	Private Purpose Trust	Pension (and Other Employee Benefit) Trust	Total
Additions:			
Contributions:			
Government employees	\$ 13,384,608	\$ -	\$ 13,384,608
Private employees	13,765,671	-	13,765,671
Employer contributions	-	3,519,989	3,519,989
Plan member contributions	307,561	3,507,075	3,814,636
Penalties and interest	64,505	-	64,505
	27,522,345	7,027,064	34,549,409
Allowance for doubtful accounts	(41,493)	-	(41,493)
Total contributions	27,480,852	7,027,064	34,507,916
Investment income:			
Net change in the fair value of investments	3,697,564	714,251	4,411,815
Interest and dividends	2,154,485	667,733	2,822,218
Total investment income	5,852,049	1,381,984	7,234,033
Less investment expense	204,019	197,154	401,173
Net investment income	5,648,030	1,184,830	6,832,860
Other	245,687	1,221,493	1,467,180
Total additions	33,374,569	9,433,387	42,807,956
Deductions:			
Benefits	25,650,097	9,726,689	35,376,786
General and administrative	1,514,165	503,069	2,017,234
Total deductions	27,164,262	10,229,758	37,394,020
Change in net position held in trust for:			
Social security benefits	6,210,307	-	6,210,307
Pension benefits	-	(796,371)	(796,371)
	6,210,307	(796,371)	5,413,936
Transfer from primary government	-	-	-
Change in fiduciary net position	6,210,307	(796,371)	5,413,936
Net position at beginning of year	115,687,568	29,409,477	145,097,045
Net position at end of year	\$ 121,897,875	\$ 28,613,106	\$ 150,510,981

See accompanying notes to basic financial statements.

REPUBLIC OF PALAU

Combining Statement of Net Position
Component Units
September 30, 2018

	National Development Bank of Palau	Palau Community College	Palau National Communications Corporation	Palau International Coral Reef Center	Palau Visitors Authority	Palau Public Utilities Corporation	Palau District Housing Authority	Protected Areas Network Fund	Belau Submarine Cable Corporation	Total
Assets										
Current assets:										
Cash and cash equivalents	\$ 8,379,304	\$ 440,963	\$ 787,197	\$ 855,996	\$ 334,318	\$ 11,598,369	\$ 1,464,575	\$ 2,643,031	\$ 1,319,259	\$ 27,823,012
Restricted time certificates of deposit	457,494	-	-	-	-	-	-	-	-	457,494
Investments	-	-	-	-	-	-	3,520,430	1,214,052	-	4,734,482
Receivables, net	346,539	2,389,052	2,118,155	151,692	21,576	2,614,553	343,194	-	60,000	8,044,761
Inventories	93,845	506,571	432,493	18,471	-	8,213,698	-	-	-	9,265,078
Due from primary government	-	20,001	-	-	2,343	425,072	-	59,535	-	506,951
Prepaid expenses and other	22,944	-	46,214	8,355	56,599	508,400	-	3,958	-	646,470
Total current assets	9,300,126	3,356,587	3,384,059	1,034,514	414,836	23,360,092	5,328,199	3,920,576	1,379,259	51,478,248
Noncurrent assets:										
Investments	-	-	1,033,439	381,813	-	-	-	-	-	1,415,252
Receivables	21,930,567	-	-	-	-	306,459	2,959,565	-	-	25,196,591
Capital assets:										
Nondepreciable capital assets	-	-	1,340,744	200,000	-	16,950,144	-	-	-	18,490,888
Capital assets, net of accumulated depreciation	661,791	1,089,776	20,554,761	1,775,270	78,648	59,368,033	147,776	7,733	11,420,027	95,103,815
Indefeasible right of use	-	-	-	-	-	-	-	-	-	6,422,095
Foreclosed real estate	407,199	-	-	-	-	-	-	-	-	407,199
Other noncurrent assets	-	-	54,300	-	-	-	-	-	26,880	81,180
Restricted assets:										
Cash and cash equivalents	50,271	1,984,255	3,818,176	-	-	-	-	-	-	5,852,702
Investments	-	5,173,656	-	-	-	-	-	-	-	5,173,656
Total noncurrent assets	23,049,828	8,247,687	26,801,420	2,357,083	78,648	76,624,636	3,107,341	7,733	17,869,002	158,143,378
Total assets	32,349,954	11,604,274	30,185,479	3,391,597	493,484	99,984,728	8,435,540	3,928,309	19,248,261	209,621,626
Deferred Outflows of Resources										
Deferred outflows from pensions	428,070	2,502,353	2,007,702	622,174	186,030	5,562,644	78,656	-	-	11,387,629
	\$ 32,778,024	\$ 14,106,627	\$ 32,193,181	\$ 4,013,771	\$ 679,514	\$ 105,547,372	\$ 8,514,196	\$ 3,928,309	\$ 19,248,261	\$ 221,009,255
Liabilities										
Current liabilities:										
Current portion of long-term debt	\$ 686,782	\$ -	\$ 1,463,147	\$ -	\$ -	\$ 1,304,886	\$ -	\$ -	\$ -	\$ 3,454,815
Accounts payable	141,707	248,938	1,126,866	10,332	25,535	6,981,287	-	209,552	-	8,744,217
Due to primary government	429,410	-	-	-	24,410	-	-	-	-	453,820
Due to fiduciary funds	348,159	-	-	-	-	-	-	-	-	348,159
Accrued payroll and others	-	1,000,992	348,609	73,387	55,035	908,774	239,603	11,958	-	2,638,358
Unearned revenues	141,826	534,825	220	-	-	786,762	-	39,986	-	1,503,619
Other liabilities	99,444	-	669,363	-	-	1,193,497	-	76,275	-	2,038,579
Total current liabilities	1,847,328	1,784,755	3,608,205	83,719	104,980	11,175,206	239,603	337,771	-	19,181,567
Noncurrent liabilities:										
Long-term debt, net of current portion	2,281,471	-	17,373,552	-	-	17,211,804	-	-	-	36,866,827
Net pension liability	1,831,279	11,666,392	8,539,634	2,098,212	797,733	18,054,380	360,660	-	-	43,348,290
Due to primary government	5,111,819	-	-	-	-	-	5,000,000	-	18,733,998	28,845,817
Due to fiduciary funds	2,331,983	-	-	-	-	-	-	-	-	2,331,983
Total noncurrent liabilities	11,556,552	11,666,392	25,913,186	2,098,212	797,733	35,266,184	5,360,660	-	18,733,998	111,392,917
Total liabilities	13,403,880	13,451,147	29,521,391	2,181,931	902,713	46,441,390	5,600,263	337,771	18,733,998	130,574,484
Deferred Inflows of Resources										
Deferred inflows from pensions	366,335	2,834,178	1,637,132	462,968	261,239	2,855,569	78,486	-	-	8,495,907
Net Position										
Net position:										
Net investment in capital assets	661,791	1,089,776	3,058,806	1,975,270	78,648	59,569,487	147,775	7,733	396	66,589,682
Restricted:										
Endowment	-	5,035,088	-	-	-	-	-	-	-	5,035,088
Debt service	11,189,624	-	3,818,176	-	-	-	-	-	-	15,007,800
Other purposes	7,156,394	1,947,364	-	11,420	-	-	3,075,855	3,582,805	-	15,773,838
Unrestricted	-	(10,250,926)	(5,842,324)	(617,818)	(563,086)	(3,319,074)	(388,183)	-	513,867	(20,467,544)
Total net position	19,007,809	(2,178,698)	1,034,658	1,368,872	(484,438)	56,250,413	2,835,447	3,590,538	514,263	81,938,864
	\$ 32,778,024	\$ 14,106,627	\$ 32,193,181	\$ 4,013,771	\$ 679,514	\$ 105,547,372	\$ 8,514,196	\$ 3,928,309	\$ 19,248,261	\$ 221,009,255

See accompanying notes to basic financial statements.

REPUBLIC OF PALAU

Combining Statement of Revenues, Expenses, and Changes in Net Position
Component Units
Year Ended September 30, 2018

	National Development Bank of Palau	Palau Community College	Palau National Communications Corporation	Palau International Coral Reef Center	Palau Visitors Authority	Palau Public Utilities Corporation	Palau District Housing Authority	Protected Areas Network Fund	Belau Submarine Cable Corporation	Total
Operating revenues:										
Charges for services	\$ 1,862,897	\$ 873,682	\$ 15,807,459	\$ 652,981	\$ -	\$ 24,832,234	\$ 112,008	\$ -	\$ 2,185,968	\$ 46,327,229
Grants and contributions	-	4,227,906	-	252,162	-	-	-	-	-	4,480,068
Other	193,334	161,264	146,419	27,324	46,996	1,475,333	2,082	-	-	2,052,752
Total operating revenues	2,056,231	5,262,852	15,953,878	932,467	46,996	26,307,567	114,090	-	2,185,968	52,860,049
Operating expenses:										
Cost of services	-	5,180,109	8,799,104	-	-	24,100,210	-	1,674,699	-	39,754,122
Depreciation	45,420	300,727	2,217,905	276,772	18,408	4,823,183	6,187	1,348	935,619	8,625,569
Administration costs	1,001,546	1,737,664	1,886,911	1,437,619	1,672,721	2,921,380	262,017	574,477	861,267	12,355,602
Total operating expenses	1,046,966	7,218,500	12,903,920	1,714,391	1,691,129	31,844,773	268,204	2,250,524	1,796,886	60,735,293
Operating income (loss)	1,009,265	(1,955,648)	3,049,958	(781,924)	(1,644,133)	(5,537,206)	(154,114)	(2,250,524)	389,082	(7,875,244)
Nonoperating revenues (expenses):										
Contributions from primary government	-	2,411,000	-	400,000	1,426,000	1,695,000	70,000	1,548,027	-	7,550,027
Net change in the fair value of investments	-	190,646	(72,517)	21,973	-	-	260,534	499,505	-	900,141
Interest income	15,455	-	-	-	-	2,919	5,972	3,227	26	27,599
Grant revenues	6,100	-	-	-	-	45,000	-	270,775	-	321,875
Interest expense	(416,590)	-	(914,311)	-	-	(424,657)	-	-	-	(1,755,558)
Other, net	(63,780)	(20,109)	(55,718)	-	-	(21,375)	6,872	-	28	(154,082)
Total nonoperating revenues (expenses), net	(458,815)	2,581,537	(1,042,546)	421,973	1,426,000	1,296,887	343,378	2,321,534	54	6,890,002
Capital contributions	-	-	-	-	-	5,259,673	-	-	-	5,259,673
Change in net position	550,450	625,889	2,007,412	(359,951)	(218,133)	1,019,354	189,264	71,010	389,136	4,274,431
Net position at beginning of year	18,457,359	(2,804,587)	(972,754)	1,728,823	(266,305)	55,231,059	2,646,183	3,519,528	125,127	77,664,433
Net position at end of year	\$ 19,007,809	\$ (2,178,698)	\$ 1,034,658	\$ 1,368,872	\$ (484,438)	\$ 56,250,413	\$ 2,835,447	\$ 3,590,538	\$ 514,263	\$ 81,938,864

See accompanying notes to basic financial statements.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2018

(1) Summary of Significant Accounting Policies

The Republic of Palau (the "Republic") was constituted on January 1, 1981, under the provisions of the Constitution of the Republic of Palau (the "Constitution") as approved by the people of Palau. The Constitution provides for the separation of powers of the executive, legislative, and judicial branches of the government. The Republic assumes responsibility for general government, public safety, health, education, and economic development.

The accompanying basic financial statements of 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 is a constitutional government comprised of three branches: the Legislative Branch (Olbiil Era Kelulau (OEK)); the Executive Branch; and the Judicial Branch. The Legislative Branch consists of two houses which sit for four-year terms. The House of Delegates has 16 members, one from each state. The Senate has 13 members selected in a nationwide election. The Executive Branch consists of the President as the chief executive officer, the Vice-President, and the Council of Chiefs. The President is assisted by an 8 member Cabinet. The Judicial Branch is made up of the Supreme Court, the Land Court, and the Court of Common Pleas.

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

Each 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.

Component units are entities that are legally separate organizations for which the Republic's elected officials are financially accountable or other organizations 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 Republic is financially accountable because it appoints the members of the governing authorities of each of the component units and because it is able to impose its will on these organizations or because the organizations provide specific financial benefits or impose specific financial burdens on the Republic.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2018

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

The financial statements of the component units have been included in the financial reporting entity as discretely presented component units in accordance with GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. The component units' column of the basic financial statements includes the financial data of the following discretely presented component units:

- National Development Bank of Palau (NDBP): NDBP 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 NDBP is to be the central financial institution responsible for initiating and promoting economic development within the Republic. The Republic guarantees principal and interest payments to the Republic of Palau Social Security Retirement Fund, the Mega International Commercial Bank (formerly the International Commercial Bank of China), and the European Investment Bank in the event of default by NDBP. The Republic has the ability to impose its will on NDBP.
- Palau Community College (PCC): PCC is a non-profit corporation established by RPPL No. 4-2, and inaugurated on June 3, 1993. Four voting members are appointed by the President of the Republic with the advice and consent of the Senate of the OEK. One voting member shall be a member of the Republic of Palau Board of Education as designated by the Republic Board of Education. Two non-voting members are appointed by the Board of Trustees to serve in an advisory capacity to the Board. The Board shall grant voting membership to one member from the RMI, one member from the FSM as designated by those governments. The Board shall grant voting membership to a student representative. The purpose of PCC, as defined by RPPL No. 4-2, is to be the institution of higher education for the Republic of Palau and to provide postsecondary 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. The Republic provides financial support to PCC through legislative appropriations.
- Palau National Communications Corporation (PNCC): 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. The Republic guarantees principal and interest payments to the Rural Utilities Service in the event of default by PNCC on Rural Electrification and Telephone Revolving Fund loans. The Republic has the ability to impose its will on PNCC.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2018

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

- Palau International Coral Reef Center (PICRC): 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. The Republic provides financial support to PICRC through legislative appropriations.
- Palau Visitors Authority (PVA): 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. The Republic provides financial support to PVA through legislative appropriations.
- Palau Public Utilities Corporation (PPUC): 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. RPPL 9-4 merged the Palau Water & Sewer Corporation and PUC operations as Palau Utilities Corporation (PPUC) on June 6, 2013. The electric power operations and water and wastewater operations are to be treated as separate business segments having their own organizational chart delineating their chains of management. The Republic guarantees principal and interest payments to the Mega International Commercial Bank, and the National Development Bank of Palau in the event of default by PPUC. The Republic has the ability to impose its will on PPUC.
- Palau District Housing Authority (PDHA): PDHA was created by an act of the Congress of Micronesia in 1973, the "Territory Community Housing Act". PDHA 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. PDHA is authorized to finance and construct homes as needed. The Republic provides financial support to PDHA through legislative appropriations.
- Protected Areas Network Fund (PAN Fund): PAN Fund was formed on May 2, 2008, under the provisions of RPPL No. 7-42 for the purpose of administering and managing all funds received for the financial sustainability of the Protected Areas Network in Palau and for other related purposes. Portions of RPPL 7-42 were revised by RPPL 8-9 and RPPL 8-18. The law created a registered non-profit corporation under the Republic corporate registry managed by a Board of Directors, consisting of seven voting members and the Republic's Minister of Finance and Minister of Resources and Development, appointed in accordance with PAN Fund's Articles of Incorporation and approved by no less than two thirds of the Senate of the OEK. The Republic provides financial support to the PAN Fund through legislative appropriations.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2018

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

- Belau Submarine Cable Corporation (BSCC): BSCC was created on September 15, 2015, under the provisions of Republic of Palau Public Law (RPPL) 9-47. The law created a wholly-owned government corporation governed 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 BSCC is to procure, own and manage a fiber optic cable on behalf of the Republic. The Republic has the ability to impose its will on BSCC.

In addition, the fiduciary component units are subject to legislative and executive controls. These component units, while meeting the definition of a component unit and while legally separate, are presented in the fund financial statements of the Republic. They have been omitted from the government-wide financial statements as their resources are not available to fund operations of the Republic. The fiduciary component units are as follows:

- The Republic of Palau Social Security Retirement Fund (the Fund), a Fiduciary Fund Type - Private Purpose Trust Fund, was created under Republic of Palau Public Law (RPPL) No. 2-29, passed into law on May 28, 1987, and revised by RPPL No. 3-64, passed into law on December 20, 1991, and began operations on October 1, 1987. The Fund is administered under the authority of five trustees appointed by the President with the advice and consent of the Senate of the OEK. The Fund provides retirement, disability, and death benefits to qualified individuals and their survivors. Further, the Fund was appointed responsibility under 41 PNC, Section 723, for the administration and operation of the Palau Healthcare Fund Program.
- The Republic of Palau Civil Service Pension Trust Fund (the Pension Fund), a Fiduciary Fund Type - Pension (and Other Employee Benefit) Trust Fund, was created under RPPL No. 2-26, which was passed into law April 3, 1987, and began operations October 1, 1987. RPPL No. 2-26 was revised by RPPL No. 3-21, RPPL No. 4-40, RPPL No. 4-49, RPPL No. 5-30, RPPL No. 6-37, RPPL No. 7-56, RPPL 8-10, and RPPL 9-2. 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 OEK.

Complete financial statements for each of the individual component units may be obtained at the respective component units' administrative offices or obtaining them directly from the Office of the Public Auditor:

P.O. Box 850
Koror, Palau 96940
Website: www.palauopa.org

B. Government-Wide Financial Statements

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

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2018

(1) Summary of Significant Accounting Policies, Continued

B. Government-Wide Financial Statements, Continued

Primary government activities are defined as either governmental or business-type activities. Governmental activities, which normally are supported by taxes, intergovernmental revenues and other non-exchange revenues, are reported separately from business-type activities, which rely to a significant extent on fees charged to external parties for goods or services. As such, business-type activities account for operations similar 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 Position presents the reporting entity's non-fiduciary assets and deferred outflows of resources, and liabilities and deferred inflows of resources with the difference reported as net position. Net position is reported in three categories:

- *Net investment in capital assets* 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 position* 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 position* consists of net position, which does not meet the definition of the two preceding categories. Unrestricted net position often is designated, (for example, internally restricted) to indicate that management does not consider such to be available for general operations. Unrestricted net position often has restrictions that are imposed by management, but can be removed or modified.

The government-wide Statement of Net Position reports \$317,980,804 of restricted net position, of which \$9,101,267 is restricted by enabling legislation.

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

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2018

(1) Summary of Significant Accounting Policies, Continued

C. Fund Financial Statements

The fund financial statements present a balance sheet and a statement of revenues, expenditures, and changes in fund balances for its major and aggregated non-major funds. Separate financial statements are provided for governmental funds and fiduciary funds even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements pursuant to GASB reporting standards, with nonmajor governmental funds being combined into a single column.

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

D. Measurement Focus and Basis of Accounting

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

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

Governmental Fund Financial Statements - the 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. 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.

REPUBLIC OF PALAU

Notes to Financial Statements September 30, 2018

(1) Summary of Significant Accounting Policies, Continued

D. Measurement Focus and Basis of Accounting, Continued

Fiduciary funds and discretely presented component units financial statements - the fiduciary funds and discretely presented component units financial statements are reported using the economic measurement focus and the accrual basis of accounting, similar to government-wide financial statements, as described above.

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

Fund Accounting:

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:

- General Fund - This fund is the primary operating fund of the Republic. It is used to account for all governmental transactions, except those required to be accounted for in another fund.
- Grants Fund - a Special Revenue Fund that accounts for grants received from the United States government and other donor countries.
- Permanent Fund – This fund accounts for funds provided pursuant to the Compact of Free Association, Section 211(f) (the Compact Section 211(f) Fund), and the Agreement Between the Government of the United States of America and the Government of the Republic of Palau Following the Compact of Free Association Section 432 Review, Section 2(b) (the Infrastructure Maintenance Fund). 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 Compact Section 211(f) 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. Under the terms and conditions of Section 2(b) of the Agreement Between the Government of the United States of America and the Government of the Republic of Palau Following the Compact of Free Association Section 432 Review, the \$3,000,000 owed to the Government of the United States, plus accumulated interest, shall be paid into the Infrastructure Maintenance Fund in which past and future interest shall be used exclusively for routine maintenance of the Compact Road provided by the United States under Section 212 of the Compact.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2018

(1) Summary of Significant Accounting Policies, Continued

D. Measurement Focus and Basis of Accounting, Continued

Fund Accounting, Continued:

The nonmajor governmental funds are comprised of special revenue funds, which account for financial resources obtained from specific revenue sources and used for restricted purposes.

In addition, the Republic reports the following fiduciary funds:

- 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.
- Pension (and Other Employee Benefit) Trust Fund - this fund accounts for resources held in trust by the Republic of Palau Civil Service Pension Trust Fund for members and beneficiaries of the Republic's pension plan.

E. Cash and Cash Equivalents and Time Certificates of Deposit

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.

F. Investments

Investments and related investment earnings of the primary government and the discretely presented component units are recorded at fair value using quoted market prices. Fair value is the price that would be received to sell an asset or paid to transfer a liability (i.e., the exit price) in an orderly transaction between market participants at the date as of which the fair value of an asset or liability is determined.

The Republic categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. In certain instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy is based on the lowest level of input that is significant to the fair measurement. Investments not categorized under the fair value hierarchy are shown at either Net Asset Value (NAV) or amortized cost.

G. Receivables

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

REPUBLIC OF PALAU

Notes to Financial Statements September 30, 2018

(1) Summary of Significant Accounting Policies, Continued

G. Receivables, Continued

Receivables of the primary government and the discretely presented component units are primarily due from businesses and individuals residing in the Republic. The Republic establishes an allowance for doubtful accounts receivable based on the credit risk of specific customers, historical trends and other information.

H. Inventories

Inventories of the discretely presented component units comprise diesel fuel, parts and supplies and are generally valued at the lower-of-cost (FIFO) or market.

I. Prepaid Items

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

J. Other Assets

The Republic holds approximately 11% of the shares of the United Micronesia Development Association, Inc. (UMDA) in the amount of \$1,191,965. This equity interest does not meet the definition of an investment as the asset is held primarily for economic development and is presented as other assets in the accompanying 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. Receivables and payables resulting from transactions between component units and the primary government are classified as "due to/from primary government" or "due to/from component units" on the governmental fund balance sheet and the statement of net position. Interfund receivables and payables have been eliminated from the statement of net position.

L. Restricted Assets

Certain assets of the primary government are classified as restricted assets because their use is completely restricted through loans agreements, trust arrangements or enabling legislation.

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, 2018

(1) Summary of Significant Accounting Policies, Continued

M. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure (e.g. roads, bridges, ramps and other similar items), are reported in the governmental activity column of the government-wide financial statements. Such assets, whether purchased or constructed, are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at fair market value at the date of donation. 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. 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 in 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, 2018.

Capital assets of the primary government and the component units 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 Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (deduction of net position) until then.

O. Interfund/Intrafund Transactions

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

P. Unearned Revenues

In the government-wide financial statements, unearned revenues are recognized when cash, receivables or other assets are recorded prior to being earned. In the governmental fund financial statements, unearned revenues represent 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 unearned revenue in the governmental fund types has primarily resulted as federal funds are received in advance of eligible expenditures.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2018

(1) Summary of Significant Accounting Policies, Continued

Q. Compensated Absences

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

R. Pensions

Pensions are required to be recognized and disclosed using the accrual basis of accounting. The Republic recognizes a net pension liability for the pension plan in which it participates, which represents the Republic's proportional share of excess total pension liability over the pension plan assets – actuarially calculated – of a cost-sharing multiple-employer defined benefit plan, measured as of the fiscal year-end. Changes in the net pension liability during the period are recorded as pension expense, or as deferred inflows of resources or deferred outflows of resources depending on the nature of the change, in the period incurred. Those changes in net pension liability that are recorded as deferred inflows of resources or deferred outflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience are amortized over the weighted average remaining service life of all participants in the qualified pension plan and recorded as a component of pension expense beginning with the period in which they are incurred. Projected earnings on qualified pension plan investments are recognized as a component of pension expense. Differences between projected and actual investment earnings are reported as deferred inflows of resources or deferred outflows of resources and amortized as a component of pension expense on a closed basis over a five-year period beginning with the period in which the difference occurred.

S. Deferred Inflows of Resources

In addition to liabilities, the statements of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (additions to net position) until then.

T. Fund Equity

Fund balance classifications are based on the extent to which the Republic is bound to honor constraints on the specific purposes for which amounts in those funds can be spent and are reported under the following fund balance classifications:

- Non-spendable - includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted - includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

REPUBLIC OF PALAU

Notes to Financial Statements September 30, 2018

(1) Summary of Significant Accounting Policies, Continued

T. Fund Equity, Continued

- Committed - includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.
- Assigned - includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed.
- Unassigned - includes negative fund balances in other governmental funds.

The Republic has a general policy to first use restricted resources for expenditures incurred for which both restricted and unrestricted (committed, assigned, and unassigned) resources are available. When expenditures are incurred for which only unrestricted resources are available, the general policy of the Republic is to use committed resources first, followed by assigned, and then unassigned. The use of restricted/committed resources may be deferred based on a review of the specific transaction.

A formal minimum fund balance policy has not been adopted.

U. Risk Financing

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

V. New Accounting Standards

During fiscal year 2018, the Republic implemented the following pronouncements:

- GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments.
- GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, which improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

REPUBLIC OF PALAU

Notes to Financial Statements September 30, 2018

(1) Summary of Significant Accounting Policies, Continued

V. New Accounting Standards, Continued

- GASB Statement No. 85, *Omnibus 2017*, which address practice issues that have been identified during implementation and application of certain GASB Statements including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits).
- GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*, which improves consistency in accounting and financial reporting for in-substance defeasance of debt.

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

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs) associated with the retirement of a tangible capital asset. The provisions in Statement No. 83 are effective for fiscal years beginning after June 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of all state and local governments. The provisions in Statement No. 84 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2017, GASB issued Statement No. 87, *Leases*, which establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The provisions in Statement No. 87 are effective for fiscal years beginning after December 15, 2019. Management has yet to determine whether the implementation of this statement will have a material effect on the financial statements.

In April 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, which improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. The provisions in Statement No. 88 are effective for fiscal years beginning after June 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The provisions in Statement No. 89 are effective for fiscal years beginning after December 15, 2019. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In August 2018, GASB issued Statement No. 90, *Majority Equity Interests – an Amendment of GASB Statements No. 14 and No. 61*, which improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and the relevance of financial statement information for certain component units. The provisions in Statement No. 90 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2018

(1) Summary of Significant Accounting Policies, Continued

W. Encumbrances

The Republic utilizes encumbrance accounting to identify fund obligations. Encumbrances represent commitments related to unperformed contracts for goods. At September 30, 2018, the Republic has significant encumbrances summarized as follows:

<u>General</u>	<u>Grants</u>	<u>Permanent</u>	<u>Other Governmental</u>	<u>Total</u>
\$ <u>1,735,416</u>	\$ <u>8,994,918</u>	\$ <u>-</u>	\$ <u>1,031,828</u>	\$ <u>11,762,162</u>

X. Estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and deferred outflows of resources, liabilities and deferred inflows of resources, 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.

Y. 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, 2017 from which summarized information was derived.

(2) Deposits and Investments

The deposit and investment policies of the Republic are governed by 40 PNCA Section 405, *Investment of Unobligated Balances*, in conjunction with various trust agreements. Under 40 PNCA Section 405, cash in excess of immediate needs shall at all times remain invested in accordance with the National Government Investment Plan, at the direction of the President; excess cash includes, but is not limited to, unobligated balances of appropriations and revenues collected in excess of appropriations.

The following investment policy governs investments of the Permanent Fund (the Fund):

- (i) Time Horizon: Investment guidelines are based upon an investment horizon of greater than twenty years, so that interim fluctuations should be viewed with appropriate perspective. Strategic asset allocation is based on this long-term perspective.
- (ii) Risk Tolerance: Risk is evaluated by:
 - Over a market cycle, risk associated with any Investment Managers portfolio, as measured by the variability of quarterly returns (standard deviation) must not exceed that of the Investment Manager's respective performance benchmark, without a commensurate increases in return;

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2018

(2) Deposits and Investments, Continued

(ii) Risk Tolerance: Risk is evaluated by, Continued:

- Over a market cycle, risk associated with the total Fund, as measured by the variability of quarterly returns (standard deviation) must not exceed that of the blend of indices representing that strategic asset allocation of the Fund, without a commensurate increase in return; and
- During market cycles the risk measures, as indicated herein, will be reviewed periodically by the Fund's Management Committee (Committee).

(iii) Performance Expectations: The investment objective is a long-term nominal rate of return on assets that is at least equal to 6.0%. This target rate of return for the Fund was derived from earnings assumptions employed in the renewed terms of the COFA agreed upon by and between the Republic and the U.S. Government in September 2010. The rate was based upon modeling that employed the assumption that future real returns will approximate the long-run rates of return experienced for various asset class.

The investment objective of the Fund is to strive for positive real rates of return (note: the U.S. Consumer Price Index will be used when determining the real rate of returns).

(iv) Asset Allocation Constraints: The Committee believes that the Fund's risk and liquidity posture are, in large part, a function of asset class mix. The Committee has reviewed the long-term performance characteristics of various asset classes, focusing on balancing the risks and rewards inherent in the marketplace. The following is a strategic asset allocation for the Fund:

Asset class	<u>Lower limit</u>	<u>Strategic Allocation</u>	<u>Upper limit</u>
U.S. Equities	28%	38%	48%
Large Cap Value		8%	
Large Cap Core		8%	
Large Cap Growth		8%	
Small/Mid Cap Core		14%	
Non-U.S. Equities	15%	25%	35%
Developed		18%	
Emerging		7%	
Fixed Income	9%	19%	29%
U.S. Core		13%	
U.S. High Yield		3%	
Global		3%	
Alternatives	8%	18%	28%
Convertible Securities		3%	
Master Limited Partnership		3%	
Real Estate		6%	
Private Equity		6%	

The percentage allocation to each broad asset class may vary as much as plus or minus 10% of target. The Fund's asset allocation will be reviewed for compliance by the Committee after the end of each fiscal quarter.

When necessary and/or available, cash inflows/outflows will be deployed in a manner consistent with the strategic asset allocation of the Fund. When cash flows are insufficient to bring the Fund within the strategic allocation ranges, the Committee shall determine the appropriate course of action to be taken. The Investment Managers will then be instructed to execute such action required to bring the strategic allocation within the pre-specified ranges.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2018

(2) Deposits and Investments, Continued

A. Deposits

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.

As of September 30, 2018, the carrying amount of the primary government’s total cash and cash equivalents was \$52,443,463 and the corresponding bank balances were \$52,403,088. Of the bank balances, \$52,391,923 is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2018, bank deposits in the amount of \$500,000 were FDIC insured. The remaining bank deposits of \$11,164 are maintained in financial institutions not subject to depository insurance. The Republic does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

As of September 30, 2018, the carrying amount of the fiduciary fund’s total cash and cash equivalents was \$788,958 and the corresponding bank balances were \$869,857, which are maintained in financial institutions subject to FDIC insurance. As of September 30, 2018, bank deposits in the amount of \$500,000 were FDIC insured. The Republic does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

As of September 30, 2018, the carrying amount in the aggregate of the discretely presented component units’ total cash and cash equivalents and time certificates of deposit was \$34,133,208 and the corresponding bank balances were \$36,193,563, which are maintained in financial institutions subject to FDIC insurance or held and administered by investment managers subject to Securities Investor Protection Corporation (SIPC) insurance. As of September 30, 2018, bank deposits in the amount of \$5,098,766 were FDIC or SIPC insured. The component units do not require collateralization of their cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

B. Investments

Primary Government

As of September 30, 2018, investments of the primary government are as follows:

General Fund:	
Fixed income	\$ 768,409
Equities	3,562,159
Money market funds	<u>205,854</u>
	<u>4,536,422</u>
Permanent Fund:	
Fixed income	50,890,871
Equities	143,865,842
Real estate and tangibles	15,066,664
Alternatives	15,841,234
Money market funds	<u>71,788,017</u>
	<u>297,452,628</u>
	\$ <u>301,989,050</u>

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2018

(2) Deposits and Investments, Continued

B. Investments, Continued

Primary Government, Continued

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, the Republic will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The Republic's investments are held and administered by trustees in accordance with various trustee agreements. Based on negotiated trust and custody contracts, all of these investments were held in the Republic's name by the Republic's custodial financial institutions at September 30, 2018.

Credit risk for investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

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.

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. As of September 30, 2018, there were no investments in any one issuer that exceeded 5% of total investments.

As of September 30, 2018, investments in debt securities for the General Fund were as follows:

<u>Investment Type</u>	<u>Market Value</u>	<u>Investment Maturities (In Years)</u>				<u>S&P Rating</u>
		<u>Less than 1 year</u>	<u>1 - 5 years</u>	<u>6 - 10 years</u>	<u>More than 10 years</u>	
Treasury Securities	\$353,831	\$59,503	\$ 76,995	\$152,165	\$65,168	AAA
Federal Agencies	29,749	-	29,749	-	-	AA+
Corporate Bonds	15,075	-	-	15,075	-	AA
Corporate Bonds	105,537	-	14,084	58,799	32,654	A
Corporate Bonds	9,703	-	9,703	-	-	AA-
Corporate Bonds	54,681	10,133	34,820	9,728	-	A-
Corporate Bonds	64,343	-	30,518	33,825	-	BBB+
Corporate Bonds	115,610	-	19,903	95,707	-	BBB
Corporate Bonds	10,103	-	10,103	-	-	BBB-
Corporate Bonds	<u>9,777</u>	<u>-</u>	<u>-</u>	<u>9,777</u>	<u>-</u>	BB+
	<u>\$768,409</u>	<u>\$69,636</u>	<u>\$225,875</u>	<u>\$375,076</u>	<u>\$97,822</u>	

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2018

(2) Deposits and Investments, Continued

B. Investments, Continued

Primary Government, Continued

As of September 30, 2018, investments in debt securities for the Permanent Fund were as follows:

Investment Type	Fair Value	Investment Maturities (In Years)				Ratings
		Less than 1 year	1 - 5 years	6 - 10 years	More than 10 years	
Asset-backed Security	\$ 198,086	\$ -	\$ -	\$ -	\$ 198,086	AA+
Asset-backed Security	662,053	-	5,087	25,866	631,100	Not Rated
Corporate Bonds	2,282,262	-	1,312,707	578,784	390,771	A
Corporate Bonds	2,558,054	-	1,951,658	110,888	495,508	A-
Corporate Bonds	1,930,275	-	1,437,358	361,065	131,852	A+
Corporate Bonds	160,129	-	-	160,129	-	AA
Corporate Bonds	790,467	158,915	273,091	172,063	186,398	AA-
Corporate Bonds	427,394	-	323,300	-	104,094	AA+
Corporate Bonds	1,397,051	-	991,352	121,710	283,989	AAA
Corporate Bonds	1,227,356	-	628,429	598,927	-	B
Corporate Bonds	823,136	18,838	604,644	199,654	-	B-
Corporate Bonds	1,944,850	-	1,109,708	835,142	-	B+
Corporate Bonds	653,358	-	467,005	186,353	-	BB
Corporate Bonds	1,847,368	-	1,014,189	833,179	-	BB-
Corporate Bonds	1,067,926	-	338,810	591,443	137,673	BB+
Corporate Bonds	947,831	190,945	245,062	95,707	416,117	BBB
Corporate Bonds	473,204	65,471	306,234	101,499	-	BBB-
Corporate Bonds	1,448,554	-	1,159,653	252,251	36,650	BBB+
Corporate Bonds	54,715	54,715	-	-	-	CCC
Corporate Bonds	78,375	-	78,375	-	-	CCC+
Corporate Bonds	641,066	175,007	396,584	69,475	-	None
Corporate Bonds	6,328,965	226,789	4,339,058	1,563,427	199,691	Not Rated
Federal Agencies	3,974,055	2,463,735	1,005,998	-	504,322	AA+
Federal Agencies	150,593	150,593	-	-	-	Not Rated
International	6,161,955	6,161,955	-	-	-	Not Rated
Municipal Bonds	122,995	-	122,995	-	-	A+
Municipal Bonds	53,002	-	53,002	-	-	AA
Municipal Bonds	524,574	-	448,785	-	75,789	AA+
Municipal Bonds	321,081	-	237,490	83,591	-	AAA
Municipal Bonds	264,347	-	205,998	58,349	-	None
Municipal Bonds	150,000	150,000	-	-	-	Not Rated
Treasury Securities	10,906,471	737,129	3,278,363	5,405,408	1,485,571	AA+
Treasury Securities	<u>319,323</u>	<u>34,710</u>	<u>96,225</u>	<u>132,851</u>	<u>55,537</u>	AAA
	<u>\$50,890,871</u>	<u>\$10,588,802</u>	<u>\$22,431,160</u>	<u>\$12,537,761</u>	<u>\$5,333,148</u>	

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2018

(2) Deposits and Investments, Continued

B. Investments, Continued

Primary Government, Continued

Investments of the primary government have the following recurring fair value measurements as of September 30, 2018:

General Fund:

	<u>Total</u>	<u>Fair Value Measurements Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments by fair value level:				
Fixed income:				
U.S. Treasury securities	\$ 353,832	\$ -	\$ 353,832	\$ -
U.S. Government Agencies	29,749	-	29,749	-
Corporate bonds	<u>384,828</u>	<u>-</u>	<u>384,828</u>	<u>-</u>
	768,409	-	768,409	-
Equity securities:				
U.S. equities	<u>3,562,159</u>	<u>3,562,159</u>	<u>-</u>	<u>-</u>
Total investments by fair value level	4,330,568	\$ <u>3,562,159</u>	\$ <u>768,409</u>	\$ <u>-</u>
Investments measured at amortized cost:				
Cash management account	<u>205,854</u>			
	\$ <u>4,536,422</u>			

Permanent Fund:

	<u>Total</u>	<u>Fair Value Measurements Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments by fair value level:				
Fixed income:				
U.S. Treasury obligations	\$ 11,225,794	\$ -	\$ 11,225,794	\$ -
U.S. Government Agencies	4,124,648	-	4,124,648	-
Asset-backed Securities	860,139	-	860,139	-
Municipal obligations	1,435,999	-	1,435,999	-
International Equity	6,161,955	6,161,955	-	-
Corporate notes	<u>27,082,336</u>	<u>-</u>	<u>27,082,336</u>	<u>-</u>
	50,890,871	6,161,955	44,728,916	-
Equity securities:				
U.S. equities	84,407,127	84,407,127	-	-
Non-US Equities	59,458,715	59,458,715	-	-
Real Estate and tangibles	<u>15,066,664</u>	<u>-</u>	<u>-</u>	<u>15,066,664</u>
Total investments at fair value	209,823,377	\$ <u>150,027,797</u>	\$ <u>44,728,916</u>	\$ <u>15,066,664</u>
Investments measured at NAV:				
Alternatives	15,841,234			
Investments measured at amortized cost:				
Cash management account	<u>71,788,017</u>			
	\$ <u>297,452,628</u>			

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2018

(2) Deposits and Investments, Continued

B. Investments, Continued

Fiduciary Funds

Republic of Palau Social Security Retirement Fund:

As of September 30, 2018, investments of the Republic of Palau Social Security Retirement Fund are as follows:

Fixed income	\$ 30,976,477
Mutual funds	86,754,275
Money market funds	<u>187,520</u>
	<u>\$ 117,918,272</u>

The deposit and investment policies of the Republic of Palau Social Security Retirement Fund are as follows:

(1) Cash

Investments in this category must adhere to the guidelines in Rule 2a-7 under the U.S. Securities and Exchange Commission (SEC) Investment Company Act of 1940.

(2) Fixed Income

- a. Bonds, notes, and pass-through securities issued or guaranteed by the U.S. Government, its agencies or instrumentalities;
- b. U.S. corporate bonds and nonconvertible preferred stocks;
- c. Secured debt instruments with credit ratings of AAA excluding "interest only" and "principal only" derivatives securities;
- d. Debt issued by foreign entities; and
- e. The exposure of the portfolio to any one company, other than securities of the U.S. government, shall not exceed 5% of the market value of the portfolio under management by the investment manager.

(3) U.S. Equities

- a. Common stock and convertible securities of U.S. listed Corporations provided they are listed on the New York Stock Exchange (NYSE), American Stock Exchange (AMEX), or National Association of Securities Dealers Automated Quotation (NASDAQ);
- b. American Depository Receipts (ADRs) that are listed on the NYSE, AMEX, or NASDAQ provided the total investment in these securities does not exceed 10% of the total assets managed by the Fund's investment manager at the time of purchase and such investments are in industries and areas of the market that the Fund's investment manager already has proven expertise;
- c. Equity portfolios shall be diversified among issuers and industry classifications. The market value of the equity holdings in a single corporation should not exceed 5%, nor 5% of the corporation's total market capitalization; and
- d. An investment manager's firm aggregate equity position should not exceed 5% of the corporation's total market capitalization.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2018

(2) Deposits and Investments, Continued

B. Investments, Continued

Fiduciary Funds, Continued

Republic of Palau Social Security Retirement Fund, Continued

(4) International Equities

- a. Equity securities of Corporations provided they are listed on the stock exchange of countries included in the Morgan Stanley Capital International (MSCI) All Country World excluding US Index;
- b. ADRs, European Depository Receipts (EDRs) and Global Depository Receipts (GDRs) relating to any of the above are allowable; and
- c. Portfolios shall be diversified among issuers, industry classifications and countries. The market value of the equity holdings in a single corporation should not exceed 5% of the market value of the portfolio under management by the Fund's investment manager.

As of September 30, 2018, investments in debt securities for the Republic of Palau Social Security Retirement Fund were as follows:

Investment Type	Fair Value	Investment Maturities (In Years)				Ratings	
		Less Than 1	1 - 5	6 - 10	More Than 10	Moody's	S&P
U.S. Treasury bill	\$ 648,202	\$ 648,202	\$ -	\$ -	\$ -	Aaa	AAA
U.S. Treasury bond	3,599,851	-	-	522,845	3,077,006	Aaa	AAA
U.S. Treasury notes	4,137,913	567,164	3,280,652	290,097	-	Aaa	AAA
Other U.S. government obligations	235,286	-	235,286	-	-	Aaa	AAA
Other U.S. government obligations	93,747	-	-	-	93,747	Aaa	AA+
Other U.S. government obligations	147,513	-	-	147,513	-	Aaa	Unrated
Other U.S. government obligations	435,717	312,718	25,750	97,249	-	Aa2	Unrated
Other U.S. government obligations	346,199	-	346,199	-	-	Aa1	AA+
Other U.S. government obligations	101,186	-	101,186	-	-	Aa1	AA
Other U.S. government Obligations	226,311	-	226,311	-	-	A2	A+
U.S. Municipal Obligations	2,225,261	300,584	424,102	25,404	1,475,171	Aaa	AAA
U.S. Municipal Obligations	4,110,367	308,644	2,212,545	619,328	969,850	Aaa	AA+
Corporate bonds	2,576,250	-	1,551,274	229,512	795,464	Aaa	AAA
Corporate bonds	908,622	-	297,501	389,978	221,143	Aaa	AAA
Corporate bonds	436,429	-	436,429	-	-	Aaa	Unrated
Corporate bonds	352,153	-	-	-	352,153	Aa3	AA+
Corporate bonds	575,121	148,767	426,354	-	-	Aa3	AA-
Corporate bonds	369,066	-	-	369,066	-	Aa3	A+
Corporate bonds	202,040	-	202,040	-	-	Aa3	A
Corporate bonds	173,757	-	173,757	-	-	Aa2	AA
Corporate bonds	195,667	-	195,667	-	-	Aa2	AA-
Corporate bonds	755,573	-	657,720	-	97,853	Aa2	A+
Corporate bonds	245,519	-	144,213	-	101,306	Aa1	AA+
Corporate bonds	235,477	74,671	160,806	-	-	Aa1	AA-
Corporate bonds	310,019	310,019	-	-	-	Aa1	Unrated
Corporate bonds	147,222	-	-	-	147,222	A3	A+
Corporate bonds	745,886	-	322,672	98,309	324,905	A3	A-
Corporate bonds	598,046	153,995	200,472	243,579	-	A3	BBB+
Corporate bonds	300,205	200,376	99,829	-	-	A2	A+
Corporate bonds	794,091	-	281,705	512,386	-	A2	A
Corporate bonds	539,575	-	335,607	203,968	-	A2	A-
Corporate bonds	150,079	-	-	150,079	-	A1	AA
Corporate bonds	429,860	-	-	100,137	329,723	A1	AA-
Corporate bonds	567,095	-	447,579	119,516	-	A1	A+
Corporate bonds	205,768	-	-	205,768	-	A1	A
Corporate bonds	94,555	-	-	94,555	-	A1	A-
Corporate bonds	184,594	-	-	-	184,594	Baa3	BBB
Corporate bonds	124,099	-	124,099	-	-	Baa2	BBB+
Corporate bonds	167,556	-	-	-	167,556	Baa2	BBB
Corporate bonds	537,406	-	-	283,616	253,790	Baa1	A
Corporate bonds	571,079	-	-	-	571,079	Baa1	A-
Corporate bonds	709,619	-	561,197	148,422	-	Baa1	BBB+
Corporate bonds	274,694	-	-	98,153	176,541	Baa1	BBB
Corporate bonds	191,802	-	-	191,802	-	Unrated	AA-
	<u>\$ 30,976,477</u>	<u>\$ 3,025,140</u>	<u>\$ 13,470,952</u>	<u>\$ 5,141,282</u>	<u>\$ 9,339,103</u>		

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2018

(2) Deposits and Investments, Continued

B. Investments, Continued

Fiduciary Funds, Continued

Republic of Palau Social Security Retirement Fund, Continued:

The Republic of Palau Social Security Retirement Fund has the following fair value measurements as of September 30, 2018:

Investments by fair value level:	<u>Total</u>	<u>Fair Value Measurement Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Debt securities:				
U.S. Treasury securities	\$ 8,385,966	\$ 8,385,966	\$ -	\$ -
State and local government	6,335,628	-	6,335,628	-
Other U.S. Government obligations	1,585,959	-	1,585,959	-
Corporate bonds	<u>14,668,924</u>	<u>-</u>	<u>14,668,924</u>	<u>-</u>
 Total investments by fair value level	 30,976,477	 \$ <u>8,385,966</u>	 \$ <u>22,590,511</u>	 \$ <u>-</u>
Investments measured at NAV:				
Mutual funds	86,754,275			
Investments measured at amortized cost:				
Money market funds	<u>187,520</u>			
	 \$ <u>117,918,272</u>			

Republic of Palau Civil Service Pension Trust Fund:

As of September 30, 2018, investments of the Republic of Palau Civil Service Pension Trust Fund are as follows:

Equities	\$ 14,180,090
Fixed income	9,236,067
Mutual Funds	2,707,587
Money market funds	<u>473,347</u>
	\$ <u>26,597,091</u>

The deposit and investment policies of the Republic of Palau Civil Service Pension Trust Fund are as follows:

1. Any pertinent restrictions existing under the laws of the Republic with respect to the Fund, that may exist now or in the future, will be the governing restriction.
2. U.S. and non-U.S. equities, American Depository Receipts, convertible bonds, preferred stocks, fixed income securities, mutual funds and short-term securities are permissible investments.
3. No individual security or any issuer, other than that of the United States Government, and alternative investments, shall constitute more than 10% (at cost) of any investment manager's portfolio.
4. Holdings of any issuer shall constitute no more than 5% of the outstanding securities of such issuer.
5. Investments in a registered mutual fund managed by the investment manager are subject to the prior approval of the Board of Trustees.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2018

(2) Deposits and Investments, Continued

B. Investments, Continued

Fiduciary Funds, Continued

Republic of Palau Civil Service Pension Trust Fund, Continued:

6. The following securities and transactions are not authorized without prior written Board of Trustees approval: letter stock and other unregistered securities; non-negotiable securities; commodities or other commodity contracts; options; futures; short sales; and, margin transactions.
7. An investment manager's portfolio shall not be excessively over weighted in any one industry (as compared to respective benchmark index) without prior approval by timely reporting and advice to the Board of Trustees.

Investments may be made in the following investment types:

Fixed Income:

- (A) All fixed income securities held in the portfolio shall have a Standard & Poor's credit quality rating of no less "BBB", or an equivalent credit quality rating from Moody's (Baa) or Fitch (BBB). U.S. Treasury and U.S. Government agencies, which are unrated securities, are qualified for inclusion in the portfolio and will be considered to be of the highest rating.
- (B) No more than 20% of the market value of the portfolio shall be rated less than single "A" quality, unless the investment manager has specific prior written authorization from the Board of Trustees.
- (C) Total portfolio quality (capitalization weighted) shall maintain a credit quality rating of no less than "A".
- (D) U.S. SEC registered mutual funds that invest in fixed income securities, either U.S. or non U.S., will not be subject to the above guidelines.
- (E) It is the policy of the Board to place assets in Local Certificates of Deposit (Local CDs) issued by local banking institutions, with the express purpose of making funds available to the local community in the form of loans. While these Local CDs are held, they will be included in the "strategic asset allocation" as fixed income investments. However, these Local CDs and the local banking institutions must meet the following criteria on an ongoing basis:
 - a) Local CDs must offer a competitive return relative to alternative issuers.
 - b) The local banking institutions must provide annual audited financial statements for Board of Trustee review. The Board of Trustees is charged with monitoring the financial health of the local banking institutions. Should concerns arise with respect to the financial condition of the local banking institutions, the Board of Trustees shall take appropriate action.
 - c) The local banking institution shall promptly inform the Board of Trustees, in writing, of any significant or material matters pertaining to the institution, including, but not limited to: ownership; organizational structure; financial condition; and, any material proceedings affecting the firm.
 - d) Provide collateral, acceptable to the Board, to secure the Local CDs.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2018

(2) Deposits and Investments, Continued

B. Investments, Continued

Fiduciary Funds, Continued

Republic of Palau Civil Service Pension Trust Fund, Continued:

Equities:

- (A) Consistent with the desire to maintain broad diversification, allocations to any economic or industry sector should not be excessive.
- (B) Equity holdings shall be restricted to readily marketable securities of corporations that are traded on the major exchanges and over the counter.
- (C) The investment managers shall have the discretion to invest a portion of the assets in cash reserves when they deem appropriate. However, as per the IPS, they will be evaluated against their performance benchmarks and peers on the performance of the total funds under their direct management.
- (D) Common stock and preferred stock of any institution or entity created or existing under the laws of the United States or any other country are permissible investments.

Cash/Cash Equivalents:

- (A) Cash equivalent reserves shall consist of cash instruments having a credit quality rating of Standard & Poor's A-1, Moody's P-1, or their equivalent. U.S. Treasury and Agency securities, Banker Acceptances, Certificate of Deposit, and Collateralized Repurchase Agreements are also acceptable investment vehicles. Custodial Sweep Accounts must be, in the judgment of the Investment Managers, of credit quality equal or superior to the standards described above.
- (B) In the case of Certificates of Deposit, except as discussed under Fixed Income with respect to the Local CDs, they must be issued by FDIC insured institutions. Deposits in institutions with less than \$10 million in assets may not be made in excess of \$100,000 (or prevailing FDIC insurance limit), unless the Deposit is fully collateralized by U.S. Treasury Securities.
- (C) No single issue shall have a maturity of greater than two years.
- (D) Custodial Sweep Account portfolios must have an average maturity of less than one year.

Alternative Investments:

- (A) Alternative investments are often structured as private investments and are generally formed as limited partnerships or limited liability companies and, in many cases, organized in low or no tax jurisdictions. The manager of these investments generally are allowed to operate with greater flexibility than most traditional investment managers and their compensation usually includes substantial performance incentives.
- (B) Investments strategies may include, but are not limited to, the following: statistical arbitrage, momentum trading, debt/equity financing, leveraged buyouts (LBO), venture capital, mezzanine debt, equity market neutral, real estate securities, fixed income arbitrage, equity long/short, global macro, master limited partnerships, commodities and futures, and/or structured credit products.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2018

(2) Deposits and Investments, Continued

B. Investments, Continued

Fiduciary Funds, Continued

Republic of Palau Civil Service Pension Trust Fund, Continued:

(C) Allowance investments may include, but are not limited, investments (directly or indirectly) in the following: common and preferred stocks, options, warrants, convertible securities, foreign securities, foreign currencies, commodities, commodity futures, financial futures, derivatives, mortgage-backed and mortgage-related securities, real estate, bonds (both investment-grade and non-investment-grade, including high yield debt, distressed or other securities) and other assets. Strategies may utilize short-selling and leverage.

As of September 30, 2018, investments in debt securities for the Republic of Palau Civil Service Pension Trust Fund were as follows:

Investment Type	Fair Value	Investment Maturities (In Years)				Moody's Rating
		Less Than 1	1 - 5	6 - 10	More Than 10	
Mortgage and asset backed securities	\$ 734,948	\$ 734,948	\$ -	\$ -	\$ -	Aaa
Mortgage and asset backed securities	662,390	-	-	552,829	109,561	Not rated
Government bonds	4,301,599	-	665,312	1,930,741	1,705,546	Aaa
Corporate bonds	301,772	185,274	116,498	-	-	Aa1
Corporate bonds	1,298,380	-	1,002,592	295,788	-	A1
Corporate bonds	900,317	-	732,042	168,275	-	A2
Corporate bonds	1,036,661	-	550,386	486,275	-	A3
	<u>\$ 9,236,067</u>	<u>\$ 920,222</u>	<u>\$ 3,066,830</u>	<u>\$ 3,433,908</u>	<u>\$ 1,815,107</u>	

The Republic of Palau Civil Service Pension Trust Fund has the following fair value measurements as of September 30, 2018:

	Total	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Investments by fair value level:				
Debt securities				
U.S. Treasury Bonds	\$ 4,301,599	\$ 4,301,599	\$ -	\$ -
Federal National Mortgage Association	504,019	-	504,019	-
Federal Home Loan Mortgage Corporation	893,319	-	893,319	-
Corporate bonds	<u>3,537,130</u>	<u>-</u>	<u>3,537,130</u>	<u>-</u>
	<u>9,236,067</u>	<u>4,301,599</u>	<u>4,934,468</u>	<u>-</u>
Equity securities:				
Real Estate Investment Trust	2,377,754	2,377,754	-	-
Other - U.S. equities	5,138,212	5,138,212	-	-
Other - Non- U.S. equities	<u>6,664,124</u>	<u>6,664,124</u>	<u>-</u>	<u>-</u>
	<u>14,180,090</u>	<u>14,180,090</u>	<u>-</u>	<u>-</u>
Total investments by fair value level	23,416,157	\$ <u>18,481,689</u>	\$ <u>4,934,468</u>	\$ <u>-</u>
Investments measured at NAV:				
Mutual funds	2,707,587			
Investments measured at amortized cost:				
Money market funds	<u>473,347</u>			
	<u>\$ 26,597,091</u>			

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2018

(2) Deposits and Investments, Continued

B. Investments, Continued

Discretely Presented Component Units

As of September 30, 2018, investments of the discretely presented component units are as follows:

Palau Community College (PCC):

Fixed income	\$ 1,317,293
Domestic equities	1,665,016
Cash management account	139,015
Mutual funds	76,550
Real estate and tangibles	494,035
Non-U.S. equities	<u>1,481,747</u>
	<u>\$ 5,173,656</u>

As of September 30, 2018, maturities of investments in fixed income securities for PCC are as follows:

Investment Type	Fair Value	Investment Maturities (In Years)				Ratings	
		Less				Standard	
		Than 1	1 - 5	6 - 10	More than 10	Moody	& Poor's
US Treasury securities	\$ 248,608	\$ -	\$ 248,608	\$ -	\$ -	AAA	No rating
Government securities	184,950	-	184,950	-	-	AAA	AA+
Mutual funds	124,792	124,792	-	-	-	No rating	No rating
Corporate bonds	8,747	-	8,747	-	-	A3	A-
US Treasury securities	154,735	-	-	154,735	-	AAA	No rating
Corporate bonds	35,784	-	-	35,784	-	BAA2	BBB
Corporate bonds	36,896	-	-	36,896	-	BAA1	BBB
Corporate bonds	36,572	-	-	36,572	-	A2	A
Corporate bonds	35,773	-	-	35,773	-	A3	A-
Corporate bonds	35,291	-	-	35,291	-	BAA2	BBB
Corporate bonds	44,659	-	-	44,659	-	A3	BBB+
Corporate bonds	36,692	-	-	36,692	-	A3	A
Corporate bonds	65,556	-	-	65,556	-	A3	A-
Corporate bonds	37,118	-	-	37,118	-	A2	A-
US Treasury securities	94,545	-	-	-	94,545	AAA	No rating
Corporate bonds	36,710	-	-	-	36,710	BAA1	BBB
Corporate bonds	29,217	-	-	-	29,217	A3	BBB+
Corporate bonds	34,604	-	-	-	34,604	A2	A
Corporate bonds	<u>36,044</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>36,044</u>	BAA1	A
	<u>\$ 1,317,293</u>	<u>\$ 124,792</u>	<u>\$ 442,305</u>	<u>\$ 519,076</u>	<u>\$ 231,120</u>		

PCC has the following fair value measurements as of September 30, 2018:

Investments by fair value level:	Total	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Debt securities				
U.S. Treasury securities	\$ 497,887	\$ 497,887	\$ -	\$ -
Government securities	184,951	-	184,951	-
Corporate bonds	<u>509,663</u>	<u>-</u>	<u>509,663</u>	<u>-</u>
	1,192,501	497,887	694,614	-
Equity securities:				
Common stock	<u>3,640,798</u>	<u>3,640,798</u>	<u>-</u>	<u>-</u>
Total investments by fair value level	4,833,299	<u>\$ 4,138,685</u>	<u>\$ 694,614</u>	<u>\$ -</u>
Investments measured at the NAV:				
Mutual funds	201,342			
Investments measured at amortized cost				
Cash management account	<u>139,015</u>			
	<u>\$ 5,173,656</u>			

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2018

(2) Deposits and Investments, Continued

B. Investments, Continued

Discretely Presented Component Units, Continued

Palau National Communications Corporation (PNCC):

	<u>Actual Allocation</u>	<u>Allocation Per Policy</u>	
Cash management account	2%	1%	\$ 25,256
Fixed income	38%	36%	394,914
Domestic equities	40%	43%	407,951
Exchange-traded funds	2%	1%	15,699
Non-U.S. equities	10%	16%	<u>189,619</u>
			<u>\$ 1,033,439</u>

As of September 30, 2018, maturities of investments in fixed income securities for PNCC are as follows:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment maturities (in years)</u>				<u>Credit Rating</u>	
		Less than		More than		<u>Moody</u>	<u>Standard & Poor</u>
		1	1-5	6-10	10		
Corporate bonds	\$ 11,919	\$ -	\$ -	11,919	\$ -	BAA2	BBB
Corporate bonds	12,838	-	-	12,838	-	BAA1	BBB
Corporate bonds	12,055	-	-	12,055	-	A2	A
Corporate bonds	12,510	-	-	12,510	-	A3	A-
Corporate bonds	11,390	-	-	11,390	-	BAA3	BBB
Corporate bonds	11,731	-	-	11,731	-	BAA2	BBB
Corporate bonds	11,720	-	-	11,720	-	A3	BBB+
Corporate bonds	9,561	-	-	-	9,561	BAA1	BBB+
Corporate bonds	11,288	-	-	11,288	-	A3	BBB+
Corporate bonds	12,380	-	-	12,380	-	A2	A-
Corporate bonds	11,953	-	-	11,953	-	A3	A1
Corporate bonds	11,781	-	-	11,781	-	A3	A-
Corporate bonds	11,870	-	-	-	11,870	BAA1	A
Corporate bonds	12,037	-	-	-	12,037	A2	A-
Federal agencies	62,056	-	62,056	-	-	AAA	AA+
U.S. Treasury	<u>167,825</u>	<u>-</u>	<u>45,024</u>	<u>53,011</u>	<u>69,790</u>	AAA	No rating
	<u>\$ 394,914</u>	<u>\$ -</u>	<u>\$ 107,080</u>	<u>\$ 184,576</u>	<u>\$ 103,258</u>		

As of September 30, 2018, PNCC maintained investments in short-term money market mutual funds of \$3,818,176 held by the Bank of New York Mellon, an FDIC insured financial institution. Although these mutual funds are not insured by the FDIC, the mutual fund portfolio consists of U.S. Treasury bills and obligations guaranteed by the U.S. Department of the Treasury as well as repurchase agreements which are fully collateralized by such obligations. This mutual fund has a weighted average maturity of 45 days and is rated AAAM by Standard and Poor's and AAA-mf by Moody's.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2018

(2) Deposits and Investments, Continued

B. Investments, Continued

Discretely Presented Component Units, Continued

Palau National Communications Corporation (PNCC), Continued

	<u>Total</u>	<u>Fair Value Measurement Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments by fair value level:				
Fixed income securities:				
Corporate bonds	\$ 165,033	\$ -	\$ 165,033	\$ -
U.S. Treasury securities	167,825	167,825	-	-
Federal agencies	<u>62,056</u>	<u>-</u>	<u>62,056</u>	<u>-</u>
	394,914	167,825	227,089	-
Equity securities:				
U.S. equities	407,951	407,951	-	-
Non-U.S. equities	<u>189,619</u>	<u>189,619</u>	<u>-</u>	<u>-</u>
Total investments by fair value level	992,484	\$ <u>765,395</u>	\$ <u>227,089</u>	\$ <u>-</u>
Investments measured at NAV:				
Exchange-traded funds	15,699			
Investments measured at amortized cost:				
Cash management account	<u>25,256</u>			
	\$ <u>1,033,439</u>			

Palau International Coral Reef Center:

Cash management account	\$ 12,776
Exchange-traded and closed-end funds	<u>369,037</u>
	\$ <u>381,813</u>

All fixed income securities represent investments, U.S. government securities with a credit rating of AAA based on Moody's credit quality rating and mature within one to five years.

As of September 30, 2018, investments of the Palau District Housing Authority are as follows:

Mutual funds	\$ 2,703,847
Equities	751,641
Money market funds	<u>64,942</u>
	\$ <u>3,520,430</u>

The investment policy of the Palau District Housing Authority is as follows:

1. Any pertinent restrictions existing under the laws of the Republic with respect to the Authority, that may exist now or in the future, will be the governing restrictions.
2. U.S. and non-U.S. equities, ADRs (American Depository Receipts), convertible bonds, preferred stocks, fixed income securities, mutual funds and short-term securities are permissible investments.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2018

(2) Deposits and Investments, Continued

B. Investments, Continued

3. No individual security of any issuer, other than that of the United States Government, shall constitute more than 10% (at cost) of Investment Manager's portfolio.
4. Holdings of any issuer shall constitute no more than 5% of the outstanding securities of such issuer.
5. Investments in a registered mutual fund managed by the Investment Manager are subject to the prior approval of the Board of Directors.
6. The following securities and transactions are not authorized without prior written Board of Director's approval: letter stock and other unregistered securities; non-negotiable securities; commodities or other commodity contracts; options; futures; short sale; and margin transactions.

Investments may be made in the following investment types:

Equity:

- (A) Consistent with the desire to maintain broad diversification, allocations to any economic or industry sector should not be excessive relative to the economic or industry section allocations for the individual index benchmarks set for each investment manager.
- (B) Equity holdings shall be restricted to readily marketable securities of corporations that are actively traded on the major exchanges and over the counter.
- (C) The investment managers shall have the discretion to invest a portion of the assets in cash reserves when they deem appropriate. However, the investment managers will be evaluated against their peers on the performance of the total funds under direct management.
- (D) Common stock and preferred stock of any institution or entity created or existing under the laws of the United States or any other country are permissible.

Fixed Income:

- (A) The role of fixed income investments in the Authority's portfolio is to offer a highly predictable and dependable source of current cash income and to reduce the volatility of the entire portfolio.
- (B) All fixed income securities held in the portfolio shall have a Moody's, Standard & Poor's and/or a Fitch's credit quality rating of no less than "BBB". U.S. Treasury and U.S. Government agencies, which are unrated securities, are qualified for inclusion in the portfolio and will be considered to be of the highest rating.
- (C) No more than 20% of the market value of the portfolio shall be rated less than single "A" quality, unless the investment manager has specific prior written authorization from the Board Directors.
- (D) Total portfolio quality (capitalization weighted) shall maintain an "A" rating.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2018

(2) Deposits and Investments, Continued

B. Investments, Continued

Cash and Cash Equivalents:

The Authority's fixed income investments will emphasize U.S. issues but will not exclude exposure to non-U.S. dollar denominated securities.

- (A) Cash equivalent reserves shall consist of cash instruments having a quality rating of A-1, P-1, or their equivalent. U.S. Treasury and Agency securities, Banker Acceptances, Certificate of Deposit, and Collateralized Repurchase Agreements are also acceptable investment vehicles. Custodial Sweep Accounts must be, in the judgment of the Investment Managers, of credit quality equal or superior to the standards described above.
- (B) In the case of Certificates of Deposit, they must be issued by FDIC insured institutions. Deposits in institutions with less than \$10 million in assets may not be made in excess of \$100,000 (or prevailing FDIC insurance limit), unless the Deposit is fully collateralized by U.S. Treasury Securities.
- (C) No single issue shall have a maturity of greater than two years.
- (D) Custodial Sweep Account or similar money market portfolios are permitted and must have an average maturity of less than one year.

	<u>Total</u>	<u>Fair Value Measurement Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments by fair value level:				
Equity securities:				
Equities	\$ <u>751,641</u>	\$ 751,641	\$ _____	_____
Total investments by fair value level	751,641	\$ <u>751,641</u>	\$ _____	\$ _____
Investments measured at NAV:				
Mutual funds	2,703,847			
Investments measured at amortized cost:				
Cash management account	<u>64,942</u>			
	<u>\$ 3,520,430</u>			

As of September 30, 2018, investments of the Protected Areas Network Fund are as follows:

Equities	\$ 724,428
Money market funds	259,951
Fixed income	<u>229,673</u>
	<u>\$ 1,214,052</u>

The investment policy of the Protected Areas Network Fund is as follows:

1. Any restrictions set forth by applicable law governing allocation limits, size, or quality of investments, if more stringent than those of this Statement, will be the governing restriction.
2. U.S. and non-U.S. common stocks, ADRs (American Depository Receipts), convertible bonds, preferred stocks, fixed income securities, mutual funds and short-term securities are permissible investments.

REPUBLIC OF PALAU

Notes to Financial Statements September 30, 2018

(2) Deposits and Investments, Continued

B. Investments, Continued

3. No individual security of any issuer, other than that of the U.S. Government, shall constitute more than 10% (at cost) of any Investment Manager's portfolio.
4. The following securities and transactions are not authorized without prior Board of Director's approval: letter stock and other unregistered securities; non-negotiable securities; commodities or other commodity contracts; short sales; margin transactions; and, options and futures.

Investments may be made in the following investment types:

Cash and Equivalents:

(A) The following investments are permitted:

- (1) U.S. Government obligations, U.S. Government agency obligations, and U.S. Government instrumentality obligations.
- (2) Commercial Paper – All commercial paper issuers must maintain an "A-1" rating by Standard & Poor's and a "P-1" rating by Moody's Investor Service and be issued by Corporations domiciled within the United States having total assets in excess of one billion dollars (\$1,000,000,000).
- (3) Certificate of Deposit – All certificate of deposit issuers must have a minimum capital of ten million dollars (\$10,000,000).
- (4) Repurchase Agreements – Repurchase agreements must be collateralized with either: (1) U.S. Treasury or Agency Securities with a market value of 102%, marked to market daily; or, (2) money market instruments which meet the qualifications of the investment policy statement and with a market value of 102%, marked to market daily.
- (5) Money market Funds – Money Market Funds must be registered with the Securities and Exchange Commission (SEC) under the Investment Act of 1940.

(B) No single issue shall have a maturity of greater than one year.

(C) Money market funds must have an average maturity of less than one year.

Fixed Income:

- (A) All fixed income securities held in the portfolio shall have a Moody's or Standard & Poor's credit quality rating of no less than "BBB". U.S. Treasury and Agency securities, while non-rated, qualify for inclusion in the portfolio.
- (B) Total portfolio quality (capitalization weighted) shall maintain an "A" minimum rating.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2018

(2) Deposits and Investments, Continued

B. Investments, Continued

Fixed Income:

(C) It is the policy of the Board to place assets in Local Certificates of Deposit (Local CDs) issued by local Funding institutions, with the express purpose of making funds available to the local community in the form of loans. These Local CDs will not be included in the strategic asset allocation included herein. However, these Local CDs and the local Funding institutions must meet the following criteria on an ongoing basis:

- (1) Local CDs must offer a competitive return relative to alternative issuers.
- (2) The local Funding institutions must provide quarterly financial statements for Investment Committee review. The Investment Committee is charged with monitoring the financial health of the local Funding institutions. Should concerns arise with respect to the financial condition of the local Funding institutions, the Investment Committee will immediately notify the Board so that appropriate action can be determined and taken.

Equity:

- (A) Consistent with the desire to maintain broad diversification, allocations to any economic or industry sector should not be excessive. Comparisons to peer group characteristics will be used to evaluate and to assure consistency of each managers stated strategy and style.
- (B) Equity holdings shall be restricted to readily marketable securities of corporations that are actively traded on the major exchanges.
- (C) The Investment Managers shall have the discretion to invest a portion of the assets in cash reserves when they deem appropriate. However, the Investment Managers will be evaluated against their peers on the performance of the total funds under their direct management.
- (D) Common stock and preferred stock of any institution or entity created or existing under the laws of the United States or any state, district, territory, or of any foreign country (ADR only) are permissible investments.

As of September 30, 2018, investments in debt securities for the Protected Areas Network Fund were as follows:

Investment Type	Fair Value	Investment Maturities (In Years)				Moody's Rating
		Less Than 1	1 - 5	6 - 10	More Than 10	
U.S. Treasury notes	\$ 77,761	\$ -	\$ 56,961	\$ 20,800	\$ -	Aaa
U.S. Treasury bond	18,330	-	-	-	18,330	Aaa
Other U.S. Government obligation	36,014	-	36,014	-	-	Aaa
Corporate bonds	22,552	-	-	14,738	7,814	A2
Corporate bonds	44,678	-	7,775	36,903	-	A3
Corporate bonds	18,945	-	-	11,936	7,009	Baa1
Corporate bonds	<u>11,393</u>	<u>-</u>	<u>-</u>	<u>11,393</u>	<u>-</u>	Baa2
	<u>\$ 229,673</u>	<u>\$ -</u>	<u>\$ 100,750</u>	<u>\$ 95,770</u>	<u>\$ 33,153</u>	

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2018

(2) Deposits and Investments, Continued

B. Investments, Continued

The Protected Areas Network Fund has the following fair value measurements as of September 30, 2018:

	<u>Total</u>	<u>Fair Value Measurement Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments by fair value level:				
Debt securities:				
U.S. Treasury securities	\$ 96,091	\$ 96,091	\$ -	\$ -
Other U.S. Government obligations	36,014	-	36,014	-
Corporate bonds	<u>97,568</u>	<u>-</u>	<u>97,568</u>	<u>-</u>
	229,673	96,091	133,582	-
Equity securities:				
Common stock	<u>724,428</u>	<u>724,428</u>	<u>-</u>	<u>-</u>
Total investments by fair value level	954,101	\$ <u>820,519</u>	\$ <u>133,582</u>	\$ <u>-</u>
Investments measured at amortized cost:				
Cash management account	<u>259,951</u>			
	<u>\$ 1,214,052</u>			

(3) Receivables

Primary Government

Receivables as of September 30, 2018, for the primary government's individual major funds, and nonmajor governmental funds and fiduciary funds in the aggregate, including applicable allowances for uncollectible accounts, are as follows:

	<u>General</u>	<u>Grants</u>	<u>Permanent Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Taxes	\$ 4,753,644	\$ -	\$ -	\$ -	\$ -	\$ 4,753,644
General	7,236,345	2,940,410	-	5,457,489	6,676,878	22,311,122
Federal agencies	-	3,371,204	-	-	-	3,371,204
Accrued interest	-	-	-	-	327,261	327,261
Other	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>371,351</u>	<u>371,351</u>
	11,989,989	6,311,614	-	5,457,489	7,375,490	31,134,582
for uncollectibles	<u>(992,297)</u>	<u>-</u>	<u>-</u>	<u>(5,143,392)</u>	<u>(2,266,837)</u>	<u>(8,402,526)</u>
Net receivables	<u>\$ 10,997,692</u>	<u>\$ 6,311,614</u>	<u>\$ -</u>	<u>\$ 314,097</u>	<u>\$ 5,108,653</u>	<u>\$ 22,732,056</u>

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2018

(3) Receivables, Continued

Discretely Presented Component Units

Receivables as of September 30, 2018, for the discretely presented component units', including applicable allowances for uncollectible accounts, are as follows:

	<u>National Development Bank of Palau</u>	<u>Palau Community College</u>	<u>Palau National Communications Corporation</u>	<u>Palau International Coral Reef Center</u>	<u>Palau Visitors Authority</u>	<u>Palau Public Utilities Corporation</u>	<u>Palau District Housing Authority</u>	<u>Belau Submarine Cable Corporation</u>	<u>Total</u>
General	\$ -	\$ 3,623,794	\$3,089,288	\$ -	\$ -	\$4,675,472	\$ 157	\$60,000	\$ 11,448,711
Federal agencies	-	1,247,541	-	46,020	-	-	-	-	1,293,561
Loans	23,167,055	-	-	-	-	-	3,163,849	-	26,330,904
Accrued interest	130,786	-	-	-	-	-	9,589	-	140,375
Other	<u>83,565</u>	<u>167,222</u>	<u>43,282</u>	<u>120,403</u>	<u>26,756</u>	<u>34,527</u>	<u>217,158</u>	-	<u>692,913</u>
	23,381,406	5,038,557	3,132,570	166,423	26,756	4,709,999	3,390,753	60,000	39,906,464
Less allowance for uncollectible	<u>(1,104,300)</u>	<u>(2,649,505)</u>	<u>(1,014,415)</u>	<u>(14,731)</u>	<u>(5,180)</u>	<u>(1,788,987)</u>	<u>(87,994)</u>	-	<u>(6,665,112)</u>
	<u>\$22,277,106</u>	<u>\$2,389,052</u>	<u>\$2,118,155</u>	<u>\$151,692</u>	<u>\$21,576</u>	<u>\$2,921,012</u>	<u>\$3,302,759</u>	<u>\$60,000</u>	<u>\$33,241,352</u>

National Development Bank of Palau (NDBP):

NDBP's loan portfolio is comprised of economic development loans under various loan programs, including housing, business, and energy efficiency subsidy loan programs. All loans are at fixed rates with interest rates primarily ranging from 6% per annum for microfinance, pre-development, and agriculture loans to 10% per annum for housing and business loans.

Palau District Housing Authority (PDHA):

PDHA's loan portfolio is comprised of home rehabilitation loans and other low-cost housing loans. All loans are at fixed rates with interest rates of 3% to 4.5% per annum over terms ranging from five to thirty years.

(4) Interfund Receivables and Payables

Primary Government

Receivables and payables between funds reflected as due to/from other funds in the governmental funds balance sheet at September 30, 2018, are summarized as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Grants	\$ 3,979,491
General	Nonmajor governmental funds	2,170
Grants	General	1,255,574
Nonmajor governmental funds	General	<u>9,377,473</u>
		<u>\$ 14,614,708</u>

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.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2018

(4) Interfund Receivables and Payables, Continued

Primary Government, Continued

Receivables and payables between funds reflected as due to/from component units at September 30, 2018, are summarized as follows:

	Due From	Due To
General Fund:		
National Development Bank of Palau	\$ 5,539,862	\$ -
Palau District Housing Authority	5,000,000	-
Palau Public Utilities Corporation	13,488,112	-
Belau Submarine Cable Corporation	18,244,872	-
	42,272,846	-
Republic of Palau Social Security Retirement Fund:		
National Development Bank of Palau	2,680,142	-
	\$ 44,952,988	\$ -

The amount recorded as due from component units by the General Fund of \$42,272,846 represents loans due from the National Development Bank of Palau (NDBP), Palau District Housing Authority (PDHA), Palau Public Utilities Corporation (PPUC), and Belau Submarine Cable Corporation summarized as follows:

NDBP: Initial amount of \$4,000,000 for the two-fold purpose of: (1) financing a loan to the Palau National Communications Corporation (PNCC) for the acquisition of underwater fiber-optic cable for \$3,000,000; and (2) financing additional NDBP lending activities. The loan is uncollateralized and is due and payable on May 17, 2022, with interest fixed at 2% per annum, payable in monthly installments. Principal payments commence thirty-six months after the advance of proceeds over the remaining period of the loan term; however, any principal payments received from PNCC within the first thirty-six months will be paid by NDBP to the Republic.

NDBP: Initial amount of \$5,000,000 for the purpose of financing development of agriculture and aquaculture projects in the Republic. The loan is uncollateralized and is due and payable on March 31, 2036, with interest at six month LIBOR plus 1% per annum, payable in monthly installments. Principal payments commence thirty-six months after the advance of proceeds over the remaining period of the loan term.

PDHA: Initial amount of \$5,000,000 for the purpose of financing housing development in the Republic. The loan is uncollateralized and is due and payable on March 31, 2036, with interest at six months LIBOR plus 1% per annum, payable in monthly installments. Principal payments commence thirty-six months after the advance of proceeds over the remaining period of the loan term. As of September 30, 2018, the Republic paid PDHA \$2,500,000 of the \$5,000,000.

PPUC: Initial amount of \$26,900,000 for twenty years with grace period and bears interest equal to the sum of LIBOR plus 0.60% and a maturity premium of 0.10% to finance sanitation projects in the Koror and Airai areas. The loan is uncollateralized with principal to be repaid semi-annually beginning April 1, 2018 at 2.5% of the total principal amount outstanding on each payment date.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2018

(4) Interfund Receivables and Payables, Continued

Primary Government, Continued

PPUC: Initial amount of SDR 1,258,000 for twenty years with grace period and bears interest at 1% per annum during the period prior to the first principal payment date and 1.5% per annum thereafter. Principal is to be repaid semi-annually beginning April 1, 2018 in installments of \$26,208.

BSCC: Loan payable under the Ordinary Operations Loan Agreement, with a 20-year term after the grace period ends on June 1, 2021 when the first principal repayment becomes due, interest at LIBOR plus 0.50% per annum and payable every June 1 and December 1. Principal is to be repaid at 2.5% of the total principal amount outstanding on each payment date.

BSCC: Loan payable under the Ordinary Operations Loan Agreement, with a 20-year term after the grace period ends on June 1, 2021 when the first principal repayment of \$213,250 becomes due, interest at two percent (2%) per annum and payable every June 1 and December 1.

The amount recorded as due from component units by the Republic of Palau Social Security Retirement Fund (the Fund) due from NDBP of \$2,680,182 represents a loan agreement entered into in the initial amount of \$3,000,000 with a subsequent \$2,000,000 line of credit to be made available with terms and conditions to be agreed to by the parties at that time. On August 7, 2008, the Fund entered into a new agreement to restructure the existing loan with NDBP with the loan ceiling increasing to \$6,000,000. Principal and interest are payable in equal semi-annual installments of \$554,392 through December 31, 2025, with interest at a variable annual rate equal to the Fund's Fixed Income Fund Return Rate as reported monthly by the Fund's investment consultant, plus 0.5%; provided, that the interest rate to be charged and paid by NDBP shall not be less than 4.5% per annum nor more than 7.5% per annum after addition of the 0.5% to the prime rate. The loan is collateralized by the full faith and credit of the Republic.

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>
2019	\$ 1,302,674	\$ 1,373,210	\$ 2,675,884
2020	1,648,286	1,282,600	2,930,886
2021	2,146,207	1,223,422	3,369,629
2022	2,632,142	1,157,833	3,789,975
2023	2,522,818	1,059,839	3,582,657
2024 - 2028	11,743,019	4,165,948	15,908,967
2029 - 2033	10,737,204	2,503,910	13,241,114
2034 - 2038	9,594,358	981,393	10,575,751
2039 - 2043	2,546,497	103,864	2,650,361
Thereafter	<u>79,783</u>	<u>1,197</u>	<u>80,980</u>
	<u>\$ 44,952,988</u>	<u>\$ 13,853,216</u>	<u>\$ 58,806,204</u>

The amount recorded as due to component units of the primary government of \$0 does not equal the corresponding due from primary government of the discretely presented component units of \$506,951 due to the recording of due from primary government by the Palau Public Utilities Corporation (PPUC) of \$425,072 for utility services of the water and wastewater operations of the Republic prior to its transfer to PPUC and timing differences recorded by Palau Community College, Palau Visitors Authority and the Protected Areas Network Fund of \$20,001, \$2,343 and \$59,535, respectively.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2018

(4) Interfund Receivables and Payables, Continued

Discretely Presented Component Units

Receivables and payables between funds reflected as due to/from primary government at September 30, 2018, are summarized as follows:

	Due From	Due To
National Development Bank of Palau	\$ -	\$ 5,541,229
Belau Submarine Cable Corporation	-	18,733,998
Republic of Palau Social Security Retirement Fund	-	2,680,142
Palau District Housing Authority	-	5,000,000
Palau Public Utilities Corporation	425,072	-
Protected Areas Network Fund	59,535	-
Palau Community College	20,001	-
Palau Visitors Authority	<u>2,343</u>	<u>24,410</u>
	<u>\$ 506,951</u>	<u>\$ 31,979,779</u>

(5) Capital Assets

Capital asset activities for the year ended September 30, 2018, are as follows:

Primary Government

	Balance at October 1, 2017	Additions	Deletions and Transfers	Balance at September 30, 2018
Depreciable capital assets:				
Building and other improvements	\$170,027,817	\$ -	\$ -	\$170,027,817
Machinery and equipment	29,430,409	14,303,195	(153,618)	43,579,986
Vehicles	8,246,120	626,420	(1,079,870)	7,792,670
Infrastructure	<u>231,077,844</u>	<u>1,267,227</u>	<u>-</u>	<u>232,345,071</u>
Total capital assets being depreciated	<u>438,782,190</u>	<u>16,196,842</u>	<u>(1,233,488)</u>	<u>453,745,544</u>
Accumulated Depreciation:				
Building and other improvements	(90,713,517)	(6,848,826)	-	(97,562,343)
Machinery and equipment	(24,423,509)	(1,757,424)	153,618	(26,027,315)
Vehicles	(6,270,734)	(854,346)	1,079,870	(6,045,210)
Infrastructure	<u>(206,093,344)</u>	<u>(5,522,048)</u>	<u>-</u>	<u>(211,615,392)</u>
Total accumulated depreciation	<u>(327,501,104)</u>	<u>(14,982,644)</u>	<u>1,233,488</u>	<u>(341,250,260)</u>
Total depreciable capital assets, net	<u>111,281,086</u>	<u>1,214,198</u>	<u>-</u>	<u>112,495,284</u>
Non-depreciable capital assets:				
Land	3,899,403	-	-	3,899,403
Construction in progress	<u>9,053,282</u>	<u>1,460,416</u>	<u>-</u>	<u>10,513,698</u>
Total non-depreciable capital assets	<u>12,952,685</u>	<u>1,460,416</u>	<u>-</u>	<u>14,413,101</u>
Capital assets, net	<u>\$124,233,771</u>	<u>\$ 2,674,614</u>	<u>\$ -</u>	<u>\$126,908,385</u>

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

General government	\$ 530,768
Education	373,111
Health and welfare	946,880
Public safety	1,257,956
Cultural affairs and recreation	220,289
Transportation and commerce	10,866,467
Unallocated	<u>787,173</u>
Total depreciation expense	<u>\$ 14,982,644</u>

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2018

(5) Capital Assets, Continued

Fiduciary Funds

	Estimated Useful Lives	Balance at October 1, 2017	<u>Additions</u>	Transfers / <u>Disposals</u>	Balance at September 30, 2018
Depreciable capital assets:					
Office equipment and furniture	4 - 13 yrs	\$ 557,488	\$ 1,759	\$ -	\$ 559,247
Building and improvements	30 yrs	200,045	1,403	-	201,448
Vehicles	5 yrs	<u>138,344</u>	<u>14,183</u>	<u>-</u>	<u>152,527</u>
		895,877	17,345	-	913,222
Less accumulated depreciation		<u>(782,634)</u>	<u>(26,859)</u>	<u>-</u>	<u>(809,493)</u>
		\$ <u>113,243</u>	\$ <u>(9,514)</u>	\$ <u>-</u>	\$ <u>103,729</u>

Discretely Presented Component Units

	Estimated Useful Lives	Balance October 1, 2017	<u>Additions</u>	Transfers / <u>Disposals</u>	Balance September 30, 2018
Depreciable capital assets:					
Buildings	3 - 30 yrs	\$ 21,784,645	\$ 782,450	\$ 809,780	\$ 23,376,875
Utility plant	2 - 30 yrs	169,458,926	21,006,930	6,568,123	197,033,979
Machinery and equipment	2 - 20 yrs	3,788,559	2,710,716	8,749,135	15,248,410
Infrastructure	2 - 15 yrs	<u>3,418,046</u>	<u>-</u>	<u>-</u>	<u>3,418,046</u>
		198,450,176	24,500,096	16,127,038	239,077,310
Less accumulated depreciation		<u>(135,305,693)</u>	<u>(8,954,475)</u>	<u>286,673</u>	<u>(143,973,495)</u>
Total depreciable capital assets, net		63,144,483	15,545,621	16,413,711	95,103,815
Nondepreciable capital assets:					
Construction in progress		<u>36,272,495</u>	<u>19,146,372</u>	<u>(36,927,979)</u>	<u>18,490,888</u>
		\$ <u>99,416,978</u>	\$ <u>34,691,993</u>	\$ <u>(20,514,268)</u>	\$ <u>113,594,703</u>

(6) Indefeasible Right of Use (IRU) Agreement

The Belau Submarine Cable Corporation (BSCC) and a third party IRU provider entered into an agreement in February 2016 for the acquisition of the exclusive right to use the optical wavelength channels in the IRU provider's fiber between the Guam Cable Landing Station and the West Subsystem near the coast of Palau (the "Branching Unit"), as required for BSCC's use of capacity in such optical wavelength channels to transmit telecommunication traffic (the "Purchased Waves"); as well as the exclusive right to connect the submarine fiber optic cable spur to the Branching Unit and to connect to the optical add-drop multiplexer inside the Branching Unit. The agreement is effective for 25 years starting on the date BSSC issues its notice of acceptance to the IRU provider of the first activated Purchase Wave's conformity to all applicable requirements (the "IRU RFS date"). Total purchase price of \$6,666,534 million was fully paid as of September 30, 2018. The BSCC recognized amortization expense totaling \$244,440 for the year ended September 30, 2018.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2018

(7) Note Payable

Primary Government

On June 28, 2002, the Republic's Washington Embassy entered into a \$160,000 bank loan for the purpose of funding overdraft facilities. Although the loan was due on May 20, 2004, including interest at 7% per annum, \$198,142 remains outstanding at September 30, 2018. No change occurred in the loan payable during the year ended September 30, 2018. This loan is in noncompliance with local requirements since only the President of the Republic is authorized to enter into debt agreements.

(8) Long-Term Obligations

Primary Government

As of September 30, 2018, the primary government had the following long-term debt outstanding:

Mega International Commercial Bank (MICB):

Loan payable to 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. \$ 2,285,701

Loan payable to the MICB in the amount of \$8,000,000, interest at 3.5% per annum, principal payable in semi-annual installments of \$228,570 plus interest, due October 28, 2024. This loan was used to fund the Palau International Airport Repaving Project and is uncollateralized. 2,971,460

Loan payable to the MICB in the amount of \$5,000,000, interest based on six month LIBOR plus 1% per annum, principal payable in semi-annual installments of \$285,714 plus interest, due March 31, 2036. This loan was used to finance the development of agriculture and aquaculture projects through National Development Bank of Palau and is uncollateralized. 5,000,000

Loan payable to the MICB in the amount of \$5,000,000, interest based on six month LIBOR plus 1% per annum, principal payable in semi-annual installments of \$285,714 plus interest, due March 31, 2036. This loan was used to finance the development of housing through Palau District Housing Authority and is uncollateralized. 5,000,000

Asian Development Bank (ADB):

Loan Number 2691 PAL - Water Sector Improvement Loan (\$12,600,000), interest at the ADB's pool-based variable lending rate system for U.S. dollar loans (2.08% at September 30, 2018), a front-end fee of 1%, and a commitment charge of 0.15% per annum on the amount of the loan unwithdrawn from the Loan Account. Semi-annual loan payments commenced May 1, 2014 with graduated increases of 5% through November 1, 2025. 9,478,012

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2018

(8) Long-Term Obligations, Continued

Primary Government, Continued

Loan Number 2692 PAL (SF) - Water Sector Improvement Loan (SDR 2,230,000), non-interest bearing with a service charge of 1% per annum on the amount of the loan withdrawn from the Loan Account. Semi-annual loan payments commence on May 1, 2019 in an amount of SDR 69,688, at which time the service charge increases to 1.5% per annum.	3,472,734
Loan Number 3060 PAL – Koror-Airai Sanitation Loan (\$26,900,000), interest at the ADB’s pool-based variable lending rate system for U.S. dollar loans (2.92% at September 30, 2018). Semi-annual loan payments commence on April 1, 2018 in an amount of 2.5% of the total principal amount of the loan payable.	12,211,842
Loan Number 3061 PAL (SF) – Koror-Airai Sanitation Loan (SDR 1,258,000), interest at 1% per annum on the amount of the loan withdrawn from the Loan Account. Semi-annual loan payments commence on April 1, 2021 in an amount of SDR 26,208, at which time the interest increases to 1.5% per annum.	1,276,270
Loan Number 3346 PAL – North Pacific Regional Connectivity Investment Loan (SDR 1,258,000), interest at the ADB’s pool-based variable lending rate system for U.S. dollar loans (3.05% at September 30, 2018). Semi-annual loan payments commence on June 1, 2021 in an amount of 2.5% of the total principal amount of the loan payable.	12,011,324
Loan Number 3347 PAL (SF) – North Pacific Regional Connectivity Investment Loan (SDR 6,032,000), interest at 2% per annum. Semi-annual loan payments commence on June 1, 2021 in an amount of SDR 150,800.	<u>6,233,548</u>
	<u>\$ 59,940,891</u>

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

<u>Year Ending</u> <u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 3,342,150	\$ 1,672,771	\$ 5,014,921
2020	3,969,479	1,587,179	5,556,658
2021	3,408,799	1,458,861	4,867,660
2022	4,001,172	1,361,455	5,362,627
2023	4,122,075	1,226,699	5,348,774
2024 - 2028	16,585,735	4,461,603	21,047,338
2029 - 2033	11,822,442	2,573,092	14,395,534
2034 – 2038	10,062,762	986,276	11,049,038
2039 – 2043	2,546,495	103,864	2,650,359
2044 - 2045	<u>79,782</u>	<u>1,197</u>	<u>80,979</u>
	<u>\$ 59,940,891</u>	<u>\$ 15,432,997</u>	<u>\$ 75,373,888</u>

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2018

(8) Long-Term Obligations, Continued

Primary Government, Continued

As provided for in the Compact of Free Association, the Republic was awarded \$3,000,000, which it had agreed to repay in financial year 2005. On May 8, 2008, the U.S. Congress approved the forgiveness of the debt. The terms and conditions require the Republic to establish a trust fund wherein the Republic agrees to utilize the earnings of the trust fund solely for maintenance and upkeep of the Compact Road. The Republic has not established a trust fund as of September 30, 2018 and therefore has restricted assets of \$3,414,152 in the other governmental funds (Compact Section 211(b) Energy Fund) to fund this repayment in the event the terms and conditions of the forgiveness of the debt are not met. This debt of \$3,000,000 is presented as a long-term liability at the government-wide level until the terms and conditions are met (see Note 9).

Changes in long-term liabilities of the primary government for the year ended September 30, 2018, are as follows:

	Balance October <u>1, 2015</u>	<u>Additions</u>	<u>Reductions</u>	Balance September <u>30, 2016</u>	Due Within <u>One Year</u>
Loans payable:					
MICB loans	\$ 16,857,159	\$ -	\$ (1,599,998)	\$ 15,257,161	\$ 1,742,841
ADB loans	<u>33,466,782</u>	<u>12,033,661</u>	<u>(816,713)</u>	<u>44,683,730</u>	<u>1,599,309</u>
	50,323,941	12,033,661	(2,416,711)	59,940,891	3,342,150
Other:					
Compensated absences	4,476,234	12,326,364	(12,156,061)	4,646,537	2,328,299
Net pension liability	<u>157,823,499</u>	<u>4,834,450</u>	<u>-</u>	<u>162,657,949</u>	<u>-</u>
	<u>\$ 212,623,674</u>	<u>\$ 29,194,475</u>	<u>\$ (14,572,772)</u>	<u>\$ 227,245,377</u>	<u>\$ 5,670,449</u>

Discretely Presented Component Units

National Development Bank of Palau (NDBP):

Loan payable to the Mega International Commercial Bank (MICB) in the amount of \$5,000,000, due July 1, 2024 with interest at 3.5% per annum, principal payable in semi-annual installments of \$142,858 plus interest. This loan was used to fund various loan programs of NDBP and is guaranteed by the Republic.

\$ 1,714,266

Loan payable to the European Investment Bank (EIB) up to the amount of 5,000,000 Euro, due September 10, 2021 with interest at 3.379% - 5.175% per annum, principal and interest payable in semi-annual installments of \$234,750. Of the original amount, 3,260,573 Euro was drawn down in two tranches (\$1,391,285 and \$3,016,465, respectively). The loan is guaranteed by the Republic. On December 12, 2011, EIB cancelled the remaining balance of NDBP's credit line of 1,739,427 Euro.

1,253,987

\$ 2,968,253

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2018

(8) Long-Term Obligations, Continued

Discretely Presented Component Units, Continued

National Development Bank of Palau (NDBP), Continued:

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

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 688,367	\$ 110,541	\$ 798,908
2020	706,587	82,716	789,303
2021	716,811	54,084	770,895
2022	<u>856,488</u>	<u>44,997</u>	<u>901,485</u>
	<u>\$ 2,968,253</u>	<u>\$ 292,338</u>	<u>\$ 3,260,591</u>

Palau National Communications Corporation (PNCC):

Loan payable to the Rural Utilities Services (RUS) up to the amount of \$39,143,000, due October 2029 with interest at 4.59% per annum, principal and interest payable in monthly installments of \$192,181, including interest. The loan is guaranteed by the Republic, is collateralized by substantially all PNCC assets and a pledge of PNCC revenues.

\$ 18,836,699

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>
2019	\$ 1,463,147	\$ 843,029	\$ 2,306,176
2020	1,531,732	774,440	2,306,172
2021	1,603,537	702,635	2,306,172
2022	1,678,708	627,464	2,306,172
2023	1,757,402	548,770	2,306,172
2024 - 2028	10,102,770	1,428,089	11,530,859
2029	<u>699,403</u>	<u>9,857</u>	<u>709,260</u>
	<u>\$ 18,836,699</u>	<u>\$ 4,934,284</u>	<u>\$ 23,770,983</u>

Extended Service Level of Agreement (ESLA) with Chunghwa Telecom Co. Ltd.

In December 2009, PNCC recorded and capitalized the costs of the build-up of the earth station and related equipment and improvements for PNCC's mobile and satellite network services, in exchange for a non-interest bearing note with Chunghwa Telecom Co. Ltd (CHT), a contractor from Taiwan, Republic of China, totaling \$3,067,830, payable monthly in ninety (90) installments of \$34,087 including interest, starting in January 2010 through July 2018. The liability recorded in the financial statements reflects future payments discounted at an imputed interest rate of 4.90%, which was the assumed long-term borrowing rate in December 2009. At December 31, 2016, the future note payments to CHT with a present value of note was \$275,228 with discount amortization of \$3,849 in 2017. Pursuant to the repayment terms stated in the ESLA, in addition to non-interest bearing note disclosed in the preceding paragraph, PNCC is required to pay a monthly bandwidth fee of \$14,000, net of a \$1,000 courtesy discount, throughout the term of the note agreement maturing July 2017. This note was fully paid in January 2018

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2018

(8) Long-Term Obligations, Continued

Discretely Presented Component Units, Continued

Palau National Communications Corporation (PNCC), Continued:

New billing and customer care information technology system

In August 2012, PNCC entered into a note agreement with the National Information Solutions Cooperative (NISC) for the acquisition of a new billing and customer care information technology system, and for the improvement of the communication system between the PNCC sales sites and its main office. In 2012, the capitalized costs of the new information system approximates \$1,180,000 with an outstanding note payable balance with NISC amounting to \$764,298 as of December 31, 2012. The note was non-interest bearing, payable in fifty-eight (58) monthly installments of \$10,482 from January 2013 through March 2013, and thereafter at \$13,325 monthly from April 2013 through October 2017. The liability recorded in the financial statements reflects future payments discounted at an imputed interest rate of 4.59%, which was the assumed long-term borrowing rate of PNCC from the Federal Government at December 31, 2013. At December 31, 2017, the future note payments to NISC with a present value of note was \$17,910 with discount amortization of \$2,865 in 2017. These are subsequently paid in January 2018.

Palau Public Utilities Corporation (PPUC):

Loan payable to MICB in the amount of \$7,000,000, due December 11, 2026 with interest at 3.5% per annum, principal payable in semi-annual installments of \$200,000 plus interest. This loan was used to finance the purchase of portable generators, crankshaft assembly and other necessary equipment to facilitate the overhaul of aging generators and is guaranteed by the Republic.

\$ 3,400,000

Loan payable to the National Development Bank of Palau in the amount of \$3,000,000, due April 21, 2025 with interest at 7.5% per annum, principal payable in monthly installments of \$27,810 plus interest. This loan was used to finance the purchase of two generator sets. The loan is collateralized by the generator sets inclusive of auxiliary equipment and is guaranteed by the Republic.

1,745,955

On March 28, 2014, PPUC entered into two loans with the Republic to finance sanitation projects in the Koror and Airai areas. The first loan is for \$26,900,000 for twenty years with grace period and bears interest equal to the sum of LIBOR plus 0.60% and a maturity premium of 0.10%. Principal is to be repaid semi-annually beginning April 1, 2018 at 2.5% of the total principal amount outstanding on each payment date. The second loan is for SDR 1,258,000 for twenty years with grace period and bears interest at 1% per annum during the period prior to the first principal payment date and 1.5% per annum thereafter. Principal is to be repaid semi-annually beginning April 1, 2021 in installments of \$37,040. The loans are guaranteed by the Republic.

13,290,735

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2018

(8) Long-Term Obligations, Continued

Discretely Presented Component Units, Continued

Palau Public Utilities Corporation (PPUC), Continued:

On November 4, 2016, PPUC entered into a non-interest bearing loan with the Koror State Government for \$300,000 to finance the acquisition of sewer pumps and parts for the State of Koror. The loan is to be repaid in monthly installments of \$10,000 beginning December 15, 2016.

80,000
\$ 18,516,690

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

<u>Year Ending</u> <u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 1,304,886	\$ 592,311	\$ 1,897,197
2020	1,240,871	579,678	1,820,549
2021	1,295,291	528,120	1,823,411
2022	1,350,784	482,518	1,833,302
2023	1,371,179	428,586	1,799,765
2024 - 2028	5,360,234	1,440,204	6,800,438
2029 - 2033	3,440,369	836,407	4,276,776
2034 - 2038	3,132,899	339,598	3,472,497
2039	<u>20,177</u>	<u>142</u>	<u>20,319</u>
	<u>\$ 18,516,690</u>	<u>\$ 5,227,564</u>	<u>\$ 23,744,254</u>

Palau District Housing Authority (PDHA):

On April 8, 2016, the Republic entered into a \$5,000,000 loan agreement with Mega International Commercial Bank Co., Ltd, to finance housing to be administered by PDHA. The loan is to be repaid in thirty-five (35) consecutive equal semi-annual installments of \$142,857 beginning on April 12, 2019 at the rate equal to six (6) months LIBOR plus one (1%) per annum. As of September 30, 2016, PDHA received \$2,500,000 of the \$5,000,000. During the year ended September 30, 2017, the Authority received the remaining \$2,500,000 of the loan.

Belau Submarine Cable Corporation (BSCC):

In March 2016, BSCC and ADB entered into an agreement to establish a submarine cable connection from Palau to the international cable hub. The Republic executed a subsidiary loan agreement with BSCC to re-lend the amounts disbursed by ADB to the Republic under the same terms and conditions of the loan agreements (see Note 4).

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2018

(8) Long-Term Obligations, Continued

Belau Submarine Cable Corporation (BSCC), Continued:

Changes in long-term liabilities of the discretely presented component units for the year ended September 30, 2018, are as follows:

	Balance October <u>1, 2017</u>	<u>Additions</u>	<u>Reductions</u>	Balance September <u>30, 2018</u>	Due Within <u>One Year</u>
Loans payable:					
NDBP	\$ 3,639,028	\$ -	\$ (670,775)	\$ 2,968,253	\$ 686,782
PNCC	20,228,471	-	(1,391,772)	18,836,699	1,463,147
PPUC	12,221,412	7,631,740	(1,336,462)	18,516,690	1,304,886
Other liabilities:					
Net pension liability	41,092,791	2,255,499	-	43,348,290	-
Due to primary government	24,522,666	4,917,825	(140,854)	29,299,637	453,820
Due to fiduciary funds	<u>3,019,475</u>	<u>-</u>	<u>(339,333)</u>	<u>2,680,142</u>	<u>348,159</u>
	<u>\$ 104,723,843</u>	<u>\$ 14,805,064</u>	<u>\$ (3,879,196)</u>	<u>\$ 115,649,711</u>	<u>\$ 4,256,794</u>

(9) Restricted Assets

Primary Government

Restricted cash and cash equivalents of the primary government are as follows:

Deposit account established in accordance with RPPL 10-02, Section 2, to fund surveillance, enforcement and training for surveillance and enforcement of the laws related to the Palau National Marine Sanctuary. The funds may not be disbursed without legislative appropriation.	\$ 926,279
Deposit accounts established for the purpose of accounting of funds held by the Republic in a custodial capacity relating to court-ordered settlements.	<u>391,002</u>
	<u>\$ 1,317,281</u>

Restricted investments of the primary government are as follows:

Investments held in a trust fund for the purpose of accumulating resources to fund future government operations.	\$ 293,343,802
Investments held in a trust fund previously for the purpose of funding a liability to the United States government in which the United States Government contributed to the Republic for the purpose of accumulating resources to fund future Compact Road maintenance.	<u>4,108,826</u>
	<u>\$ 297,452,628</u>

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2018

(9) Restricted Assets, Continued

Discretely Presented Component Units

Restricted cash and cash equivalents and time certificates of deposit of the discretely presented component units are as follows:

National Development Bank of Palau:

Time certificate of deposit collateralizing loan payable to a bank. \$ 457,494

Deposit account established in accordance with RPPL 4-48, Section 126, as amended by RPPL 5-37, for the purposes of a reserve account representing 10% of the total amount of all loan guarantees on commercial bank loans. 50,271

Palau Community College:

Deposit accounts established for library fund and endowment fund. 1,984,255

Palau National Communications Corporation:

Account established in accordance with Rural Utilities Service loan agreement for the purposes of a reserve account. 3,818,176

\$ 6,310,196

Restricted investments of the discretely presented component units are as follows:

Palau Community College:

Investments held for endowment purposes. \$ 5,173,656

(10) Pension Plan

A. General Information About the Pension Plan:

Plan Description: The Republic contributes to the Republic of Palau Civil Service Pension Trust Fund (the Plan), a cost-sharing multiple-employer defined benefit plan providing retirement, security and other benefits to employees, their spouses and dependents of the Republic, State Governments and component units, funds and public corporations. The Plan was established pursuant to Republic of Palau Public Law (RPPL) No. 2-26 passed into law on April 3, 1987, and began operations on October 1, 1987. Portions of RPPL No. 2-26 were revised by RPPL 3-21, RPPL 4-40, RPPL 4-49, RPPL 5-30, RPPL 6-37, RPPL 7-56, RPPL 8-10 and RPPL 9-2.

A single actuarial valuation report is performed annually covering all plan members and the same contribution rate applies to each employer. The Plan issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit plan. That report may be obtained by writing to the Plan's Administrator at the Republic of Palau Civil Service Pension Trust Fund, P.O. Box 1767, Koror, Republic of Palau 96940, or e-mail cspp@palaunet.com or call (680) 488-2523.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2018

(10) Pension Plan, Continued

A. General Information About the Pension Plan, Continued:

Plan Membership: As of September 30, 2017, the date of the most recent valuation, plan membership consisted of the following:

Inactive members currently receiving benefits	1,576
Inactive members entitled to benefits but not yet receiving them	1,162
Active members	<u>3,422</u>
	<u>6,160</u>

Benefits Provided: Retirement benefits are paid to members who are required, with certain exceptions, to retire no later than their sixtieth birthday or after thirty years of service. A member may retire after his or her fifty-fifth birthday at a reduced pension amount if the member has completed at least twenty years of government employment. A married member of a former member receiving a distribution of benefits under the Plan receives reduced benefit amounts to provide survivors' benefits to his or her spouse. An unmarried member or former member may elect to receive a reduced benefit amount during his or her lifetime with an annuity payable to his or her designated beneficiary. Disability benefits are paid to qualified members for the duration of the disability. Effective May 17, 1996, through RPPL 4-49, members, who have twenty-five years or more of total service, are eligible for retirement regardless of their age and, upon such retirement, are eligible to receive pension benefits at a level established by the Board of Trustees. Effective July 1, 1999, pursuant to RPPL 4-49 and RPPL 5-30, retirement is mandatory for all members who have thirty years or more of total service and all employees who are sixty years of age or older with certain exceptions. Beginning October 1, 2003, pursuant to RPPL 6-37, mandatory retirement may be delayed for up to five years, by specific exemption by the Board of Trustees. In December 2008, RPPL 7-56 eliminated early retirement and thirty year mandatory service provisions. These provisions were restored through RPPL 8-10 in October, 2009. On April 30, 2013, RPPL 9-2 eliminated the mandatory service retirement after thirty years of service. After December 31, 2013, no employee shall be entitled to pension benefits until reaching the age of sixty.

In accordance with the directives of RPPL 5-7, the Board of Trustees adopted a resolution which provides that "no person who retires after October 1, 1997, may receive benefits under the Plan unless he or she has contributed to the Plan for at least five years or has made an actuarially equivalent lump sum contribution". In accordance with RPPL 9-2, members who retire after April 30, 2013 must not receive benefits greater than thirty thousand dollars per year. Further, the amount of benefits that a member receives should not be recalculated if the member is re-employed after the member begins receiving benefits under the Plan. Additionally, a member should not receive benefits during the time the member is re-employed subsequent to retirement.

Currently, normal benefits are paid monthly and are two percent of each member's average monthly salary for each year of credited total service up to a maximum of thirty years total service. The average annual salary is the average of the highest three consecutive fiscal years of compensation received by a member during his or her most recent ten full fiscal years of service. For members who have not completed three consecutive fiscal years of employment during his or her most recent ten full fiscal years of service, the average annual salary is the average monthly salary during the term of the member's service multiplied by twelve. The benefit amount that married members or unmarried members receive, who have elected to designate a beneficiary, is based on the normal benefit amount reduced by the following factors:

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2018

(10) Pension Plan, Continued

A. General Information About the Pension Plan, Continued:

<u>Factor</u>	<u>If the Spouse or Beneficiary is:</u>
1.00	21 or more years older than the member
0.95	16 to 20 years older than the member
0.90	11 to 15 years older than the member
0.85	6 to 10 years older than the member
0.80	0 to 5 years younger than the member or 0 to 5 years older than the member
0.75	6 to 10 years younger than the member
0.70	11 to 15 years younger than the member
0.65	16 or more years younger than the member

Surviving beneficiaries of an employee may only receive benefits up to the total present value of the employee's accrued benefit pursuant to RPPL 9-2.

A member that meets the requirements for early retirement and elects to retire on an early retirement date is entitled to receive payment of an early retirement benefit equal to the member's normal retirement benefit reduced according to the following schedule based on the age at which early retirement benefit payments begin:

- 1/12th per year for the first 3 years before age 60;
- plus an additional 1/18th per year for the next 3 years;
- plus an additional 1/24th per year for the next 5 years; and
- plus an additional 1/50th per year for each year in excess of 11 years.

Upon the death of a member or former member with eligible survivors before commencement of the members' normal, early, or late retirement benefits or disability retirement benefits the following shall be payable:

- If the former member is not an employee at his date of death and a spouse or beneficiary survives, the total death benefits payable shall be the actuarial equivalent of the member's present value of accrued benefit.
- If the member is an employee at his date of death and a spouse or beneficiary survives, the total death benefit payable shall be the actuarial equivalent of the greater of 3 times the member's average annual salary or the member's present value of accrued benefits.

Upon the death of a member or former member before commencement of his normal, early, or late retirement benefit or disability retirement benefit leaving no persons eligible for survivor benefits, the following shall be payable:

- If the former member is not an employee at the date of death, a refund of the total amount of contributions made by the member.
- If the member was an employee at the date of death and had completed one year of total service, the estate of the member shall be entitled to a death benefit equal to the greater of three times the member's annual salary or the present value of the member's accrued benefit payable in the form of a single lump sum payment.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2018

(10) Pension Plan, Continued

A. General Information About the Pension Plan, Continued:

Any member who is not otherwise eligible to receive normal, early or late retirement benefits, who shall become totally and permanently disabled for service regardless of how or where the disability occurred, shall be entitled to a disability retirement annuity, provided that he or she is not receiving disability payments from the United States Government or its agencies for substantially the same ailment, and further provided that to be eligible for a disability retirement annuity from a cause unrelated to service, the member shall have had at least ten (10) years of total service credited. The amount of disability retirement annuity shall be an amount equal to the actuarial equivalent at the attained age of the member's present value of accrued benefit and shall be paid in the same form as a normal retirement benefit. Any special compensation allowance received or payable to any member because of disability resulting from accidental causes while in the performance of a specific act or acts of duty shall be deducted from the disability annuity payable by the Plan on account of the same disability.

Contributions and Funding Policy: Member contribution rates are established by RPPL No. 2-26 at six percent of total payroll and are deducted from the member's salary and remitted by participating employers. Upon complete separation from service, a member with less than fifteen years membership service may elect to receive a refund of all of his or her contributions. Subsequent changes in the percentage contributed by members may be made through an amendment of the Trust Fund Operation Plan subject to the requirements of Title 6 of the Palau National Code. RPPL 9-2 requires each employee of the National Government and all State Governments, without regard to whether the employee is employed part-time or on a temporary basis, seasonal or an impermanent basis, to contribute to the Plan through payroll deduction.

The Republic's contributions to the Plan for the years ended September 30, 2018, 2017 and 2016 were \$2,182,564, \$2,107,926, and \$2,016,822, respectively, which were equal to the required contributions for the respective years then ended.

Actuarial Assumptions: Actuarially determined contribution rates are calculated as of September 30, 2017, for the same measurement date, using the following actuarial assumptions:

Valuation Date:	September 30, 2017
Actuarial Cost Method:	Entry age normal
Expected Rate of Return:	7.5%, net of investment expenses
Expenses:	\$300,000 each year.
Inflation:	3.0%
Salary Increases:	3.0% per year
Mortality:	RP-2000 combined healthy mortality table set forward by 4 years for all members except disability recipients, where the table is set forward ten years.
Termination of Employment:	5% for ages 20 to 39; none for all other ages

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2018

(10) Pension Plan, Continued

A. General Information About the Pension Plan, Continued:

Retirement age:	100% at age 60	
Disability:	<u>Age</u>	<u>Disability</u>
	25	0.21%
	30	0.18%
	35	0.25%
	40	0.35%
	45	0.50%
	50	0.76%
	55	1.43%
	60	2.12%
Form of payment:	Single: Straight life annuity; Married: 100% joint and survivor	
Duty vs Non-duty related disability:	100% duty related	
Marriage Assumption:	80% of the workers are assumed to be married and males are assumed to be 3 years older than their spouses. Beneficiaries are assumed to be the opposite gender of the member.	
Refund of Contributions:	80% terminated vested members elect a refund of contributions.	
Final Average Earnings:	Deferred vested members missing data for their final average earnings are assumed to have earned the average amount of current deferred vested members.	
Benefits:	Retirees and beneficiaries missing data for their monthly benefit amount are assumed to receive the average benefit of current retirees or beneficiaries, respectively.	
Post-retirement Survivor's Benefit:	100% of the benefit the retiree was receiving prior to death.	

Investment Rate of Return

The long-term expected rate of return on the Republic's investments of 7.5% was determined using log-normal distribution analysis, creating a best-estimate range for each asset class.

As of September 30, 2017, the arithmetic real rates of return for each major investment class are as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Expected Rate of Return</u>
Cash	3%	4.55%
Equity	61%	6.35%
Governmental fixed income	31%	7.75%
Corporate fixed income	5%	4.00%
	<u>100%</u>	

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2018

(10) Pension Plan, Continued

A. General Information About the Pension Plan, Continued:

Investment Rate of Return, Continued

Discount Rate: The discount rate used to measure the total pension liability was 3.62% at the current measurement date from 2.98% at the prior measurement date. The discount rate was determined using the current assumed rate of return until the point where the plan fiduciary net position is negative. Using the current contribution rates, a negative position happens in 2022 for 2017. For years after 2022, a discount rate of 3.57% is used. This rate is based on the Bond Buyer General Obligation 20-year Municipal Bond Index.

The total pension liability is calculated using a discount rate of 3.62% that is a blend of the expected investment rate of return and a high quality bond index rate. The expected investment rate of return applies for as long as the plan assets (including future contributions) are projected to be sufficient to make the projected benefit payments. If plan assets are projected to be depleted at some point in the future, the rate of return of a high quality bond index is used for the period after the depletion date.

Discount Rate Sensitivity Analysis: The following schedule shows the impact of the Net Pension Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (3.62%) in measuring the 2017 Net Pension Liability.

	1% Decrease in Discount Rate <u>2.62%</u>	Current Discount Rate <u>3.62%</u>	1% Increase in Discount Rate <u>4.62%</u>
Net Pension Liability	<u>\$ 188,349,324</u>	<u>\$ 162,657,949</u>	<u>\$ 141,340,576</u>

A. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions:

Pension Liability: At September 30, 2018, the Republic reported a liability of \$162,657,949 for its proportionate share of the net pension liability. The Republic's proportion of the net pension liability was based on projection of the Republic's long-term share of contributions to the pension plan relative to the projected contributions of the Republic and the Republic's component units, actuarially determined. At September 30, 2018, the Republic's proportion was 62.71%.

Pension Expense: For the year ended September 30, 2018, the Republic recognized pension expense of \$6,739,305.

Deferred Outflows and Inflows of Resources: At September 30, 2018, the Republic reported total deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2018

(10) Pension Plan, Continued

A. General Information About the Pension Plan, Continued:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 19,973,879	\$ 3,179,138
Change of assumptions	19,019,500	15,408,941
Net difference between projected and actual earnings on pension plan investments	895,517	794,885
Contributions subsequent to the measurement date	2,182,564	-
Changes in proportion and difference between Republic contributions and proportionate share of contributions	<u>6,875,250</u>	<u>9,864,400</u>
	<u>\$ 43,946,710</u>	<u>\$ 29,247,364</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions at September 30, 2018 will be recognized in pension expense as follows:

<u>Year Ended September 30</u>	
2019	\$ 1,685,901
2020	4,082,485
2022	2,668,499
2023	2,465,810
2024	2,229,702
Thereafter	<u>(615,615)</u>
	<u>\$ 12,516,782</u>

(11) 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, 2018, are as follows:

	<u>Transfer Out</u>	<u>Transfer In</u>
General Fund:		
Grants Fund	\$ 649,702	\$ 253,451
Other Governmental Funds	-	734,163
Compact Section 211(f) Fund	<u>-</u>	<u>5,000,000</u>
	<u>649,702</u>	<u>5,987,614</u>
Grants Fund:		
General Fund	<u>253,451</u>	<u>649,701</u>

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2018

(11) Transfers In/Out, Continued

Operating Fund Transfers, Continued

Compact Section Fund:

Infrastructure Maintenance fund	-	3,870,380
General Fund	<u>5,000,000</u>	<u>-</u>
	<u>5,000,000</u>	<u>3,870,380</u>

Other governmental funds:

Infrastructure maintenance fund	3,870,380	-
General Fund	<u>734,162</u>	<u>-</u>
	<u>4,604,542</u>	<u>-</u>
	<u>\$ 10,507,695</u>	<u>\$ 10,507,695</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.

(12) Fund Balances

Classifications of fund balances comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The following table enumerates the fund balance classifications:

	General	Grants	Permanent Fund	Nonmajor Governmental Funds	Totals
Fund balances:					
Nonspendable:					
UMDA investment	\$ 1,191,965	\$ -	\$ -	\$ -	\$ 1,191,965
Loan receivable	42,272,846	-	-	-	42,272,846
Prepayments	946,173	36,544	-	-	982,717
Permanent fund principal	-	-	297,452,628	-	297,452,628
	<u>44,410,984</u>	<u>36,544</u>	<u>297,452,628</u>	<u>-</u>	<u>341,900,156</u>
Restricted:					
Compact related	11,426,909	-	-	-	11,426,909
	<u>11,426,909</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,426,909</u>
Committed:					
Environmental protection	-	-	-	433,643	433,643
Hospital	-	-	-	1,695,435	1,695,435
Road maintenance	-	-	-	2,415,534	2,415,534
Publication law access unit	-	-	-	68,474	68,474
Forfeited property	-	-	-	172,191	172,191
Non-Communicable Diseases	-	-	-	2,053,403	2,053,403
Fisheries Protection	-	-	-	1,962,857	1,962,857
Other	-	-	-	23,509	23,509
	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,825,046</u>	<u>8,825,046</u>
Unassigned	40,959,193	(39,236)	-	(1,622)	40,918,335
	<u>\$96,797,086</u>	<u>\$ (2,692)</u>	<u>\$297,452,628</u>	<u>\$8,823,424</u>	<u>\$403,070,446</u>

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2018

(13) 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, 2018, amounted to \$9,915,756.

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, 2018, demand had not occurred. The notes are to be held 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 is to phase out over the period of the Compact.

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 have been set forth in the Republic's Single Audit Report for the year ended September 30, 2018. 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. In the event of a loss, the Republic may be self-insured to a material extent. The Republic has not expensed material losses from this practice over the past three years.

E. Unfunded Liability

An actuarial valuation of the Republic of Palau Social Security Retirement Fund has determined that the Fund has an actuarial deficiency of approximately \$175,234,000 as of October 1, 2017. 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, 2018 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, 2018

(13) 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. Debt Commitments

Significant commitments of the primary government as of September 30, 2018, are as follows:

- a) Guaranteed bank debt of the National Development Bank of Palau (NDBP) with letters of guarantee. At September 30, 2018, NDBP had guaranteed debt totaling \$2,968,253.
- b) Guaranteed a debt of NDBP in respect of a loan from the Republic of Palau Social Security Retirement Fund with a letter of guarantee. At September 30, 2018, NDBP had guaranteed debt associated with this loan totaling \$2,680,142.
- c) Guaranteed a debt of the Palau National Communications Corporation (PNCC) in respect to a loan from the United States Rural Utilities Service (RUS) with a letter of guarantee. At September 30, 2018, PNCC had guaranteed debt totaling \$18,836,699.
- d) Guaranteed bank debt of the Palau Public Utilities Corporation (PPUC) with a letter of guarantee. At September 30, 2018, PUC had guaranteed debt totaling \$3,400,000.
- e) Guaranteed a debt of PPUC in respect of a loan from NDBP with a letter of guarantee. At September 30, 2018, PUC had guaranteed debt associated with this loan totaling \$1,745,955.

H. Civil Service Pension Trust Fund

The Pension Fund's actuarial valuation has determined that the Fund has a net pension liability of \$259,395,005 which would cause the Fund's fiduciary net position to become negative in 2022.

I. 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, 2018, will not have a material impact on the accompanying financial statements.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2018

(13) Commitments and Contingencies, Continued

J. Asian Development Bank (ADB) Loans, Continued

On March 28, 2014, the Republic entered into two loan agreements (Loan Number 3060-PAL and Loan Number 3061-PAL (SF)) with the Asian Development Bank in the combined amount of approximately \$28,800,000 for the Koror-Airai Sanitation Project. The proceeds are to be on lent to the Palau Public Utilities Corporation under a separate Financing Agreement for the purpose of financing sanitation infrastructure improvements identified in the Koror-Airai Sanitation Master Plan. As of September 30, 2018, the Republic had drawn down \$13,488,112 against these loans. A substantial portion of the ADB loans are subject to currency exchange adjustments that can ultimately impact the carrying values of the debt.

On March 7, 2016, the Republic entered into two loans (Loan Number 3346-PAL and Loan Number 3347-PAL(SF)) with the Asian Development Bank in the combined amount of SDR 7,290,000. As of September 30, 2018, the Republic had drawn \$18,244,872 against these lines.

(14) Subsequent Event

In October 17, 2018, the Republic entered into a \$15,000,000 loan agreement with the Asian Development Bank to develop a disaster risk management program.

REPUBLIC OF PALAU

**REQUIRED SUPPLEMENTARY INFORMATION
- BUDGETARY REPORTING**

YEAR ENDED SEPTEMBER 30, 2018

REPUBLIC OF PALAU

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual General Fund (Fund 100100) Year Ended September 30, 2018

	Original Budget	Final Budget	Actual - Budgetary Basis (see note 1)	Variance
Revenues:				
Local revenue	\$ 59,309,414	\$ 58,321,414	\$ 60,562,359	\$ 2,240,945
Compact funding - Section 211(a)	5,250,000	6,000,000	6,000,000	-
Compact funding - Section 215 inflation adjustment	-	5,147,000	5,147,000	-
Net change in the fair value of investments	-	-	109,845	109,845
Other	-	116,112	455,848	339,736
Total revenues	<u>64,559,414</u>	<u>69,584,526</u>	<u>72,275,052</u>	<u>2,690,526</u>
Expenditures - budgetary basis:				
Office of the President	1,232,031	1,450,143	1,361,564	88,579
Office of the Vice-President	615,564	615,564	563,392	52,172
Ministry of Finance	3,839,079	4,132,079	3,846,892	285,187
Ministry of State	3,834,433	4,040,433	3,923,492	116,941
Ministry of Community and Cultural Affairs	1,569,851	1,563,851	1,446,503	117,348
Ministry of Education	9,131,603	9,106,603	8,685,847	420,756
Ministry of Public Infrastructure, Industry and Commerce	7,477,136	7,216,449	6,611,185	605,264
Ministry of Justice	6,205,547	6,336,547	6,069,215	267,332
Ministry of Health	11,193,320	11,193,320	10,710,021	483,299
Ministry of Natural Resources, Environment and Tourism	1,714,132	1,689,132	1,595,664	93,468
Boards, Commissions and Authorities	1,198,731	1,133,731	901,806	231,925
Judicial Branch	3,192,000	3,192,000	3,186,074	5,926
Legislative Branch	5,920,184	6,155,184	5,871,556	283,628
State Block Grants	7,576,000	7,576,000	7,576,000	-
Independent Agencies	3,514,229	3,524,229	3,375,464	148,765
Other Agencies and Activities	1,879,849	1,892,849	1,776,480	116,369
Education Assistance	3,383,000	3,383,000	3,383,000	-
Other Appropriations	1,590	361,590	232,838	128,752
Total expenditures	<u>73,478,279</u>	<u>74,562,704</u>	<u>71,116,993</u>	<u>3,445,711</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(8,918,865)</u>	<u>(4,978,178)</u>	<u>1,158,059</u>	<u>6,136,237</u>
Other financing sources (uses):				
Loan proceeds	-	-	12,033,661	12,033,661
Operating transfers in	12,545,000	9,545,000	7,957,514	(1,587,486)
Operating transfers out	<u>(4,706,414)</u>	<u>(5,647,101)</u>	<u>(6,021,802)</u>	<u>(374,701)</u>
Total other financing sources (uses), net	<u>7,838,586</u>	<u>3,897,899</u>	<u>13,969,373</u>	<u>10,071,474</u>
	(1,080,279)	(1,080,279)	15,127,432	16,207,711
Other changes:				
Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary purposes but in the year the supplies are received for financial reporting purposes	<u>1,080,279</u>	<u>1,080,279</u>	<u>1,171,846</u>	<u>91,567</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 16,299,278</u>	<u>\$ 16,299,278</u>

See Accompanying Notes to Required Supplementary Information - Budgetary Reporting and Independent Auditors' Report.

REPUBLIC OF PALAU

Notes to Required Supplementary Information - Budgetary Reporting
September 30, 2018

(1) Budgetary Information

Budgets are adopted on a basis consistent with GAAP. The OEK enacts budgets for the General Fund. 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 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

	<u>Net Change in Fund Balance</u>	<u>Encumbrances</u>
General Fund (Fund 100100):		
Budgetary basis	\$ <u>16,299,278</u>	\$ <u>1,171,846</u>
GASB 54 Funds included within the General Fund:		
PAN Fund (Fund 100110)	(220,050)	-
Financial Institutions Commission Fund (Fund 100116)	34,727	6,532
Scholarship Fund (Fund 100150)	(408,188)	-
Non-Lapsing Fund (Fund 100200)	13,179,248	107,001
Receivable Fund (Fund 100900)	-	52,453
Compact Section 213 Fund (Fund 313000)	249,980	-
Local CIP Fund (Fund 410100)	594,223	397,584
Debt Service Fund (Fund 600000)	<u>(130,886)</u>	<u>-</u>
	<u>13,299,054</u>	<u>563,570</u>
	\$ <u>29,598,332</u>	\$ <u>1,735,416</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

Schedule of the Proportionate Share of the Net Pension Liability Last Ten Fiscal Years *

	2018	2017	2016	2015	2014
Pension Fund total net pension liability	\$ 259,395,005	\$ 249,453,960	\$ 215,546,176	\$ 204,281,232	\$ 182,080,330
The Republic's proportionate share of the net pension liability	\$ 162,657,949	\$ 157,823,499	\$ 137,096,288	\$ 129,957,796	\$ 117,770,883
The Republic's proportion of the net pension liability	62.71%	63.27%	63.60%	63.62%	64.68%
The Republic's covered employee payroll**	\$ 36,294,800	\$ 33,508,473	\$ 36,294,800	\$ 23,572,912	\$ 23,967,024
The Republic's proportionate share of the net pension liability as a percentage of its covered employee payroll	448.16%	471.00%	377.73%	551.30%	491.39%
Pension Fund fiduciary net position as a percentage of the total pension liability	10.18%	10.55%	11.54%	14.01%	15.84%

*This data is presented for those years for which information is available.

**Covered-employee payroll data from the actuarial valuation date with one-year lag.

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

Schedule of Pension Contributions
Last Ten Fiscal Years *

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Statutorily required contribution	\$ 10,772,273	\$ 9,121,540	\$ 6,932,790	\$ 4,269,025	\$ 4,068,739
Contribution in relation to the contractually required contribution	<u>2,107,926</u>	<u>2,016,822</u>	<u>1,858,478</u>	<u>1,785,089</u>	<u>1,666,717</u>
Contribution excess	<u>\$ 8,664,347</u>	<u>\$ 7,104,718</u>	<u>\$ 5,074,312</u>	<u>\$ 2,483,936</u>	<u>\$ 2,402,022</u>
The Republic's covered-employee payroll**	<u>\$ 36,294,800</u>	<u>\$ 33,508,473</u>	<u>\$ 30,846,144</u>	<u>\$ 23,572,912</u>	<u>\$ 23,967,024</u>
Contribution as a percentage of covered-employee payroll	5.81%	6.02%	6.02%	7.57%	6.95%

*This data is presented for those years for which information is available.

**Covered-employee payroll data from the actuarial valuation date with one-year lag.

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

OTHER SUPPLEMENTARY INFORMATION

YEAR ENDED SEPTEMBER 30, 2018

REPUBLIC OF PALAU

GENERAL FUND

September 30, 2018

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.

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

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).

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.

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.

Debt Service Fund – To account for annual repayment of long term debt and related interest.

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

GENERAL FUND

**Combining Balance Sheet
September 30, 2018**

	100150	313000	321000	
	<u>General</u>	<u>Scholarship</u>	<u>Compact Section 213</u>	<u>Compact Section 221 (b)</u>
ASSETS				
Cash and cash equivalents	\$ 51,126,182	\$ -	\$ -	\$ -
Investments	-	-	4,536,422	-
Receivables, net:				
Taxes	4,753,645	-	-	-
General	6,244,047	-	-	-
Due from component units	42,272,846	-	-	-
Due from other funds	37,134,486	-	-	-
Advances	379,635	(988)	-	-
Prepaid items	946,173	-	-	-
Other assets	1,191,965	-	-	-
Restricted assets:				
Cash and cash equivalents	<u>1,317,281</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 145,366,260</u>	<u>\$ (988)</u>	<u>\$ 4,536,422</u>	<u>\$ -</u>
LIABILITIES AND FUND BALANCES				
(DEFICIT)				
Liabilities:				
Note payable	\$ 198,142	\$ -	\$ -	\$ -
Accounts payable	3,624,929	3,747	-	-
Overdraft	1,184,770	-	-	-
Due to State governments	355,629	-	-	-
Due to other funds	54,496,615	369,754	-	-
Accrued payroll and others	1,759,589	3,296	-	-
Other liabilities and accruals	721,971	-	-	-
Unearned revenue	-	-	-	-
Income tax refunds	<u>998,453</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>63,340,098</u>	<u>376,797</u>	<u>-</u>	<u>-</u>
Fund balances (deficit):				
Nonspendable	44,410,984	-	-	-
Restricted	11,426,909	-	-	-
Unassigned	<u>26,188,269</u>	<u>(377,785)</u>	<u>4,536,422</u>	<u>-</u>
Total fund balances (deficit)	<u>82,026,162</u>	<u>(377,785)</u>	<u>4,536,422</u>	<u>-</u>
Total liabilities and fund balances (deficit)	<u>\$ 145,366,260</u>	<u>\$ (988)</u>	<u>\$ 4,536,422</u>	<u>\$ -</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

GENERAL FUND

Combining Balance Sheet, Continued September 30, 2018

	410100	430100	600000		
	Local CIP	DOI CIP	Debt Service	Elimination	Total
ASSETS					
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ 51,126,182
Investments	-	-	-	-	4,536,422
Receivables, net:					
Taxes	-	-	-	-	4,753,645
General	-	-	-	-	6,244,047
Due from component units	-	-	-	-	42,272,846
Due from other funds	8,727,455	82,423	2,270,618	(44,233,321)	3,981,661
Advances	1,580	716	-	-	380,943
Prepaid items	-	-	-	-	946,173
Other assets	-	-	-	-	1,191,965
Restricted assets:					
Cash and cash equivalents	-	-	-	-	1,317,281
Total assets	<u>\$ 8,729,035</u>	<u>\$ 83,139</u>	<u>\$ 2,270,618</u>	<u>\$ (44,233,321)</u>	<u>\$ 116,751,165</u>
LIABILITIES AND FUND BALANCES					
(DEFICIT)					
Liabilities:					
Note payable	\$ -	\$ -	\$ -	\$ -	\$ 198,142
Accounts payable	54,228	-	-	-	3,682,904
Bank overdraft	-	-	-	-	1,184,770
Due to State governments	-	-	-	-	355,629
Due to other funds	-	-	-	(44,233,321)	10,633,048
Accrued payroll and others	-	-	235,824	-	1,998,709
Other liabilities and accruals	-	-	-	-	721,971
Unearned revenue	-	180,453	-	-	180,453
Income tax refunds	-	-	-	-	998,453
Total liabilities	<u>54,228</u>	<u>180,453</u>	<u>235,824</u>	<u>(44,233,321)</u>	<u>19,954,079</u>
Fund balances (deficit):					
Nonspendable	-	-	-	-	44,410,984
Restricted	-	-	-	-	11,426,909
Unassigned	8,674,807	(97,314)	2,034,794	-	40,959,193
Total fund balances (deficit)	<u>8,674,807</u>	<u>(97,314)</u>	<u>2,034,794</u>	<u>-</u>	<u>96,797,086</u>
Total liabilities and fund balances (deficit)	<u>\$ 8,729,035</u>	<u>\$ 83,139</u>	<u>\$ 2,270,618</u>	<u>\$ (44,233,321)</u>	<u>\$ 116,751,165</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

GENERAL FUND

Combining Statement of Revenues, Expenditures By Function,
and Changes in Fund Balance (Deficit)
Year Ended September 30, 2018

	100150	313000	321000
	General	Scholarship	Compact Section 213
			Compact Section 221 (b)
Revenues:			
Taxes	\$ 47,242,574	\$ -	\$ -
Compact funding	22,573,909	-	2,000,000
Net change in the fair value of investments	109,845	-	276,088
Fees and charges	12,999,482	-	-
Licenses and permits	10,051,471	909,699	-
Other	656,647	42,990	-
Total revenues	93,633,928	952,689	276,088
Expenditures:			
Current:			
Judicial Branch	3,186,074	-	-
Legislative Branch	5,789,296	-	-
Office of the President	1,373,588	-	-
Office of the Vice-President	560,779	-	-
Ministry of Finance	3,885,621	-	-
Ministry of State	4,003,437	-	-
Ministry of Community and Cultural Affairs	1,442,742	-	-
Ministry of Education	8,431,022	-	-
Ministry of Public Infrastructure, Industry and Commerce	7,308,641	-	-
Ministry of Justice	6,574,524	-	-
Ministry of Health	10,450,204	-	-
Ministry of Natural Resources, Environment and Tourism	1,806,251	-	-
Boards, Commissions, and Authorities	1,007,630	-	-
State Block Grants	7,576,000	-	-
Independent Agencies	3,325,658	-	-
Other Agencies and Activities	3,833,228	-	26,108
Education assistance	3,383,000	3,363,877	-
Micronesia Games	200,000	-	-
Civil Service Pension Plan	1,098,958	-	-
PPUC Water & Sewer Operations	1,895,000	-	-
Social Security Fund Contributions	1,077,958	-	-
Capital projects	-	-	-
Debt service:			
Principal retirement	-	-	-
Interest	-	-	-
Total expenditures	78,209,611	3,363,877	26,108
Excess (deficiency) of revenues over (under) expenditures	15,424,317	(2,411,188)	249,980
Other financing sources (uses):			
Loan proceeds	12,033,661	-	-
Operating transfers in	11,147,028	2,003,000	-
Operating transfers out	(9,311,803)	-	(2,000,000)
Total other financing sources (uses), net	13,868,886	2,003,000	(2,000,000)
Net change in fund balances (deficit)	29,293,203	(408,188)	249,980
Fund balances (deficit) at beginning of year	52,732,959	30,403	4,286,442
Fund balances (deficit) at end of year	\$ 82,026,162	\$ (377,785)	\$ 4,536,422

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

GENERAL FUND

Combining Statement of Revenues, Expenditures By Function,
and Changes in Fund Balance (Deficit), Continued
Year Ended September 30, 2018

	410100	430100	600000		
	Local CIP	DOI CIP	Debt Service	Elimination	Total
Revenues:					
Taxes	\$ -	\$ -	\$ -	\$ -	\$ 47,242,574
Compact funding	-	-	-	-	24,573,909
Net change in the fair value of investments	-	-	-	-	385,933
Fees and charges	-	-	-	-	12,999,482
Licenses and permits	-	-	-	-	10,961,170
Other	34,350	-	-	-	733,987
Total revenues	<u>34,350</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>96,897,055</u>
Expenditures:					
Current:					
Judicial Branch	-	-	-	-	3,186,074
Legislative Branch	-	-	-	-	5,789,296
Office of the President	-	-	-	-	1,373,588
Office of the Vice-President	-	-	-	-	560,779
Ministry of Finance	-	-	-	-	3,885,621
Ministry of State	-	-	-	-	4,003,437
Ministry of Community and Cultural Affairs	-	-	-	-	1,442,742
Ministry of Education	-	-	-	-	8,431,022
Ministry of Public Infrastructure, Industry and Commerce	-	-	-	-	7,308,641
Ministry of Justice	-	-	-	-	6,574,524
Ministry of Health	-	-	-	-	10,450,204
Ministry of Natural Resources, Environment and Tourism	-	-	-	-	1,806,251
Boards, Commissions, and Authorities	-	-	-	-	1,007,630
State Block Grants	-	-	-	-	7,576,000
Independent Agencies	-	-	-	-	3,325,658
Other Agencies and Activities	-	-	-	-	3,859,336
Education assistance	-	-	-	-	6,746,877
Micronesia Games	-	-	-	-	200,000
Civil Service Pension Plan	-	-	-	-	1,098,958
PPUC Water & Sewer Operations	-	-	-	-	1,895,000
Social Security Fund Contributions	-	-	-	-	1,077,958
Capital projects	215,814	-	-	-	215,814
Debt service:					
Principal retirement	-	-	2,416,711	-	2,416,711
Interest	-	-	438,175	-	438,175
Total expenditures	<u>215,814</u>	<u>-</u>	<u>2,854,886</u>	<u>-</u>	<u>84,670,296</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(181,464)</u>	<u>-</u>	<u>(2,854,886)</u>	<u>-</u>	<u>12,226,759</u>
Other financing sources (uses):					
Loan proceeds	-	-	-	-	12,033,661
Operating transfers in	775,687	-	2,724,000	(10,662,101)	5,987,614
Operating transfers out	-	-	-	10,662,101	(649,702)
Total other financing sources (uses), net	<u>775,687</u>	<u>-</u>	<u>2,724,000</u>	<u>-</u>	<u>17,371,573</u>
Net change in fund balances (deficit) of year	<u>594,223</u> <u>8,080,584</u>	<u>-</u> <u>(97,314)</u>	<u>(130,886)</u> <u>2,165,680</u>	<u>-</u> <u>-</u>	<u>29,598,332</u> <u>67,198,754</u>
Fund balances (deficit) at end of year	<u>\$ 8,674,807</u>	<u>\$ (97,314)</u>	<u>\$ 2,034,794</u>	<u>\$ -</u>	<u>\$ 96,797,086</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

GENERAL FUND

Combining Schedule of Expenditures By Object Year Ended September 30, 2018

	100150		313000		321000	
	<u>General</u>	<u>Scholarship</u>	<u>Compact Section 213</u>		<u>Compact Section 221 (b)</u>	
Expenditures:						
Salaries and wages	\$ 39,793,397	\$ 86,835	\$ -		\$ -	
Professional and contractual services	542,110	-	-			
Repairs and maintenance	823,282	235	-			
Rentals	1,000,381	70	-			
Construction	1,024,952	-	-			
Insurance	111,446	-	-			
Advertising	51,178	3,036	-			
Travel	1,795,031	41,249	-			
Cleaning services	206,941	-	-			
Communications and postage	1,200,907	7,339	-			
Supplies and materials	1,795,072	5,136	-			
Medical drugs	337,588	-	-			
Medical supplies	281,653	-	-			
Petroleum products	836,780	630	-			
Food stuffs	1,224,103	765	-			
Books and library materials	64,462	-	-			
Utilities	3,296,427	-	-			
Land	25,000	-	-			
Equipment	270,690	-	-			
Vehicles	237,394	8,800	-			
Furnitures and fixtures	9,334	-	-			
Computer software	13,858	-	-			
Training	13,781	-	-			
Medical referrals	206,388	-	-			
Donations	651,858	-	-			
Payments of allotments/benefits	20,976,527	-	-			
Freight	9,982	-	-			
Representation and entertainment	68,150	-	-			
Dues, fees and registration	798,068	-	-			
Student loans	-	1,577,049	-			
Scholarships	-	1,580,817	-			
Fellowship award	-	44,000	-			
Compensation	485,217	7,650	-			
Employee incentive awards	29,133	-	-			
Bank service fee	13,796	-	-			
Investment management fees	1,769	-	26,108			
Questioned costs	6,717	-	-			
Principal retirement	-	-	-			
Interest charges	-	-	-			
Miscellaneous	6,239	266	-			
Total expenditures	<u>\$ 78,209,611</u>	<u>\$ 3,363,877</u>	<u>\$ 26,108</u>		<u>\$ -</u>	

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

GENERAL FUND

Combining Schedule of Expenditures By Object, Continued
Year Ended September 30, 2018

	410100	430100	600000	
	Local CIP	DOI CIP	Debt Service	Total
Expenditures:				
Salaries and wages	\$ -	\$ -	\$ -	\$ 39,880,232
Professional and contractual services	8,775	-	-	550,885
Repairs and maintenance	-	-	-	823,517
Rentals	6,650	-	-	1,007,101
Construction	168,487	-	-	1,193,439
Insurance	-	-	-	111,446
Advertising	796	-	-	55,010
Travel	-	-	-	1,836,280
Cleaning services	-	-	-	206,941
Communications and postage	-	-	-	1,208,246
Supplies and materials	32,198	-	-	1,832,406
Medical drugs	-	-	-	337,588
Medical supplies	-	-	-	281,653
Petroleum products	3,995	-	-	841,405
Food stuffs	-	-	-	1,224,868
Books and library materials	-	-	-	64,462
Utilities	-	-	-	3,296,427
Land	-	-	-	25,000
Equipment	-	-	-	270,690
Vehicles	-	-	-	246,194
Furnitures and fixtures	-	-	-	9,334
Computer software	-	-	-	13,858
Training	-	-	-	13,781
Medical referrals	-	-	-	206,388
Donations	-	-	-	651,858
Payments of allotments/benefits	-	-	-	20,976,527
Freight	-	-	-	9,982
Representation and entertainment	-	-	-	68,150
Dues, fees and registration	-	-	-	798,068
Student loans	-	-	-	1,577,049
Scholarships	-	-	-	1,580,817
Fellowship award	-	-	-	44,000
Board compensation	-	-	-	492,867
Employee incentive awards	-	-	-	29,133
Bank service fee	(5,087)	-	-	8,709
Investment management fees	-	-	-	27,877
Questioned costs	-	-	-	6,717
Principal retirement	-	-	2,416,711	2,416,711
Interest charges	-	-	438,175	438,175
Miscellaneous	-	-	-	6,505
Total expenditures	<u>\$ 215,814</u>	<u>\$ -</u>	<u>\$ 2,854,886</u>	<u>\$ 84,670,296</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

GENERAL FUND

Schedule of Revenues
Year Ended September 30, 2018

(With comparative totals for the year ended September 30, 2017)

	<u>2018</u>	<u>2017</u>
Compact funding:		
Section 211(a)	\$ 6,000,000	\$ 6,000,000
Section 432	11,426,909	-
Section 221(b)	2,000,000	2,000,000
Section 215 inflation adjustment	<u>5,147,000</u>	<u>5,147,000</u>
Total compact funding	<u>24,573,909</u>	<u>13,147,000</u>
Taxes:		
Gross receipts	14,494,423	13,955,595
Salary and wage	10,970,116	10,933,714
Alcohol and tobacco	9,704,970	9,925,465
Hotel occupancy	4,405,299	4,808,767
Travelers head	612,240	2,702,771
General import	2,787,294	2,951,894
Penalties, interest and delinquencies	1,247,290	946,765
Fuel excise	886,990	730,759
Beverage container tax	460,091	463,096
Fish export	765,417	819,153
Vessel cabin and foreign water vessel	140,085	150,924
Other	<u>768,359</u>	<u>460,809</u>
Total taxes	<u>47,242,574</u>	<u>48,849,712</u>
Licenses and permits:		
Fishing days fees	8,452,476	9,212,478
Foreign labor permits	1,385,685	1,485,708
Business licenses	293,734	273,980
Foreign investment permits and fees	436,062	405,528
Fishing rights fees	-	75,719
Corporate filing fees	40,830	45,252
Other licenses and permits	<u>352,383</u>	<u>354,010</u>
Total licenses and permits	<u>10,961,170</u>	<u>11,852,675</u>
Fees and charges:		
Pristine Paradise Environmental Fee	7,549,996	-
Green fees	1,706,580	3,910,720
Airport fees and rentals	1,928,755	3,478,866
Postal service	356,240	354,132
Ship registry	872,405	632,878
Court fines and fees	244,164	198,562
Palau passport fees	117,700	138,904
Banking fees	170,663	144,830
Seaport fees	24,352	23,534
Water utility charges	100	100
Other	<u>28,527</u>	<u>337,791</u>
Total fees and charges	<u>12,999,482</u>	<u>9,220,317</u>
Net change in the fair value of investments	<u>385,934</u>	<u>551,250</u>
Other:		
Indirect cost recoveries	89,949	132,820
Other	<u>644,037</u>	<u>366,782</u>
Total other	<u>733,986</u>	<u>499,602</u>
Total revenues	<u>\$ 96,897,055</u>	<u>\$ 84,120,556</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual - General Fund (Fund 100100)

Year Ended September 30, 2018

	Budgeted Amounts		Actual	Variance
	Original	Final		
Revenues:				
Local revenue	\$ 59,309,414	\$ 58,321,414	\$ 60,562,359	\$ 2,240,945
Compact funding - Section 211(a)	5,250,000	6,000,000	6,000,000	-
Compact funding - Section 215 inflation adjustment	-	5,147,000	5,147,000	-
Net change in the fair value of investments	-	-	109,845	109,845
Other	-	116,112	455,848	339,736
Total revenues	64,559,414	69,584,526	72,275,052	2,690,526
Expenditures - budgetary basis:				
Office of the President:				
President's Office	929,471	1,044,471	983,438	61,033
Official Expenses	30,000	30,000	27,250	2,750
Indirect Cost Recoveries	560	90,509	88,236	2,273
Administrative Overhead	-	3,163	2,995	168
Grants Coordinator Office	76,000	86,000	85,586	414
Council of Chiefs	151,000	151,000	129,059	21,941
Presidential Stipend	45,000	45,000	45,000	-
Total Office of the President	1,232,031	1,450,143	1,361,564	88,579
Office of the Vice-President:				
Vice-President's Office	386,453	386,453	359,891	26,562
National Emergency Management Office	229,111	229,111	203,501	25,610
Total Office of the Vice-President	615,564	615,564	563,392	52,172
Ministry of Finance:				
Office of the Minister	58,000	258,000	57,750	200,250
Administrative Overhead	1,418	24,418	22,960	1,458
Information System Support Service	241,020	241,020	239,601	1,419
Bureau of National Treasury	868,504	968,504	959,963	8,541
Bureau of Budget and Planning	644,493	644,493	639,072	5,421
Bureau of Public Service System	246,300	259,300	256,533	2,767
Workmen's Compensation	45,000	45,000	43,039	1,961
Bureau of Revenue and Taxation	701,344	679,344	670,813	8,531
Bureau of Customs	1,033,000	1,012,000	957,161	54,839
Total Ministry of Finance	3,839,079	4,132,079	3,846,892	285,187
Ministry of State:				
Office of the Minister	58,000	58,000	57,793	207
Consulate Office in Guam	129,000	129,000	126,829	2,171
Consulate Office in Saipan	52,256	52,256	49,048	3,208
Embassy in Washington D.C.	330,763	320,763	317,844	2,919
Embassy in Tokyo, Japan	676,000	656,000	648,015	7,985
Embassy in Taipei, Taiwan	162,000	162,000	161,057	943
Embassy in Manila, Philippines	151,000	146,000	145,443	557
United Nations Representative Office	329,000	389,000	387,204	1,796
Office of the Public Defender	363,000	349,000	338,393	10,607
Bureau of Trade and Foreign Affairs	482,886	534,886	499,593	35,293
Bureau of Domestic Affairs	297,921	309,921	282,755	27,166
Passport Office	92,000	115,000	98,510	16,490
International Organizations Obligations	250,000	279,000	276,928	2,072
Southwest Islands Field Trips	272,000	310,000	310,000	-
ROP Embassy for European Union/Climate Change	188,607	229,607	224,080	5,527
Total Ministry of State	3,834,433	4,040,433	3,923,492	116,941
Ministry of Community and Cultural Affairs:				
Office of the Minister	58,000	58,000	57,787	213
Bureau of National Archives	145,365	140,365	119,259	21,106
Bureau of Youth, Applied Arts and Career	368,036	377,036	327,586	49,450
Bureau of Aging and Gender	377,535	372,535	350,441	22,094
Sports Facilities Maintenance and Utilities	94,000	94,000	89,872	4,128
Bureau of Cultural and Historical Preservation	198,915	193,915	179,533	14,382
Olchotel Belau Fair	30,000	30,000	30,000	-
Palau Severely Disabled Assistance Fund	298,000	298,000	292,025	5,975
Total Ministry of Community and Cultural Affairs	1,569,851	1,563,851	1,446,503	117,348

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

Schedule of Revenues, Expenditures, and Changes in Fund Balance, Continued
Budget and Actual - General Fund (Fund 100100)

Year Ended September 30, 2018

	Budgeted Amounts		Actual	Variance
	Original	Final		
Ministry of Education:				
Office of the Minister	58,000	58,000	57,750	250
School Books, Supplies and Instructional Equipment	300,000	300,000	278,217	21,783
Bureau of Curriculum and Instruction	508,000	508,000	495,689	12,311
Bureau of School Administration	7,393,485	7,368,485	7,045,392	323,093
Food Services Program	872,118	872,118	808,799	63,319
Total Ministry of Education	9,131,603	9,106,603	8,685,847	420,756
Ministry of Public Infrastructure, Industry and Commerce:				
Office of the Minister	58,000	58,000	57,750	250
FAA, UNDP, & Other Match	665,000	264,313	214,821	49,492
Bureau of Commercial Development	330,610	324,610	306,685	17,925
Palau Small Business Development (UOG)	45,000	45,000	45,000	-
Bureau of Aviation	1,890,702	2,106,702	2,066,935	39,767
Bureau of Lands and Survey	902,658	887,658	859,129	28,529
Bureau of Public Works	1,429,624	1,379,624	1,285,063	94,561
Palau Energy Administration	150,000	145,000	136,552	8,448
National Capitol Electricity/Maintenance	1,850,542	1,850,542	1,504,535	346,007
Capital Improvement Office Operations	155,000	155,000	134,715	20,285
Total Ministry of Public Infrastructure, Industry and Commerce	7,477,136	7,216,449	6,611,185	605,264
Ministry of Justice:				
Office of the Attorney General	636,769	606,769	533,843	72,926
Bureau of Immigration & Labor	1,077,128	1,027,128	946,290	80,838
Bureau of Public Safety	3,285,009	3,465,009	3,399,335	65,674
Bureau of Maritime Security & FWP	956,641	987,641	941,494	46,147
Narcotics Enforcement Agency	250,000	250,000	248,253	1,747
Total Ministry of Justice	6,205,547	6,336,547	6,069,215	267,332
Ministry of Health:				
Office of the Minister	58,000	58,000	57,750	250
NCCP Admin Cost	1,000	1,000	48,261	(47,261)
Bureau of Public Health	1,367,230	1,277,230	1,255,886	21,344
Health Administration	3,621,760	3,771,760	3,719,102	52,658
Manila Medical Referral	210,000	200,000	171,614	28,386
Hawaii Medical Referral	150,000	150,000	146,010	3,990
Taipei Medical Referral	150,285	150,285	143,250	7,035
Medical Supplies and Drugs	363,328	363,328	234,126	129,202
Hemodialysis	599,879	599,879	447,795	152,084
Hyperbaric Chamber	100,000	90,000	26,520	63,480
Bureau of Clinical Service	1,994,554	1,994,554	1,950,725	43,829
Bureau of Nursing	2,427,284	2,387,284	2,359,982	27,302
Marine Ambulance	150,000	150,000	149,000	1,000
Total Ministry of Health	11,193,320	11,193,320	10,710,021	483,299
Ministry of Natural Resources, Environment and Tourism:				
Office of the Minister	58,000	58,000	57,750	250
Bureau of Marine Resources	675,619	650,619	610,145	40,474
Bureau of Agriculture	722,445	722,445	708,756	13,689
Bureau of Tourism	258,068	258,068	219,013	39,055
Total Ministry of Natural Resources, Environment and Tourism	1,714,132	1,689,132	1,595,664	93,468
Total Executive Branch	46,812,696	47,344,121	44,813,775	2,530,346

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

Schedule of Revenues, Expenditures, and Changes in Fund Balance, Continued
Budget and Actual - General Fund (Fund 100100)

Year Ended September 30, 2018

	Budgeted Amounts		Actual	Variance
	Original	Final		
Judicial Branch:				
Judiciary	<u>3,192,000</u>	<u>3,192,000</u>	<u>3,186,074</u>	<u>5,926</u>
Total Judicial Branch	<u>3,192,000</u>	<u>3,192,000</u>	<u>3,186,074</u>	<u>5,926</u>
Olbiil Era Kelulau:				
Senate	2,268,703	2,343,703	2,241,499	102,204
Senate Legal Counsel Office	210,000	210,000	173,070	36,930
House of Delegates	2,831,481	2,881,481	2,823,938	57,543
House Legal Counsel Office	215,000	215,000	204,288	10,712
Joint Staff	275,000	345,000	335,092	9,908
Association of Pacific Island Legislatures	40,000	60,000	33,564	26,436
Inter-Parliamentary Union	15,000	15,000	11,150	3,850
Palau Japan Parliamentary Friendship	35,000	35,000	-	35,000
Electricity for Koror Olbiil Era Kelulau Building	30,000	30,000	29,115	885
Pacific Islands Development Bank	-	20,000	19,840	160
Total Legislative Branch	<u>5,920,184</u>	<u>6,155,184</u>	<u>5,871,556</u>	<u>283,628</u>
Boards, Commissions and Authorities:				
Foreign Investment Board	222,982	207,982	147,280	60,702
Palau Election Commission	258,000	238,000	185,547	52,453
COFA Board of Trustees	50,000	45,000	40,906	4,094
Palau Code Commission	65,000	60,000	33,959	26,041
Palau Public Lands Authority	122,000	112,000	81,439	30,561
Parole Board	31,169	31,169	27,468	3,701
Palau Housing Authority	70,000	70,000	70,000	-
Ethics Commission	51,000	46,000	21,961	24,039
Financial Institutions Commission	239,580	239,580	220,929	18,651
Language Commission	59,000	54,000	42,317	11,683
Ngardmau Free Trade Zone Authority	30,000	30,000	30,000	-
Total Boards, Commissions and Authorities	<u>1,198,731</u>	<u>1,133,731</u>	<u>901,806</u>	<u>231,925</u>
State Block Grants	<u>7,576,000</u>	<u>7,576,000</u>	<u>7,576,000</u>	<u>-</u>
Independent Agencies:				
Office of the Public Auditor	656,721	616,721	574,268	42,453
Office of the Special Prosecutor	307,400	307,400	285,412	21,988
Palau Environmental Quality Protection Board	456,108	506,108	452,066	54,042
National Postal Service	482,000	482,000	470,694	11,306
Palau Visitors Authority	1,426,000	1,426,000	1,426,000	-
National Aviation Administration	186,000	186,000	167,024	18,976
Total Independent Agencies	<u>3,514,229</u>	<u>3,524,229</u>	<u>3,375,464</u>	<u>148,765</u>
Other Agencies and Activities:				
Palau National Museum	260,849	260,849	226,191	34,658
Micronesia Legal Services	125,000	125,000	125,000	-
Palau Community Action Agency	354,000	354,000	354,000	-
Head Start Program	113,000	126,000	126,000	-
Palau Red Cross	10,000	10,000	10,000	-
WIA Grant Contribution	94,000	94,000	94,000	-
Civic Action Team Share	250,000	250,000	250,000	-
PNOC and Sports Organizations	177,000	177,000	170,089	6,911
Palau International Coral Reef Center	400,000	400,000	400,000	-
Youth Congress	5,000	5,000	5,000	-
Palau Little League/T Ball	5,000	5,000	5,000	-
Junior Statesmen of America	10,000	10,000	10,000	-
Peace Corps Contribution	76,000	76,000	1,200	74,800
Total Other Agencies and Activities	<u>1,879,849</u>	<u>1,892,849</u>	<u>1,776,480</u>	<u>116,369</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

Schedule of Revenues, Expenditures, and Changes in Fund Balance, Continued
Budget and Actual - General Fund (Fund 100100)

Year Ended September 30, 2018

	Budgeted Amounts		Actual	Variance
	Original	Final		
Education Assistance:				
Palau Community College Operations	2,338,000	2,338,000	2,338,000	-
PCC Board of Trustees	38,000	38,000	38,000	-
PCC CRE	35,000	35,000	35,000	-
COM Board of Regents	25,000	25,000	25,000	-
Aid to Non-Public Schools	947,000	947,000	947,000	-
Total Education Assistance	<u>3,383,000</u>	<u>3,383,000</u>	<u>3,383,000</u>	<u>-</u>
Other Appropriations:				
Bureau of Communicaitons	-	80,000	11,258	68,742
Micronesian Games	-	200,000	200,000	-
Inauguration ceremony	1,590	61,590	1,580	60,010
Palau SBDC	-	20,000	20,000	-
Total Other Appropriations	<u>1,590</u>	<u>361,590</u>	<u>232,838</u>	<u>128,752</u>
Total expenditures	<u>73,478,279</u>	<u>74,562,704</u>	<u>71,116,993</u>	<u>3,445,711</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(8,918,865)</u>	<u>(4,978,178)</u>	<u>1,158,059</u>	<u>6,136,237</u>
Other financing sources (uses):				
Loan proceeds	-	-	12,033,661	12,033,661
Operating transfers in:				
Compact Section 211(f) Trust Fund	9,000,000	5,000,000	5,000,000	-
PAN Fund	1,395,000	2,395,000	478,000	(1,917,000)
Compact Direct Economic Assistance Fund	2,000,000	2,000,000	2,000,000	-
Non-Communicable Diseases Fund	150,000	150,000	150,000	-
Compact Section 211(b) Energy	-	-	40,373	40,373
Other Non U.S. Federal Grants Fund	-	-	244,077	244,077
U.S. Federal Grants	-	-	9,375	9,375
Operator License Fund	-	-	35,689	35,689
Total other financing sources	<u>12,545,000</u>	<u>9,545,000</u>	<u>19,991,175</u>	<u>10,446,175</u>
Operating transfers out:				
National Scholarship Fund	(2,003,000)	(2,003,000)	(2,003,000)	-
Debt Service Fund	(1,807,000)	(1,807,000)	(1,807,000)	-
Nonlapsing Fund	(196,414)	(786,414)	(786,414)	-
Other Country Grants Fund	-	(175,000)	(175,000)	-
Local CIP Fund	(700,000)	(700,000)	(700,000)	-
Other Non U.S. Grants Fund	-	(100,000)	(127,900)	(27,900)
Non DOI Capital Projects Fund	-	(75,687)	(75,687)	-
OTIA Direct Grants	-	-	(35,812)	(35,812)
U.S. Federal Grants Fund	-	-	(310,989)	(310,989)
Total other financing uses	<u>(4,706,414)</u>	<u>(5,647,101)</u>	<u>(6,021,802)</u>	<u>(374,701)</u>
Total other financing sources (uses), net	<u>7,838,586</u>	<u>3,897,899</u>	<u>13,969,373</u>	<u>10,071,474</u>
	(1,080,279)	(1,080,279)	15,127,432	16,207,711
Other changes:				
Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary purposes but in the year the supplies are received for financial reporting purposes	<u>1,080,279</u>	<u>1,080,279</u>	<u>1,171,846</u>	<u>91,567</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 16,299,278</u>	<u>\$ 16,299,278</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

GRANTS FUND

September 30, 2018

The grants fund is used to account for grants received from the United States government and other countries.

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

GRANTS FUND

**Combining Balance Sheet
September 30, 2018**

	350100	350200	360100	420100	440100	
	U.S. Federal	OTIA	Other	Non-DOI	Other	
	Grants	Direct	Non U.S.	Capital	Country	
	<u>Grants</u>	<u>Grants</u>	<u>Federal</u>	<u>Projects</u>	<u>Grants</u>	<u>Total</u>
ASSETS						
Receivables, net:						
General	\$ 1,277	\$ -	\$ -	\$ -	\$ 2,939,133	\$ 2,940,410
Federal agencies	2,160,381	573,575	-	637,248	-	3,371,204
Due from other funds	-	-	1,255,574	-	-	1,255,574
Advances	165,874	-	179,579	1,242	36,910	383,605
Prepaid items	<u>4,301</u>	<u>-</u>	<u>32,243</u>	<u>-</u>	<u>-</u>	<u>36,544</u>
Total assets	<u>\$ 2,331,833</u>	<u>\$ 573,575</u>	<u>\$ 1,467,396</u>	<u>\$ 638,490</u>	<u>\$ 2,976,043</u>	<u>\$ 7,987,337</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 495,929	\$ 117	\$ 287,512	\$ 1,349	\$ 417,349	\$ 1,202,256
Contracts payable	-	-	-	603,755	840,877	1,444,632
Unearned revenues	-	-	1,148,436	-	-	1,148,436
Other liabilities and accruals	151,106	-	48,997	1,032	14,080	215,215
Due to other funds	<u>1,678,454</u>	<u>564,945</u>	<u>-</u>	<u>32,354</u>	<u>1,703,737</u>	<u>3,979,490</u>
Total liabilities	<u>2,325,489</u>	<u>565,062</u>	<u>1,484,945</u>	<u>638,490</u>	<u>2,976,043</u>	<u>7,990,029</u>
Fund balances:						
Nonspendable	4,301	-	32,243	-	-	36,544
Unassigned	<u>2,043</u>	<u>8,513</u>	<u>(49,792)</u>	<u>-</u>	<u>-</u>	<u>(39,236)</u>
Total fund balances	<u>6,344</u>	<u>8,513</u>	<u>(17,549)</u>	<u>-</u>	<u>-</u>	<u>(2,692)</u>
Total liabilities and fund balances	<u>\$ 2,331,833</u>	<u>\$ 573,575</u>	<u>\$ 1,467,396</u>	<u>\$ 638,490</u>	<u>\$ 2,976,043</u>	<u>\$ 7,987,337</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

GRANTS FUND

**Combining Statement of Revenues, Expenditures By Function,
and Changes in Fund Balances
Year Ended September 30, 2018**

	350100	350200	360100	420100	440100	
	U.S. Federal	OTIA	Other	Non-DOI	Other	
	Grants	Direct	Non U.S.	Capital	Country	
	<u>Grants</u>	<u>Grants</u>	<u>Grants</u>	<u>Projects</u>	<u>Grants</u>	<u>Total</u>
Revenues:						
Federal contributions	\$ 8,747,110	\$ 792,157	\$ -	\$ 386,498	\$ -	\$ 9,925,765
Other grants	<u>-</u>	<u>-</u>	<u>4,135,426</u>	<u>-</u>	<u>5,253,467</u>	<u>9,388,893</u>
Total revenues	<u>8,747,110</u>	<u>792,157</u>	<u>4,135,426</u>	<u>386,498</u>	<u>5,253,467</u>	<u>19,314,658</u>
Expenditures:						
Current:						
Office of the President	278,591	-	1,634,491	-	-	1,913,082
Office of the Vice President	-	-	27,627	-	-	27,627
Ministry of Finance	58,292	4,940	317,254	-	-	380,486
Ministry of State	-	-	82,884	-	-	82,884
Ministry of Education	2,541,157	-	32,988	-	-	2,574,145
Ministry of Public Infrastructure						
Industries & Commerce	-	44,475	77,074	-	-	121,549
Ministry of Justice	124,461	256,074	322,876	-	-	703,411
Ministry of Health	5,517,213	-	89,035	-	-	5,606,248
Ministry of Natural Resources,						
Environment and Tourism	1,742	-	1,521,093	-	-	1,522,835
Ministry of Community and Cultural Affairs	-	-	58,760	-	-	58,760
Financial and Compliance Audit	-	520,070	-	-	-	520,070
Independent Agencies	542,271	2,410	55,163	-	-	599,844
Capital projects	<u>-</u>	<u>-</u>	<u>-</u>	<u>386,498</u>	<u>5,348,536</u>	<u>5,735,034</u>
Total expenditures	<u>9,063,727</u>	<u>827,969</u>	<u>4,219,245</u>	<u>386,498</u>	<u>5,348,536</u>	<u>19,845,975</u>
Excess (deficiency) of revenues						
over (under) expenditures	<u>(316,617)</u>	<u>(35,812)</u>	<u>(83,819)</u>	<u>-</u>	<u>(95,069)</u>	<u>(531,317)</u>
Other financing sources (uses):						
Operating transfers in	310,989	35,812	227,900	-	75,000	649,701
Operating transfers out	<u>(9,374)</u>	<u>-</u>	<u>(244,077)</u>	<u>-</u>	<u>-</u>	<u>(253,451)</u>
Total other financing sources (uses), net	<u>301,615</u>	<u>35,812</u>	<u>(16,177)</u>	<u>-</u>	<u>75,000</u>	<u>396,250</u>
Net change in fund balances	(15,002)	-	(99,996)	-	(20,069)	(135,067)
Fund balances at beginning of year	<u>21,346</u>	<u>8,513</u>	<u>82,447</u>	<u>-</u>	<u>20,069</u>	<u>132,375</u>
Fund balances at end of year	\$ 6,344	\$ 8,513	\$ (17,549)	\$ -	\$ -	\$ (2,692)

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

GRANTS FUND

**Combining Schedule of Expenditures By Object
Year Ended September 30, 2018**

	350100	350200	360100	420100	440100	
	U.S. Federal Grants	OTIA Direct Grants	Other Non U.S. Grants	Non-DOI Capital Projects	Other Country Grants	Total
Expenditures:						
Salaries and wages	\$ 3,968,482	\$ -	\$ 1,214,990	\$ 35,151	\$ 347,156	\$ 5,565,779
Professional and contractual services	883,024	693,010	415,195	106,505	1,329,739	3,427,473
Repairs and maintenance	66,679	-	37,714	-	35,467	139,860
Rentals	239,126	-	52,408	-	15,928	307,462
Building remodeling	-	-	-	-	205,794	205,794
Construction	39,795	-	49,363	234,097	3,169,862	3,493,117
Insurance	480	-	-	-	-	480
Advertising	26,108	785	23,158	-	1,084	51,135
Travel	1,208,591	1,753	730,627	10,745	46,621	1,998,337
Communications and postage	161,549	87,310	81,065	-	3,167	333,091
Supplies and materials	1,007,558	2,024	351,866	-	12,819	1,374,267
Medical supplies	80,396	-	-	-	-	80,396
Petroleum products	128,088	-	108,051	-	15,172	251,311
Food stuffs	14,586	1,440	205,688	-	3,216	224,930
Books and periodicals	-	-	2,890	-	-	2,890
Utilities	70,994	-	38,358	-	323	109,675
Equipment	296,865	36,075	64,652	-	52,243	449,835
Vehicles	9,950	-	59,975	-	44,495	114,420
Furniture and fixture	-	-	2,100	-	-	2,100
Administrative costs	23,000	3,163	-	-	-	26,163
Dues, fees and registration	66,741	2,100	32,786	-	150	101,777
Grants and contributions	-	-	-	-	65,300	65,300
Training	260,905	-	7,408	-	-	268,313
Payments of allotments/benefits	278,592	-	116,073	-	-	394,665
Freight	8,449	-	340	-	-	8,789
Board compensation	128,670	-	12,607	-	-	141,277
Employee incentive awards	2,400	-	-	-	-	2,400
Indirect costs	89,949	-	-	-	-	89,949
Donations	2,750	-	527,028	-	-	529,778
Representation and entertainment	-	-	250	-	-	250
Cleaning services	-	-	150	-	-	150
Miscellaneous	-	309	84,503	-	-	84,812
Total expenditures	\$ 9,063,727	\$ 827,969	\$ 4,219,245	\$ 386,498	\$ 5,348,536	\$ 19,845,975

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

Permanent Funds

Combining Balance Sheet
September 30, 2018

	621100	342100	
	<u>Compact Section 211(f)</u>	<u>Infrastructure Maintenance</u>	<u>Total</u>
<u>ASSETS</u>			
Restricted assets:			
Investments	<u>\$ 293,343,802</u>	<u>4,108,826</u>	<u>\$ 297,452,628</u>
	<u>\$ 293,343,802</u>	<u>\$ 4,108,826</u>	<u>\$ 297,452,628</u>
<u>FUND BALANCES</u>			
Nonspendable	<u>\$ 293,343,802</u>	<u>\$ 4,108,826</u>	<u>\$ 297,452,628</u>
Total fund balances	<u>\$ 293,343,802</u>	<u>\$ 4,108,826</u>	<u>\$ 297,452,628</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

Permanent Funds

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances Year Ended September 30, 2018

	621100	342100	
	<u>Compact Section 211(f)</u>	<u>Infrastructure Maintenance</u>	<u>Total</u>
Revenues:			
Compact funding	\$ 65,250,000	\$ -	\$ 65,250,000
Net change in the fair value of investments	<u>15,036,820</u>	<u>262,153</u>	<u>15,298,973</u>
Total revenues	<u>80,286,820</u>	<u>262,153</u>	<u>80,548,973</u>
Expenditures:			
Investment management fees	<u>1,420,966</u>	<u>23,707</u>	<u>1,444,673</u>
Total expenditures	<u>1,420,966</u>	<u>23,707</u>	<u>1,444,673</u>
Excess of revenues over expenditures	<u>78,865,854</u>	<u>238,446</u>	<u>79,104,300</u>
Other financing sources (uses):			
Operating transfers in	-	3,870,380	3,870,380
Operating transfers out	<u>(5,000,000)</u>	<u>-</u>	<u>(5,000,000)</u>
Total other financing sources (uses), net	<u>(5,000,000)</u>	<u>3,870,380</u>	<u>(1,129,620)</u>
Net change in fund balances	73,865,854	4,108,826	77,974,680
Fund balances at beginning of year	<u>219,477,948</u>	<u>-</u>	<u>219,477,948</u>
Fund balances at end of year	<u>\$ 293,343,802</u>	<u>\$ 4,108,826</u>	<u>\$ 297,452,628</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS

September 30, 2018

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

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.

Forfeited Property - This fund account for all property seized by order of forfeiture. Fifty percent (50%) of forfeited property and the sale proceeds thereof shall be distributed to the units of the Republic or state government whose officers or employees conducted the investigation and caused the arrest of the person whose property was forfeited or seizure of the property for forfeiture; 25% shall be distributed to the Attorney General.

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.

Non-Communicable Diseases Fund - This fund accounts for 10% of annual alcoholic beverage tax revenues earmarked to support the efforts of the National Coordinating Mechanism for Non-Communicable Diseases under Executive Order 379 to prevent non-communicable diseases.

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

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

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

Fisheries Protection Trust Fund – This fund accounts for collection of fines and civil penalties, proceeds of sale of all forfeitures, and a portion of the Environmental Impact Fee to fund surveillance, enforcement and training for surveillance and enforcement of the laws related to the Palau National Marine Sanctuary.

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

Road Maintenance Fund – This fund was established to account for collections of road use tax on all motor vehicles to be used solely for the upkeep and maintenance of the Republic's national and state government roads.

Giant Clam Seed Sustainability Project Fund - This fund accounts for the receipt of processing fees of the Bureau of Marine Resources Marine Export Declaration Form, issuance of endangered species import/export certificates and the production of giant clam seeds. Such funds are to be used to provide assistance to clam farmers, promote and increase production of cultured clams, restock wild clam population, and increase the population of wild giant clams and preserve the species.

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

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS

Combining Balance Sheet
September 30, 2018

	100115	100118	100130	100140	100145	100147	100148	100149	100160	100165	100170	300100	311120	
	Drug Fine Collection	Forfeited Property	Hospital Trust	Non-Communicable Diseases Fund	Publication and Law Access Unit	Sports Facilities Trust	Operator License	Fisheries Protection Trust	EQPB Mitigation Trust	Road Maintenance	Giant Clam Seed Sustainability Project	Palau Agricultural	Compact Section 211(b) Energy	Total
ASSETS														
Receivables, net:														
General	\$ -	\$ -	\$ 490	\$ -	\$ -	\$ -	\$ -	\$ 313,607	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 314,097
Due from other funds	-	172,191	2,542,112	2,053,403	69,100	476	13,251	1,649,250	434,492	2,429,133	14,065	-	-	9,377,473
Advances	-	-	448	-	-	-	-	-	-	-	-	2,088	-	2,536
Total assets	<u>\$ -</u>	<u>\$ 172,191</u>	<u>\$ 2,543,050</u>	<u>\$ 2,053,403</u>	<u>\$ 69,100</u>	<u>\$ 476</u>	<u>\$ 13,251</u>	<u>\$ 1,962,857</u>	<u>\$ 434,492</u>	<u>\$ 2,429,133</u>	<u>\$ 14,065</u>	<u>\$ 2,088</u>	<u>\$ -</u>	<u>\$ 9,694,106</u>
LIABILITIES AND FUND BALANCES														
(DEFICIT)														
Liabilities:														
Accounts payable	\$ -	\$ -	\$ 847,615	\$ -	\$ 626	\$ -	\$ 3,150	\$ -	\$ 849	\$ 8,046	\$ 1,438	\$ 1,235	\$ -	\$ 862,959
Accrued payroll and others	-	-	-	-	-	-	-	-	-	5,553	-	-	-	5,553
Due to other funds	1,622	-	-	-	-	-	-	-	-	-	-	548	-	2,170
Total liabilities	<u>1,622</u>	<u>-</u>	<u>847,615</u>	<u>-</u>	<u>626</u>	<u>-</u>	<u>3,150</u>	<u>-</u>	<u>849</u>	<u>13,599</u>	<u>1,438</u>	<u>1,783</u>	<u>-</u>	<u>870,682</u>
Fund balances (deficit):														
Committed	(1,622)	172,191	1,695,435	2,053,403	68,474	476	10,101	1,962,857	433,643	2,415,534	12,627	305	-	8,823,424
Total fund balances (deficit)	<u>(1,622)</u>	<u>172,191</u>	<u>1,695,435</u>	<u>2,053,403</u>	<u>68,474</u>	<u>476</u>	<u>10,101</u>	<u>1,962,857</u>	<u>433,643</u>	<u>2,415,534</u>	<u>12,627</u>	<u>305</u>	<u>-</u>	<u>8,823,424</u>
Total liabilities and fund balances	<u>\$ -</u>	<u>\$ 172,191</u>	<u>\$ 2,543,050</u>	<u>\$ 2,053,403</u>	<u>\$ 69,100</u>	<u>\$ 476</u>	<u>\$ 13,251</u>	<u>\$ 1,962,857</u>	<u>\$ 434,492</u>	<u>\$ 2,429,133</u>	<u>\$ 14,065</u>	<u>\$ 2,088</u>	<u>\$ -</u>	<u>\$ 9,694,106</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS

**Combining Statement of Revenues, Expenditures by Function,
and Changes in Fund Balances (Deficit)
Year Ended September 30, 2018**

	100115	100118	100130	100140	100145	100147	100148	100149	100160	100165	100170	300100	311120	
	Drug Fine Collection	Forfeited Property	Hospital Trust	Non-Communicable Diseases Fund	Publication and Law Access Unit	Sports Facilities Trust	Operator License	Fisheries Protection Trust	EQPB Mitigation Trust	Road Maintenance	Giant Clam Seed Sustainability Project	Palau Agricultural	Compact Section 211(b) Energy	Total
Revenues:														
Taxes	\$ -	\$ -	\$ -	\$ 1,078,174	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 825,150	\$ -	\$ -	\$ -	\$ 1,903,324
Fees and charges	50	11,612	4,369,893	-	21,015	-	68,280	787,857	249,670	-	34,490	40,514	-	5,583,381
Other grants	-	-	-	-	-	-	-	500,000	-	-	-	-	-	500,000
Licenses and permits	-	-	63,597	-	-	-	-	-	-	-	-	-	-	63,597
Net change in the fair value of investments	-	-	-	-	-	-	-	-	-	-	-	-	9,659	9,659
Total revenues	50	11,612	4,433,490	1,078,174	21,015	-	68,280	1,287,857	249,670	825,150	34,490	40,514	9,659	8,059,961
Expenditures:														
Current:														
Ministry of State	-	-	-	-	9,052	-	-	-	-	-	-	-	-	9,052
Ministry of Justice	-	-	-	-	-	-	32,490	-	-	-	-	-	-	32,490
Ministry of Health	-	-	4,802,322	-	-	-	-	-	-	-	-	-	-	4,802,322
Ministry of Natural Resources, Environment and Tourism	-	-	-	-	-	-	-	-	-	-	28,710	66,567	-	95,277
Ministry of Public Infrastructure, Industry and Commerce	-	-	-	-	-	-	-	-	-	377,127	-	-	-	377,127
Independent Agencies	-	-	-	-	-	-	-	-	158,251	-	-	-	-	158,251
Total expenditures	-	-	4,802,322	-	9,052	-	32,490	-	158,251	377,127	28,710	66,567	-	5,474,519
Excess (deficiency) of revenues over (under) expenditures	50	11,612	(368,832)	1,078,174	11,963	-	35,790	1,287,857	91,419	448,023	5,780	(26,053)	9,659	2,585,442
Other financing uses:														
Operating transfers out	-	-	-	(328,100)	-	-	(35,689)	-	-	(330,000)	-	-	(3,910,753)	(4,604,542)
Net change in fund balances	50	11,612	(368,832)	750,074	11,963	-	101	1,287,857	91,419	118,023	5,780	(26,053)	(3,901,094)	(2,019,100)
Fund balances (deficit) at beginning of year	(1,672)	160,579	2,064,267	1,303,329	56,511	476	10,000	675,000	342,224	2,297,511	6,847	26,358	3,901,094	10,842,524
Fund balances (deficit) at end of year	\$ (1,622)	\$ 172,191	\$ 1,695,435	\$ 2,053,403	\$ 68,474	\$ 476	\$ 10,101	\$ 1,962,857	\$ 433,643	\$ 2,415,534	\$ 12,627	\$ 305	\$ -	\$ 8,823,424

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS

Combining Schedule of Expenditures by Object
Year Ended September 30, 2018

	100115	100118	100130	100140	100145	100147	100148	100149	100160	100165	100170	300100	311120	
				Non Communicable	Publication and Law	Sports Facilities	Operator	Fisheries	EQPB	Road	Giant Clam Seed	Palau	Compact	
	Drug Fine Collection	Forfeited Property	Hospital Trust	Diseases Fund	Access Unit	Trust	Licenses	Protection Trust	Mitigation Trust	Maintenance	Sustainability Project	Agricultural	Section 211(b) Energy	Total
Expenditures:														
Salaries and wages	\$ -	\$ -	\$ -	\$ -	\$ 1,009	\$ -	\$ -	\$ -	\$ 1,558	\$ 166,165	\$ -	\$ -	\$ -	\$ 168,732
Professional	-	-	100,045	-	-	-	-	-	1,719	-	-	-	-	101,764
Repairs and maintenance	-	-	115,663	-	860	-	14,656	-	2,658	-	4,058	6,557	-	144,452
Rental	-	-	-	-	1,250	-	-	-	70	5,100	-	475	-	6,895
Construction	-	-	-	-	-	-	-	-	-	57,285	-	-	-	57,285
Travel	-	-	108,860	-	-	-	-	-	60	1,550	450	10,051	-	120,971
Communications and postage	-	-	-	-	2,955	-	-	-	112	-	-	-	-	3,067
Supplies and materials	-	-	24,021	-	2,738	-	17,834	-	10,782	53,629	9,889	32,794	-	151,687
Medical drugs	-	-	1,230,089	-	-	-	-	-	-	-	-	-	-	1,230,089
Medical supplies	-	-	1,262,289	-	-	-	-	-	-	-	-	-	-	1,262,289
Medical referrals	-	-	1,568,980	-	-	-	-	-	-	-	-	-	-	1,568,980
Petroleum products	-	-	-	-	240	-	-	-	3,219	2,989	12,964	14,882	-	34,294
Food stuffs	-	-	8,830	-	-	-	-	-	1,369	-	-	292	-	10,491
Utilities	-	-	-	-	-	-	-	-	314	-	-	600	-	914
Equipment	-	-	376,497	-	-	-	-	-	28,045	2,699	1,349	-	-	408,590
Vehicles	-	-	-	-	-	-	-	-	47,945	17,900	-	-	-	65,845
Boats	-	-	-	-	-	-	-	-	57,650	-	-	-	-	57,650
Dues, fees and registration	-	-	145	-	-	-	-	-	300	1,950	-	655	-	3,050
Compensation	-	-	-	-	-	-	-	-	2,450	67,860	-	-	-	70,310
Donations	-	-	-	-	-	-	-	-	-	-	-	261	-	261
Miscellaneous	-	-	6,903	-	-	-	-	-	-	-	-	-	-	6,903
Total expenditures	\$ -	\$ -	\$ 4,802,322	\$ -	\$ 9,052	\$ -	\$ 32,490	\$ -	\$ 158,251	\$ 377,127	\$ 28,710	\$ 66,567	\$ -	\$ 5,474,519

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

OTHER INFORMATION

September 30, 2018

A brief discussion of other information presented for additional analysis as of September 30, 2018, follows:

Combining Schedule of Expenditures By Object:
All Governmental Funds

Other Country Grants:
Schedule of Expenditures of Other Country Grants

Other Grants:
Schedule of Expenditures of Other Grants

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

Combining Schedule of Expenditures by Object
Governmental Funds
Year Ended September 30, 2018

	General	Special	Permanent		Other Governmental Funds	Total
		Revenue	Compact Section 211(f)			
		Grants				
Expenditures:						
Salaries and wages	\$ 39,880,232	\$ 5,565,779	\$ -	\$ -	\$ 168,732	\$ 45,614,743
Professional and contractual services	550,885	3,427,473	-	-	101,764	4,080,122
Repairs and maintenance	823,517	139,860	-	-	144,452	1,107,829
Rentals	1,007,101	307,462	-	-	6,895	1,321,458
Construction	1,193,439	3,698,911	-	-	57,285	4,949,635
Insurance	111,446	480	-	-	-	111,926
Advertising	55,010	51,135	-	-	-	106,145
Travel	1,836,280	1,998,337	-	-	120,971	3,955,588
Cleaning services	206,941	150	-	-	-	207,091
Communications and postage	1,208,246	333,091	-	-	3,067	1,544,404
Supplies and materials	1,832,406	1,374,267	-	-	151,687	3,358,360
Medical drugs	337,588	-	-	-	1,230,089	1,567,677
Medical supplies	281,653	80,396	-	-	1,262,289	1,624,338
Medical referrals	206,388	-	-	-	1,568,980	1,775,368
Petroleum products	841,405	251,311	-	-	34,294	1,127,010
Food stuffs	1,224,868	224,930	-	-	10,491	1,460,289
Books and periodicals	64,462	2,890	-	-	-	67,352
Utilities	3,296,427	109,675	-	-	914	3,407,016
Equipment	270,690	449,835	-	-	408,590	1,129,115
Vehicles	246,194	114,420	-	-	65,845	426,459
Furniture and fixture	9,334	2,100	-	-	-	11,434
Computer software	13,858	-	-	-	-	13,858
Training	13,781	268,313	-	-	-	282,094
Administrative costs	-	26,163	-	-	-	26,163
Dues, fees and registration	798,068	101,777	-	-	3,050	902,895
Investment management fees	27,877	-	-	1,444,673	-	1,472,550
Grants and contributions	-	65,300	-	-	-	65,300
Payments of allotments/benefits	20,976,527	394,665	-	-	-	21,371,192
Freight	9,982	8,789	-	-	-	18,771
Student loans	1,577,049	-	-	-	-	1,577,049
Scholarships	1,580,817	-	-	-	-	1,580,817
Fellowship award	44,000	-	-	-	-	44,000
Board compensation	492,867	141,277	-	-	-	634,144
Employee incentive awards	29,133	2,400	-	-	-	31,533
Indirect costs	-	89,949	-	-	-	89,949
Donations	651,858	529,778	-	-	261	1,181,897
Representation and entertainment	68,150	250	-	-	-	68,400
Bank service fee	8,709	-	-	-	-	8,709
Questioned costs	6,717	-	-	-	-	6,717
Principal retirement	2,416,711	-	-	-	-	2,416,711
Interest charges	438,175	-	-	-	-	438,175
Miscellaneous	6,505	84,812	-	-	6,903	98,220
	<u>\$ 84,645,296</u>	<u>\$ 19,845,975</u>	<u>\$ 1,444,673</u>	<u>\$ -</u>	<u>\$ 5,346,559</u>	<u>\$ 111,282,503</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

OTHER COUNTRY GRANTS FUND

**Schedule of Expenditures of Other Country Grants
September 30, 2018**

Fund 440100 Grantor Account Title	Budget Authorizations	Receivable from Grantor (Deferred Revenue) at 9/30/17	Cash Receipts FY2018	Expenditures FY2018	Receivable from Grantor (Deferred Revenue) at 9/30/2018
STATE ECONOMIC STIMULUS PACKAGE 2014					
B40602 KB BRIDGE KOROR-SIDE PARK	300,000	(42)	(42)	-	-
B40603 NGERBECHED ROAD IMP	300,000	(11,071)	(11,071)	-	-
B40801 ULIMANG-NGESANG ROAD CONS	300,000	(9,136)	(9,137)	-	1
B40802 NGERCHOKL SITE DEVELOPMENT	100,000	(78,244)	-	66,504	(11,740)
B41001 NGARMAU STATE ROAD REHAB	375,000	(2,977)	(2,977)	-	-
B41101 NGAREMLENGUI RD REHAB PH3	500,000	(6,058)	(6,058)	-	-
B41202 AGUACULTURE FISH PRODUCT.	-	200,000	200,000	-	-
B41302 TABERNGESANG PARK IMPROVEMENT	50,000	(5,000)	(5,000)	-	-
B41401 NGIWAL STATE RD REHAB PII	300,000	(16,677)	(16,677)	-	-
B41403 BACKHOE/LOADER	100,000	(20,000)	(20,000)	-	-
C44945 SOLAR LIGHTING-SWMNG POOL	200,000	(19,625)	(19,625)	-	-
E44870 SCH. RENOV/FIXTURES EQUI	1,200,000	(65,879)	(65,879)	-	-
F44999 GEN. MANAGEMENT SUPPORT14	245,450	150,032	150,032	-	-
G44805 EXECUTIVE LUNCHEON FY14	18,000	(25,310)	(25,310)	-	-
G4SGS0 OERC MATCHING	50,000	(11,232)	(11,232)	-	-
G4SGS1 PVA-OTP HOLIDAY PROJECT	10,000	(53,031)	(53,031)	-	-
G4SGS2 BBP INSTITUTIONAL STRENTH	100,000	(2,772)	(2,772)	-	-
G4SGS5 NGESECHEL A ERECHAR	25,000	(25,000)	(25,000)	-	-
G4SGS7 KRAMER WORKS TRANSLATION	25,000	35,000	35,000	-	-
G4SGS9 NGARAARD COMMUNITY PRJCT	25,000	(25,000)	(25,000)	-	-
H44856 BNH RO SYSTEM & PACS UPGR	500,000	(115,200)	(115,199)	-	(1)
P4MCSF MICRO CNTR 4 SUST FUTURE	200,000	(98,722)	(19,649)	73,966	(5,107)
P4NMS1 PNMS PIF OUTREACH '14	87,000	86,120	95,440	9,320	-
P4PNMS PAL NAT'L MARINE SANCTRY	300,000	3,459	5,418	1,959	-
P4PRS1 INDEPENDENCE DAY CELEBRAT	100,000	2,869	2,869	-	-
Q44807 PABLO RINGANG BLDG PROJ	432,000	(29,251)	(29,251)	-	-
R44830 ANIMAL HUSBANDRY	387,800	(81,300)	(81,300)	-	-
R44837 GROUPER RESTOCKING	362,200	(29,700)	(29,700)	-	-
S4HAYN ST HAIYAN HOUSING CONSTR.	1,500,000	79,771	79,771	-	-
TOTAL FY2014 STIMULUS GRANTS	8,092,450	(173,976)	(5,380)	151,749	(16,847)
STATE ECONOMIC STIMULUS PACKAGE 2015					
B50104 AIMELIIK HEAVY EQUIP F15	160,000	(14,748)	(14,748)	-	-
B50106 MONGAMI ROAD IMP F15	150,000	(15,000)	(15,000)	-	-
B50107 NGERKEAI MUSEUM F15	100,000	(6,500)	(6,500)	-	-
B50203 AIRAI REC PARK PROJ F15	300,000	(3,730)	(3,730)	-	-
B50601 KB KOROR SIDE PARK F15	250,000	(13,604)	(13,604)	-	-
B50702 MELEKEOK ROAD IMP F15	300,000	(14,076)	(14,076)	-	-
B50801 NGESANG-ELAB ROAD F15	300,000	(54)	(54)	-	-
B50802 ULIMANG-NGKEKLAU ROAD F15	200,000	(18,907)	(18,907)	-	-
B50803 KUABS REC PARK F15	200,000	86,670	119,999	33,329	-
B50901 NGERBAU REC PARK F15	300,000	(6,414)	165,000	135,908	(35,506)
B50902 OKETOL DOCK ROAD F15	250,000	(10,725)	(10,725)	-	-
B51101 COMPACT-IMEONG ROAD F15	200,000	(48,183)	(22,478)	25,705	-
B51102 IMEONG-NGERMETENGEL RD 15	300,000	(17,823)	(17,823)	-	-
B51201 NGATPANG ROAD IMP F15	300,000	(7,923)	(7,923)	-	-
B51301 NGCHESAR ROAD IMP F15	300,000	(47,536)	156,000	-	(203,536)
B51302 TABERNGESANG IMPROV F15	50,000	(5,000)	(5,000)	-	-
B51303 NGCHESAR BAI IMP F15	100,000	(40,000)	60,000	100,000	-
B51401 NGIWAL ST RD IMPROV F15	300,000	(11,987)	(11,987)	-	-
B51402 2ND RD PAVING PEC F15	100,000	(10,000)	(10,000)	-	-
B51502 WTR DIST PIPES C.BECK F15	150,000	(15,004)	(15,004)	-	-
C54946 MCCA CIVIC CTR RESTOR F15	400,000	(26,806)	(26,806)	-	-
C54947 TRACK & FIELD RESURFAC 15	435,000	(11,971)	(11,971)	-	-
C54948 ECHANG BASKETBALL ROOF 15	460,000	(60,792)	(60,792)	-	-
C54957 CAPITAL ARCHIVES BLDG F15	300,000	(8,000)	-	8,000	-
F54808 TAX INFO SYS UPGRADE F15	380,000	(80,000)	(80,000)	-	-

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

OTHER COUNTRY GRANTS FUND

**Schedule of Expenditures of Other Country Grants
September 30, 2018**

Fund 440100		Budget Authorizations	Receivable	Cash	Expenditures FY2018	Receivable
Grantor Account Title			(Deferred Revenue) at 9/30/17	Receipts FY2018		(Deferred Revenue) at 9/30/2018
F54999	GEN. MANAGEMENT SUPPORT15	104,391	230,811	373,707	142,896	-
G5SGS1	NGCHESAR STATE LAW ENFORCEMENT	45,000	(4)	(4)	-	-
G5SGS2	BBP INSTITUTIONAL STRENGTH	100,000	49,235	50,000	(13,771)	(14,536)
G5SGS3	PVA-OTP HOLIDAY PROJECT	5,000	(100)	(100)	-	-
G5SGS4	FRUIT FLY ERADICATION PRJ	25,000	(5,297)	(5,297)	-	-
G5SGS7	UPR REVIEW	25,000	(10,528)	(25,000)	(20,116)	(5,644)
G5SGS8	PICRC 15TH ANNIVERSARY	15,000	(2,000)	(2,000)	-	-
G5SG11	BPS POLICE UNIFORMS FY15	10,000	(2,320)	(2,320)	-	-
G5SG12	13TH ICERS/IUCN	35,000	(21,823)	-	-	(21,823)
G5SG16	BMR BASELINE DATA	25,000	24,587	24,587	-	-
H54857	BNH MED EQUIP UPGRADE F15	500,000	(39,248)	(39,248)	-	-
M54830	AGRICULTURE PROJECT / ANIMAL HUSBANDRY	1,100,000	361,649	330,000	(31,649)	-
R54810	BABELDAOB LANDFIL DEV F15	200,000	(11,975)	(7,975)	4,000	-
R54812	CAPITOL GENERATOR F15	515,000	(9,902)	(9,902)	-	-
	TOTAL FY2015 STIMULUS GRANTS	8,989,391	154,972	820,319	384,302	(281,045)
STATE ECONOMIC STIMULUS PACKAGE 2016						
B60101	COFA MELTELATL RD IMP F16	150,000	(52,384)	97,500	121,500	(28,384)
B60102	MONGAMI ROAD IMP F16	150,000	96,318	104,305	7,987	-
B60201	AIRAI REC PARK PROJ F16	300,000	24,739	24,739	-	-
B60202	PIA ROAD REPAIRS F16	200,000	(18,611)	(18,611)	-	-
B60602	MEYUNS FIELD LIGHTING FY16	300,000	-	45,000	-	(45,000)
B60701	NGERUBESANG-DISP ROAD F16	300,000	134,852	179,605	44,753	-
B60801	NGESANG-ELAB RD IMP F16	400,000	(62,794)	(61,544)	1,250	-
B60802	ULIMANG-NGKEKLAU RD F16	200,000	(19,051)	(18,051)	1,000	-
B60804	NGERCHOKL SITE PROJ F16	100,000	-	100,000	-	(100,000)
B60901	MENGELLANG-OLLEI WATR F16	250,000	158,620	173,632	15,012	-
B60902	NGERBAU RECREATIONAL PARK	300,000	(79,088)	15,000	11,891	(82,197)
B61001	NGARDMAU STATE OFFICE F16	300,000	26,491	225,000	186,074	(12,435)
B61101	COFA-IMEONG ROAD F16	200,000	124,464	125,134	670	-
B61102	IMEONG-NGERMETENGL RD F16	300,000	89,373	89,873	500	-
B61201	NGATPANG ROAD IMP F16	300,000	(52,529)	135,000	2,520	(185,009)
B61301	NGCHESAR RD IMP PROJ F16	300,000	(67,523)	105,000	5,341	(167,182)
B61302	TABERNGESANG IMP PROJ F16	100,000	(54,344)	8,607	62,951	-
B61303	NGCHESAR BAI IMPROVE F16	100,000	(40,000)	45,700	85,700	-
B61401	NGIWAL ST RD IMPROV F16	300,000	(12,115)	(11,365)	750	-
B61501	PELELIU CAPITAL BLDG F16	300,000	(78,445)	(54,245)	24,200	-
B61502	CAMPBECK-NGEREKLAU WTR 16	250,000	(39,759)	191,473	231,232	-
C64946	MCCA CIVIC CTR RESTOR F16	300,000	9,905	29,999	20,094	-
F64999	GEN. MANAGEMENT SUPPORT	-	229,789	478,112	100,657	(147,666)
G6PPUC	PPUC POWER RATE SUBSIDY	250,000	-	-	-	-
G6SGS0	SMALL GRANTS SCHEME	-	8,762	-	(8,762)	-
G6SGS1	2016 YOUTH PROGRAMS	200,000	70,328	50,000	(22,387)	(2,059)
G6SGS2	BBP INSTIT STRENGTH FY16	100,000	(10,098)	-	-	(10,098)
G6SGS3	NATIONAL OUTREACH ACTVTS	50,000	(12,183)	(50,000)	(40,362)	(2,545)
H64857	BNH MED EQUIP UPGRADE F16	425,000	(34,848)	(34,848)	-	-
H64858	BNH ROOF REPAIRS & IMP 16	275,000	126,682	117,500	34,818	44,000
J64924	LAW ENF VEHICLES & EQUIP	600,000	(99,576)	(59,152)	40,424	-
M64804	BMR HATCHERY IMP FY16	200,000	-	150,000	200,000	50,000
M64830	AGRI PRJ/ANI HUSB PRO F16	1,000,000	384,300	84,300	-	300,000
M64835	BOA NGCHESAR STATN REPAIR	200,000	(30,000)	(30,000)	-	-
P6PNMS	PAL NAT'L MARINE SANCTRY	700,000	442,229	497,109	54,880	-
P6PRS1	INDEPENDENCE DAY CELEB 16	100,000	(2,492)	1,700	2,875	(1,317)
Q64803	JUDICIARY INFO SYS UPGRAD	200,000	(16,000)	(16,000)	-	-
S64804	T8AA FACILITY & EQUIP F16	200,000	(89,341)	(89,341)	-	-
	TOTAL FY2016 STIMULUS GRANTS	9,900,000	1,055,671	2,631,131	1,185,568	(389,892)

REPUBLIC OF PALAU

OTHER COUNTRY GRANTS FUND

Schedule of Expenditures of Other Country Grants
September 30, 2018

Fund 440100 Grantor Account Title	Budget Authorizations	Receivable from Grantor (Deferred Revenue) at 9/30/17	Cash Receipts FY2018	Expenditures FY2018	Receivable from Grantor (Deferred Revenue) at 9/30/2018
<u>STATE ECONOMIC STIMULUS PACKAGE 2017</u>					
B70101 MELTELATL ROAD IMPROVEMEN	150,000	-	-	29,281	29,281
B70102 MONGAMI ROAD IMPROVEMENT	150,000	-	-	47,168	47,168
B70202 PIA-KED ROAD SEGMENT	700,000	-	-	297,354	297,354
B70701 MELEKEOK ROAD IMPROVEMENT	300,000	-	-	182,996	182,996
B70801 NGESANG-ELAB ROAD IMPROVE	300,000	-	-	50,327	50,327
B70802 ULIMANG-NGKEKLAU ROAD IMP	200,000	-	-	185,281	185,281
B70803 KUABS REC PARK PROJECT	200,000	-	-	102,389	102,389
B70902 MENGELLANG-OLLEI WATERLIN	700,000	-	-	178,889	178,889
B71102 IMEONG NGERMETENGEL ROAD	800,000	-	-	88,901	88,901
B71103 NGEREML HEAVY EQUIPMENT	400,000	-	-	64,870	64,870
B71302 TABERNGESANG IMP PROJECT	200,000	-	-	18,450	18,450
B71401 NGIWAL STATE ROAD IMPROVE	300,000	-	-	173,944	173,944
B71501 PELELIU STATE CAP BUILDIN	300,000	-	-	102,844	102,844
F74999 GEN MANAGMENT SUPPORT 17	-	-	-	98,828	98,828
H7BNH1 BNH GENSET	800,000	-	-	-	-
M74804 BMR HATCHERY IMPROVEMENTS	30,000	(30,000)	(30,000)	-	-
M7AGR1 AGRICULTURE/ANIMAL PROJEC	750,000	-	-	750,000	750,000
R74804 BABELDAOB SOLAR STRTLIGHT	200,000	-	-	136,767	136,767
R7CRS1 COMPACT RD SOLAR LIGHTING	880,000	-	-	516,862	516,862
R7OSP1 ONE STOP SHOP PH 1	700,000	-	-	133,366	133,366
R7OSP2 ONE STOP SHOP IT INFRUSTR	300,000	-	-	172,000	172,000
TOTAL FY2017 STIMULUS GRANTS	<u>8,360,000</u>	<u>(30,000)</u>	<u>(30,000)</u>	<u>3,330,517</u>	<u>3,330,517</u>
<u>STATE ECONOMIC STIMULUS PACKAGE 2018</u>					
H84859 BNH HIS FY18	<u>1,500,000</u>	<u>-</u>	<u>-</u>	<u>296,400</u>	<u>296,400</u>
TOTAL FY2018 STIMULUS GRANTS	<u>1,500,000</u>	<u>-</u>	<u>-</u>	<u>296,400</u>	<u>296,400</u>
GRAND TOTAL	<u>36,841,841</u>	<u>1,006,667</u>	<u>3,416,070</u>	<u>5,348,536</u>	<u>2,939,133</u>

REPUBLIC OF PALAU

OTHER NON-U.S. FEDERAL GRANTS FUND

**Schedule of Expenditures of Other Non-U.S. Federal Grants
Year Ended September 30, 2018**

Fund 360100 Grantor Account Title	Cost Center	Authorization	Receivable from Grantor (Deferred Revenue) at 9/30/17	Cash Receipts FY 2018	Expenditures FY 2018	Receivable from Grantor (Deferred Revenue) at 09/30/2018
UNCCD GRANT COMMITTEE						
UNCCD 2018 NAT'L REPORT	M83923	40,000		40,000	2,329	(37,671)
UNCCD NAP FY15	R53923	50,000	12,456	12,456	-	-
Total UNCCD		90,000	12,456	52,456	2,329	(37,671)
WORLD HEALTH ORGANIZATION (WHO)						
FIRST EMBRACE WRKSHP	H5WHO8	-	(1,800)	-	1,800	-
DSG GRAPHIC HLTH WARNING	H7WHO1	6,350	(7)	-	-	(7)
ANTIBIOTIC AWARENESS WEEK	H7WHO2	7,978	(3,603)	-	2,795	(808)
MIGRANT POPULATION SURVEY	H7WHO3	8,790	(2,111)	-	1,851	(260)
ANTIMICROBIAL WORKSHOP	H7WHO4	3,205	(3,205)	-	1,672	(1,533)
ALCOHOL CONTROL ACTIVITY	H7WHO5	864	-	-	-	-
YOUTH TOBACCO SURVEY	H7WHO6	10,009	(9,090)	-	8,932	(158)
2017 WORLD HAND WASH DAY	H7WHO7	5,000	(5,000)	-	1,292	(3,708)
WHO IHR WORKSHOP	H8WHO1	5,040	-	5,040	3,873	(1,167)
2017 ANTIBIOTIC AWARENESS	H8WHO2	4,997	-	4,997	-	(4,997)
AIR CAMPAIGN	H8WHO3	5,550	-	5,550	3,440	(2,110)
WORLD NO TOBACCO DAY 2018	H8WHO4	5,470	-	5,470	2,795	(2,675)
ALCOHOL COALITION MEETING	H8WHO5	2,100	-	2,100	-	(2,100)
LF WORKSHOP	H8WHO6	-	-	1,500	-	(1,500)
POLICY DEV FOR LF ELIM	H8WHO7	1,500	-	-	-	-
Total WHO APW health Career Trng		66,853	(24,816)	24,657	28,450	(21,023)
GEF OPERATIONAL FOCAL POINT						
3RD NATIONAL BIOSAFETY REPORT	M73932	25,000	(25,000)	-	22,261	(2,739)
Total GEF OPERATIONAL FOCAL POINT		25,000	(25,000)	-	22,261	(2,739)
SPREP						
OZONE DEPLETING SUBSTANCE	A23936	203,000	(10,438)	23,625	34,259	196
OZONE DEPLETING SUBSTANCE	A33936	50,000	1,299	-	-	1,299
OZONE DEPLETING SUBSTANCE	A73936	26,733	(6,000)	-	-	(6,000)
Total SPREP		279,733	(15,139)	23,625	34,259	(4,505)
UN POPS GRANTS						
Implement GMP for POPS	A63938	61,484	(3,358)	25,317	3,335	(25,340)
EQPB- UNEP POP/NIP 2013	R33938	99,475	(27,524)	-	11,806	(15,718)
Total UN Pops Grants		160,959	(30,882)	25,317	15,141	(41,058)
UNESCO						
NGARMEDUU MGT AGREEMENT	M93941	1,000	-	1,000	-	(1,000)
Total UNESCO		1,000	-	1,000	-	(1,000)
8th OEK Orientation & WRKS						
8th OEK Oreintation & WRKS	K93948	22,000	(281)	-	281	-
Support to ROP Congress Projects	K13948	200,000	(823)	-	823	-
Total Other Grants to OEK		222,000	(1,104)	-	1,104	-
TNC GRANTS						
LAW ENFORCEMENT CAPACITY	J73952	4,000	(1,010)	16,000	245	(16,765)
PAN LEGAL FRAMEWORK FY13	M3TNC1	15,000	(3,547)	-	1,590	(1,957)
FISHERY DATA COLLECTION	M3TNC2	75,000	(17,626)	25,000	23,419	(19,207)
TUNA FISHERIES PROJECT	M53952	300,000	(7,333)	100,000	105,617	(1,716)

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

OTHER NON-U.S. FEDERAL GRANTS FUND

Schedule of Expenditures of Other Non-U.S. Federal Grants Year Ended September 30, 2018

Fund 360100 Grantor Account Title	Cost Center	Authorization	Receivable from Grantor (Deferred Revenue) at 9/30/17	Cash Receipts FY 2018	Expenditures FY 2018	Receivable from Grantor (Deferred Revenue) at 09/30/2018
PAC TUNA PROJECT	M8TNC3	45,000	-	45,000	18,534	(26,466)
COOP GRANT AGREEMENT W PRESIDENT OUR OCEAN CONFERENCE 2020	P63952 P93952	50,000 50,000	(2,882) -	- 50,000	- -	(2,882) (50,000)
Total TNC Grants		539,000	(32,398)	236,000	149,405	(118,993)
<u>MARINE SANCTUARY CONTRIBUTIONS</u>						
MARINE SANCTUARY	M6MC01	50,000	(1,954)	-	375	(1,579)
MS ITALY - PICRC	M6MC02	56,000	(2,092)	16,800	2,845	(16,047)
MARINE SANCTUARY -TNC	M7MC01	125,000	(110,696)	-	61,429	(49,267)
PNMS OCEAN CONSERVATION	P63955	110,652	(36,835)	-	2,575	(34,260)
PNMS Netherlands Cont2017	P73955	44,425	(41,355)	-	45,381	4,026
Total Marine Sanctuary		386,077	(192,932)	16,800	112,605	(97,127)
<u>SPREP GRANTS (Fruit Fly)</u>						
National Invasive Species	R33957	101,608	(1,402)	-	1,402	-
Total SPREP Grants		101,608	(1,402)	-	1,402	-
<u>Secretariat Pacific Comm</u>						
GCCA/PSIS OERC 2013	A33961	125,227	(1,161)	(4,980)	-	3,819
SPC-DRM-CC-BSRP	A43961	10,760	4,206	4,206	-	-
PLANTS BRFEEDING PROJ FY2015	A53961	11,264	(1,639)	-	-	(1,639)
PALAU ISSAC PROJECT	F73961	85,000	(65,915)	-	35,412	(30,503)
MAP WATER AND SEWER LINES FY14	R43961	13,750	6,034	6,034	-	-
ENERGY PLANNER PEO	R53961	14,700	(61)	-	-	(61)
ACP-EU BSRP	V73961	34,403	(1,796)	27,543	24,628	(4,711)
Total SPC Grants		295,104	(60,332)	32,803	60,040	(33,095)
<u>EUROPEAN UNION - ASCE</u>						
ASCE-CCCP-ICC 2016	A6GIZ1	70,000	33,241	37,695	22,185	17,731
ASCE-CCCP-IPS 2016	A6GIZ2	526,961	23,382	62,615	191,084	151,851
Total European Union Grants		596,961	56,623	100,310	213,269	169,582
<u>PACIFIC ISLANDS FORUM</u>						
SIDS OFM PROJECT II	M73963	39,065	7,568	19,525	11,957	-
PAC ISLAND FORUM FY14	P43963	775,000	(176,756)	(65,444)	111,312	-
Total Pacific Island Forum Grants		814,065	(169,188)	(45,919)	123,269	-
<u>REPUBLIC OF CHINA GRANTS</u>						
HAIYAN- DONATION TO MOH	H43966	89,400	(34)	-	34	-
EMBASSY OF ROC DONATION - BOPHA	N33966	100,000	(1,201)	-	1,201	-
TYPHOON HAIYAN RELIEF DONATION	N43966	848,333	(66,930)	-	66,930	-
PRES UN/PIF MEETING	P33966	50,000	(1,268)	-	1,268	-
Total Republic of China Grants		1,087,733	(69,433)	-	69,433	-
<u>FORUM SECRETARIAT</u>						
PIFS PELELIU DS& PGS 2013	R33967	2,270,000	(75,299)	-	75,299	-
Total Forum Secretariat Grants		2,270,000	(75,299)	-	75,299	-
<u>FISHERIES FORUM AGENCY</u>						
Vessel Monitoring System	J13971	147,031	(24,323)	25,888	33,639	(16,572)
FFA PROJECTS	M4FFA0	444,935	(18,047)	-	13,214	(4,833)
PALAU PROJ DEV FUND FY18	M83971	234,265	-	234,290	114,280	(120,010)
Palau PDF 15%	R03971	74,774	994	-	-	994
FFA 2013	R33971	25,000	(408)	-	-	(408)
Total Fisheries Forum Agency		926,005	(41,784)	260,178	161,133	(140,829)

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

OTHER NON-U.S. FEDERAL GRANTS FUND

**Schedule of Expenditures of Other Non-U.S. Federal Grants
Year Ended September 30, 2018**

Fund 360100 Grantor Account Title	Cost Center	Authorization	Receivable from Grantor (Deferred Revenue) at 9/30/17	Cash Receipts FY 2018	Expenditures FY 2018	Receivable from Grantor (Deferred Revenue) at 09/30/2018
AUSTRALIAN GRANTS						
MCCA-BPNA Palauan Language & CASP	C1ARC1	10,725	(220)	-	-	(220)
TESOL TRAINING 2013	E33975	34,800	(18,960)	-	-	(18,960)
ANGAUR MACAQUE REMOVAL	M53975	100,000	(100,000)	-	100,000	-
LOW WATER PRESSURE EDUC	PWSC01	-	20,064	20,064	-	-
Total Australian Grants		145,525	(99,116)	20,064	100,000	(19,180)
JAPAN GRANTS						
DR. OGATA DONATION	E63976	2,000	(2,977)	-	-	(2,977)
JCM CRT 2015	M53976	20,579	(3,114)	14,800	9,877	(8,037)
Total Japan Grants		22,579	(6,091)	14,800	9,877	(11,014)
PACIFIC COMMUNITY GRANTS						
RIDGE TO REEF PROJ 2016	M63978	91,117	(8,922)	40,364	45,918	(3,368)
Total Pacific Community Grants		91,117	(8,922)	40,364	45,918	(3,368)
SPREP GRANTS						
E-WASTE PROJECT - EQPB	A63979	12,000	(4,802)	-	-	(4,802)
MIA ACTIVITIES IMPL	A83979	16,980	-	16,980	933	(16,047)
GEF POP RELEASE PROJ	A8POP1	5,000	-	4,980	4,937	(43)
Total SPREP Grants		33,980	(4,802)	21,960	5,870	(20,892)
WILD AID - PACKARD FOUNDATION						
EQPB EBM Project Cycle II	A03980	85,012	2,422	2,422	-	-
Total WildAid-Packard Foundation		85,012	2,422	2,422	-	-
PICRC						
Palau Market Study	M6PC01	42,944	(22,829)	323	15,614	(7,538)
Total PICRC		42,944	(22,829)	323	15,614	(7,538)
US NON FED						
DISASTER MGT CAP WRKSHOP	V83987	3,000	-	3,000	3,000	-
Total US Non Fed		3,000	-	3,000	3,000	-
US NON FED						
ENHANCE ROP ARMS CONTROL	J83990	72,679	-	72,679	53,253	(19,426)
Total US Non Fed		72,679	-	72,679	53,253	(19,426)
MOH SMALL GRANTS - OTHERS						
MOH SEOW FY2011	H13991	100,000	(2,657)	-	-	(2,657)
MOH SEOW FY2012	H23991	75,000	(2,508)	-	-	(2,508)
MOH SEOW 2013	H33991	95,000	(1,391)	-	-	(1,391)
BUILD EVAL CAPACITY 2014	H4EDC1	30,000	(1,573)	-	-	(1,573)
Total MOH Small Grants		300,000	(8,129)	-	-	(8,129)
LSTA STATE GRANTS						
IMLS LSTA 2017	E73992	42,000	11,349	-	30,651	42,000
IMLS LSTA 2018	E83992	36,909	-	-	-	-
Total LSTA State Grants		78,909	11,349	-	30,651	42,000
PROTECTED AREAS NETWORK						
NR MARITIME SURVEILLANCE	J73997	115,153	(110,916)	-	38,575	(72,341)
SUPPORT IMPL OF PNMS	M73997	108,000	-	196,000	88,515	(107,485)
Total PAN		223,153	(110,916)	196,000	127,090	(179,826)
UNITED NATIONS DEVELOPMENT PROGRAMME						
SEDREA	P98922	80,275	(12,883)	-	12,883	-
Total UNDP		80,275	(12,883)	-	12,883	-
UNDP/UNCCD/GEF						
UNDP-OERC ENVIRONMENT PROJ	F68923	201,216	(10,812)	44,654	64,462	8,996
Total UNDP		201,216	(10,812)	44,654	64,462	8,996

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

OTHER NON-U.S. FEDERAL GRANTS FUND

Schedule of Expenditures of Other Non-U.S. Federal Grants Year Ended September 30, 2018

Fund 360100 Grantor Account Title	Cost Center	Authorization	Receivable from Grantor (Deferred Revenue) at 9/30/17	Cash Receipts FY 2018	Expenditures FY 2018	Receivable from Grantor (Deferred Revenue) at 09/30/2018
UNEP GRANTS						
UNEP-SSFA-ODS SURVEY	A68926	35,000	(8,515)	5,000	4,185	(9,330)
UNEP-SSFA-ODS SURVEY	A88926	40,000	-	40,000	4,754	(35,246)
KIGALI PROJECT 2018	A8KIG1	25,000	-	25,000	-	(25,000)
M7PAN1 SUB CONTRACT	E78926	25,000	-	25,000	2,337	(22,663)
2ND NAT'L COMM 2013	M38926	50,400	(1,223)	-	-	(1,223)
ADV SUSTAINABLE RES MGT	M78926	1,329,358	(21,837)	271,378	271,509	(21,706)
M78926 SUB CONTRACT	M7BOA1	163,000	(56,469)	67,500	94,997	(28,972)
M78926 SUB CONTRACT	M7BOT1	132,000	(40,252)	78,000	85,081	(33,171)
M78926 SUB CONTRACT	M7EQPB	53,600	(7,461)	36,400	16,934	(26,927)
M78926 MNRET SUB CONT	M7NRET	129,000	(20,003)	53,500	67,454	(6,049)
M78926 SUB CONTRACT	M7PAN1	351,500	(31,098)	172,500	208,003	4,405
6TH NAT RPT TO THE CBD	M88926	70,000	-	70,000	12,746	(57,254)
NBSAP/ 5TH CBD RPT	R28926	209,500	(20,066)	-	18,027	(2,039)
Total UNEP Grants		2,613,358	(206,924)	844,278	786,027	(265,175)
OTHER FOREIGN GRANTS						
PIF Expenses	S48952	1,423,296	165,444	165,444	-	-
2016 SWEDISH UPR-HRC	S68952	38,034	(19,472)	-	18,255	(1,217)
Total Other Foreign Grants		1,461,330	145,972	165,444	18,255	(1,217)
ISRAEL GRANTS-DONATIONS						
MOS TRAVEL MEETING EXP	S78953	34,827	(31,442)	-	29,233	(2,209)
Total Israel Grant-Donations		34,827	(31,442)	-	29,233	(2,209)
DROUGHT RELIEF FUND ROC						
DROUGHT RELIEF DONATIONS	R68954	30,000	(30,000)	-	30,000	-
Total Drought Relief		30,000	(30,000)	-	30,000	-
UNIVERSITY OF SOUTH PACIFIC						
PIPCA-BPSS	F68955	13,853	(8)	-	8	-
Total Drought Relief		13,853	(8)	-	8	-
ICT WORLD BANK						
ICT WORLD BANK	F8ICT1	-	-	588	588	-
Total ICT World Bank		-	-	588	588	-
INDIA GRANTS						
HEALTH AWARENESS CAMPAIGN	E8YS01	10,000	-	10,000	-	(10,000)
MOE-YOGA PROGRAM	E8YS02	10,000	-	10,000	-	(10,000)
BPSS-WORKSITE WELLNESS CO	F8YS01	10,000	-	10,000	-	(10,000)
MEN'S HEALTH PROGRAM	H8YS01	9,630	-	9,630	8,523	(1,107)
COLONOSCOPY UNIT	H8YS02	10,000	-	10,000	-	(10,000)
RHD SCREENING	H8YS03	10,000	-	10,000	-	(10,000)
ICU EQUIPMENTS	H8YS04	8,545	-	8,545	-	(8,545)
ICU INSTALLATION&TRAINING	H8YS05	9,758	-	9,758	-	(9,758)
HOSPITAL EQUIPMENT	H8YS06	5,000	-	5,000	-	(5,000)
T8AA RADIO STATION	P68968	82,130	82,130	82,130	-	-
YOUTH PROJECTS	P6YS01	200,000	194,939	200,000	-	(5,061)
YOUTH PROJECTS FY17	P7YS01	200,000	-	200,000	192,627	(7,373)
YOUTH PROJECTS FY18	P8YS01	90,067	-	110,067	87,805	(22,262)
MPIIC	R8YS01	7,000	-	7,000	1,810	(5,190)
Ministry of State Equipments	S08968	100,000	(3,570)	-	2,351	(1,219)
Submarine Cable Feasability	S18968	100,000	(947)	-	-	(947)
2ND FORUM FOR IPIC	S58968	55,274	(2,215)	-	-	(2,215)
Total India Grants		917,404	270,337	682,130	293,116	(118,677)

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

OTHER NON-U.S. FEDERAL GRANTS FUND

Schedule of Expenditures of Other Non-U.S. Federal Grants Year Ended September 30, 2018

Fund 360100 Grantor Account Title	Cost Center	Authorization	Receivable from Grantor (Deferred Revenue) at 9/30/17	Cash Receipts FY 2018	Expenditures FY 2018	Receivable from Grantor (Deferred Revenue) at 09/30/2018
SASAKAWA PEACE FOUNDATION						
MOJ EMPL & TRAINING GRT	J78971	148,060	-	148,060	181,172	33,112
MOJ SPB TRAINEES	J7SPB1	12,292	-	12,292	14,631	2,339
Total Sasakawa Peace Foundation		<u>160,352</u>	<u>-</u>	<u>160,352</u>	<u>195,803</u>	<u>35,451</u>
IWRM Project (SOPAC)						
IWRM Project (SOPAC)	A78975	31,300	11,612	11,612	-	-
SOPAC-Ngerikiil Watershed	A98975	765,466	(30,007)	(3,459)	-	(26,548)
IWRM BOA	M98975	48,000	(2,748)	(2,748)	-	-
IWRM EQPB LAB	R28975	23,500	(62)	(62)	-	-
IWRM Palaris	R98975	30,000	(5,343)	(5,343)	-	-
Total IWRM		<u>898,266</u>	<u>(26,548)</u>	<u>-</u>	<u>-</u>	<u>(26,548)</u>
ENERGY SECT IN 5 ACP ISLS						
TECH COOP FACILITY II	F78979	180,000	(122,563)	-	86,600	(35,963)
Total Energy Grants		<u>180,000</u>	<u>(122,563)</u>	<u>-</u>	<u>86,600</u>	<u>(35,963)</u>
NEMO PEACESAT ASSISTANCE						
ISC MEETING	V68980	4,253	(696)	-	676	(20)
Total PeaceSat Assistance		<u>4,253</u>	<u>(696)</u>	<u>-</u>	<u>676</u>	<u>(20)</u>
ROC TAIWAN OTHER GRANTS						
MCCA SUMMER YOUTH PROGRAM	C7SYP1	15,000	-	-	9,560	9,560
APAN CONFERENCE	F7APAN	50,000	-	-	9,298	9,298
BBP INSTITUTIONAL STRENGT	F7BBP1	100,000	47,490	50,000	(1,828)	(4,338)
BBP INST STRENGTHENING	F7BIS1	100,000	-	50,000	32,899	(17,101)
BBP INSTITUTIONAL STRENGTHENING	F8BBP1	100,000	-	-	34,326	34,326
SMALL GRANTS PROJECTS	G7SGS1	400,000	-	400,000	-	(400,000)
NGARAARD HEALTHY LIVING P	G7SGS2	25,000	-	-	25,000	25,000
FISHERIES MANAGEMENT	M88982	25,000	-	25,000	-	(25,000)
FY16 PALAU LEGACY CAMPAIG	P6PLC1	70,000	-	-	70,000	70,000
MPS/PIF/UNGA/UNCC MTGS'17	P78982	80,000	(26,719)	-	21,750	(4,969)
OTP OUTREACH ACTIVITIES	P7OCP1	500,000	-	500,000	468,554	(31,446)
FY17PALAU LEGACY CAMPAIGN	P7PLC1	60,000	-	-	60,000	60,000
INDEPENDENCE DAY CELEB	P7PRS2	100,000	-	100,000	66,531	(33,469)
YOUTH PROGRAMS 2017	P7SGS1	75,000	-	-	28,178	28,178
MPS/PIF/UNGA/UNCC MTGS'18	P88982	20,000	-	-	7,758	7,758
OTP OUTREACH ACTIVITIES	P8OCP1	500,000	-	-	277,690	277,690
MOS MEDIA & OUTREACH PROJ	S78982	100,000	82,383	100,000	15,904	(1,713)
UN OCEANS CONFERENCE	S7SGS1	100,000	90,200	100,000	3,102	(6,698)
Total ROC Other Grants		<u>2,420,000</u>	<u>193,354</u>	<u>1,325,000</u>	<u>1,128,722</u>	<u>(2,924)</u>
TAIWAN ROC GRANTS						
UNFCC COP 20 Travel Support	A58984	-	(527)	-	-	(527)
COMMUNITY ACTVTY SMALL G	C78984	250,000	(52,796)	-	7,425	(45,371)
23RD INDEP DAY CELEBRATIO	C7INDD	50,000	(6,221)	-	4,555	(1,666)
24TH INDEP DAY CELEBRATIO	C8INDD	50,000	-	50,000	37,221	(12,779)
UNFCC MEETING - OERC	F78984	18,319	(20,001)	-	3,375	(16,626)
DRUG TASK FORCE	J68984	150,000	(14,038)	-	1,360	(12,678)
PALAU LEGACY CAMPAIGN	P7PRS1	-	70,000	(3)	(70,003)	-
EMPLOYEE APP DAY 2018	P8EMP1	-	-	-	14,593	14,593
MCSF CONTRIBUTIONS	P8MCS1	90,000	-	90,000	-	(90,000)
MICRO CNTR 4 SUST FUTURE	P8MCSF	-	-	-	79,963	79,963
PVA-OTP HOLIDAY PROJECT	P80TP1	-	-	-	72,325	72,325
SIS LEADERS SPECIAL MTG	S68984	200,000	(20,818)	-	13,362	(7,456)
Total ROC Grants		<u>808,319</u>	<u>(44,401)</u>	<u>139,997</u>	<u>164,176</u>	<u>(20,222)</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

OTHER NON-U.S. FEDERAL GRANTS FUND

**Schedule of Expenditures of Other Non-U.S. Federal Grants
Year Ended September 30, 2018**

Fund 360100 Grantor Account Title	Cost Center	Authorization	Receivable from Grantor (Deferred Revenue) at 9/30/17	Cash Receipts FY 2018	Expenditures FY 2018	Receivable from Grantor (Deferred Revenue) at 09/30/2018
<u>RESEARCH CORP UH-RCUH</u>						
PALAU CANCER REGISTRY	H38985	113,277	5,541	2,788	-	2,753
Total RCUH Grants		113,277	5,541	2,788	-	2,753
<u>Continental Shelf 09-00180</u>						
Contintal Shelf	R98988	154,765	(357)	-	357	-
Total Continental Shelf		154,765	(357)	-	357	-
<u>PALAU CONSERVATION SOCIETY (PCS)</u>						
REVIVE TRADNL CROPLANDS	A78989	25,350	(7,270)	12,675	4,829	(15,116)
Total PCS		25,350	(7,270)	12,675	4,829	(15,116)
<u>UNIVERSITIES</u>						
REACH CHIP PROJ-2015 UH	H58990	-	(1,681)	(1,681)	-	-
Total Universities		-	(1,681)	(1,681)	-	-
<u>SAMHSA</u>						
BHSIS 2014	H48993	42,033	(1,071)	-	-	(1,071)
BHSIS 2015	H58993	61,813	(501)	-	-	(501)
BHSIS 2016	H68993	61,813	501	-	-	501
BHSIS 2017	H78993	61,813	(6,155)	-	6,100	(55)
BHSIS 2018	H88993	61,813	-	77,266	47,728	(29,538)
Total SAMHSA		289,285	(7,226)	77,266	53,828	(30,664)
<u>KUWAIT - HUMAN RIGHTS</u>						
EXTREME DROUGHT SUPPORT	V78994	20,000	(15,769)	-	15,769	-
Total Kuwait Human Rights		20,000	(15,769)	-	15,769	-
<u>ADB - HIES</u>						
Palau HIES TA8581-REG	F58995	200,000	(83,941)	-	4,592	(79,349)
Total ADB - HIES		200,000	(83,941)	-	4,592	(79,349)
<u>PARTIES TO THE NAURU FUND</u>						
PAN - MPA	R58996	95,715	(4,584)	-	4,373	(211)
PAN - MPA 2017	R78996	162,500	(49,856)	100,000	108,346	(41,510)
Total Parties to Nauru Fund		258,215	(54,440)	100,000	112,719	(41,721)
<u>PFTAC GRANTS</u>						
FIC AFSPM WORKSHOP	A6FIC1	5,079	(7)	-	7	-
Total PFTAC Grants		5,079	(7)	-	7	-
Total Other Grants		19,850,420	(959,428)	4,652,330	4,463,322	(1,148,436)

See Accompanying Independent Auditors' Report.