

REPUBLIC OF PALAU

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

YEAR ENDED SEPTEMBER 30, 2019

REPUBLIC OF PALAU

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

YEAR ENDED SEPTEMBER 30, 2019

REPUBLIC OF PALAU

**FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2019**

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INDEPENDENT AUDITORS' REPORT

His Excellency Surangel S. Whipps, 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, 2019, 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.

Auditor's 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 Housing Authority, which represent 35%, 4%, and 45%, 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 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, 2019, 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 14H the Republic of Palau Civil Service Pension Trust Fund's actuarial valuation has determined that the Fund has a net pension liability of \$250,868,784 which would cause the Fund's fiduciary net position to become negative in 2023. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

COVID-19

As discussed in Note 15 to the financial statements, the Republic has determined that the COVID-19 pandemic may negatively impact its result of operations and net position. The Republic is unable to reasonably estimate its ultimate financial impact.

Federal Grants Receivable

As discussed in note 3 to the financial statements, the Republic is currently negotiating with federal grantor agencies to determine the ultimate collectability of certain receivables from federal agencies.

Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

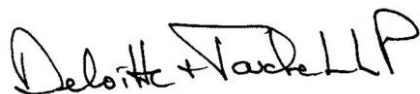
Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 16 as well as the Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund and notes thereto, on pages 88 and 89, the Schedule of the Proportionate Share of the Net Pension Liability, on page 90, and the Schedule of Pension Contributions, on page 91, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board 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, the procedures performed as described above, and the report of the other auditors, the Other Supplementary 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 February 15, 2021 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.

February 15, 2021

REPUBLIC OF PALAU

Management's Discussion and Analysis Year Ended September 30, 2019

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, 2019. We encourage readers to consider the information presented here in conjunction with the Republic's basic financial statements, which follow this section. Fiscal year 2018 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 \$298.9 million (net position), decreased by 17.9 million (or down 5.7%) from a net position of \$316.8 million in the prior year. Of this amount, \$118.2 million represents the Republic's investment in capital assets; \$306 million represents amounts restricted for various purposes, with the remaining deficiency of \$125.3 million to be funded from future governmental activities.
- During the current fiscal year, the Republic's expenses for governmental activities were \$130.7 million and were funded in part by \$59.9 million in program revenues and \$47.1 million in taxes and other general revenues. General revenues decreased by \$27.7 million (or down 37%) from \$74.8 million in the prior year to \$47.1 million, which was attributable primarily to the decrease in unrestricted grant revenues of \$23.9 million. Expenses increased by \$3.1 million (or 2.4%) from \$127.6 million in the prior year to \$130.7 million, which was attributable primarily to the increase in general government expenses.
- The Compact Section 211(f) Trust Fund generated a net loss of \$11 million in the current fiscal year attributed to an appropriation of \$15 million representing the transfer out to the General Fund as budgetary support, decreasing the Republic's trust fund balance to \$286.4 million from \$297.5 million in the prior year (down 3.7%).
- For the current fiscal year, the General fund revenues (and other financing sources) of \$88 million fell below general fund expenditures (and other financing uses) of \$91.1 million. General fund revenues (and other financing sources) were down \$26.9 million (or down 23.4%) from prior year primarily due to a decrease in Compact Funding received in 2019. The Compact Funding for both Fiscal years 2018 and 2019 was received in 2018, causing the decrease in 2019. General Fund appropriations (and other financing uses) also increased by \$5.8 million (or 6.8%) 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, 2019

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.

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 own programs. The Republic is the trustee, or fiduciary, for other assets that because of trust arrangements, 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 change in fiduciary net position.

REPUBLIC OF PALAU

Management's Discussion and Analysis Year Ended September 30, 2019

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 \$298.9 million at the close of the most recent fiscal year. However, all these net positions are either restricted as to the purpose they can be used for 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 in 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. The 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 \$74.9 million while its current liabilities were \$22.4 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.

	Net Position As of September 30		
	Governmental Activities <u>2019</u>	Governmental Activities <u>2018</u>	Total Percentage Change <u>2019-2018</u>
Current and other assets	\$ 415,728,315	\$ 417,270,528	-0.4%
Capital assets	<u>121,847,460</u>	<u>126,908,385</u>	-4.0%
Total assets	<u>537,575,775</u>	<u>544,178,913</u>	-1.2%
Deferred outflows of resources	<u>37,094,511</u>	<u>43,946,710</u>	-15.6%
Long-term debt outstanding	63,311,426	59,940,891	5.6%
Other liabilities	<u>176,910,050</u>	<u>182,104,401</u>	-2.9%
Total liabilities	<u>240,221,476</u>	<u>242,045,292</u>	-0.8%
Deferred inflows of resources	<u>35,529,272</u>	<u>29,247,364</u>	21.5%

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Management's Discussion and Analysis
Year Ended September 30, 2019

	Governmental Activities <u>2019</u>	Governmental Activities <u>2018</u>	Total Percentage Change <u>2019-2018</u>
Net position:			
Net investment in capital assets	118,190,296	121,651,224	-2.8%
Restricted	306,011,790	317,980,804	-3.8%
Unrestricted	<u>(125,282,548)</u>	<u>(122,799,061)</u>	2.0%
Total net position	\$ <u>298,919,538</u>	\$ <u>316,832,967</u>	-5.7%

At the end of the current fiscal year, the Republic's unrestricted net position deficiency was \$125.3 million, an increase from the prior year amount by \$2.5 million (or 2.0%). 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 to pay for 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 decreased by \$17.9 million, representing a decrease of 5.7% from the prior year's amount of \$316.8 million. This result indicates that the Republic's financial condition, as a whole, did not improve 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.

Changes in Net Position
For the Years Ended September 30

	Governmental Activities <u>2019</u>	Governmental Activities <u>2018</u>	Total Percentage Change <u>2019-2018</u>
Revenues:			
Program revenues:			
Charges for services	\$ 24,408,430	\$ 29,607,630	-17.6%
Operating grants and contributions	35,300,212	88,064,658	-59.9%
Capital grants and contributions	<u>206,408</u>	<u>14,210,551</u>	-98.5%
	<u>59,915,050</u>	<u>131,882,839</u>	-54.6%
General revenues:			
Taxes	45,370,124	49,145,898	-7.7%
Other general revenues	<u>1,772,563</u>	<u>25,703,487</u>	-93.1%
	<u>47,142,687</u>	<u>74,849,385</u>	-37.0%
Total revenues	<u>107,057,737</u>	<u>206,732,224</u>	-48.2%

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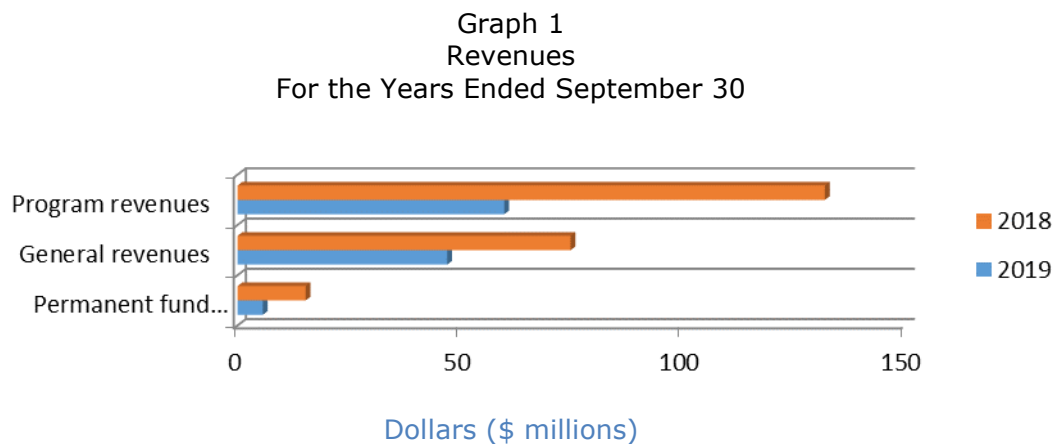
Management's Discussion and Analysis
Year Ended September 30, 2019

	Governmental Activities <u>2019</u>	Governmental Activities <u>2018</u>	Total Percentage Change <u>2019-2018</u>
Expenses:			
General government	42,407,746	38,189,575	11.0%
Education	19,104,915	19,281,713	-0.9%
Health and welfare	20,191,616	22,800,241	-11.4%
Public safety	9,199,088	9,310,184	-1.2%
Cultural affairs and recreation	5,696,015	5,495,830	3.6%
Transportation and commerce	23,387,323	23,585,405	-0.8%
State government appropriations	9,010,355	7,576,000	18.9%
Depreciation - unallocated	814,055	787,173	3.4%
Interest	<u>897,623</u>	<u>617,537</u>	45.4%
Total expense	<u>130,708,736</u>	<u>127,643,658</u>	2.4%
Contributions to permanent funds	5,737,570	15,298,973	-62.5%
Change in net position	<u>(17,913,429)</u>	<u>94,387,539</u>	-119.0%
Net position at beginning of year	<u>316,832,967</u>	<u>222,445,428</u>	42.4%
Net position, end of year	\$ <u>298,919,538</u>	\$ <u>316,832,967</u>	-5.7%

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

- The Compact Section 211(f) Trust Fund contributions of \$5.7 million decreased by \$9.6 million (or down 62.5%) from prior fiscal year when the trust fund earnings contributed \$15.3 million. Overall revenues decreased in the current year by \$99.7 million (or down 48.2%). Concurrently total expenditures increased by \$3.1 million (or 2.4%) in the current year.

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:

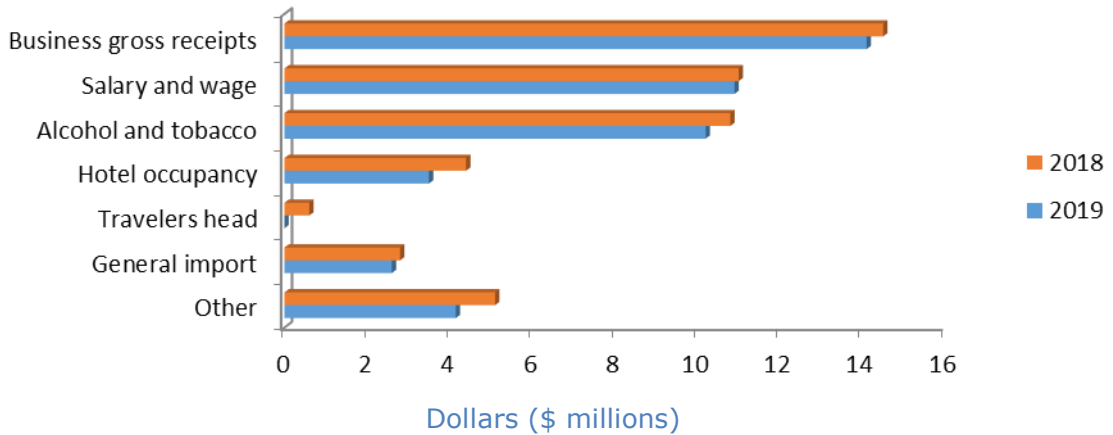


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Management’s Discussion and Analysis
Year Ended September 30, 2019

A significant portion of the Republic’s general revenues involves tax revenue collections. At \$45.4 million in the current year, tax revenues were lower than the \$49.1 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:

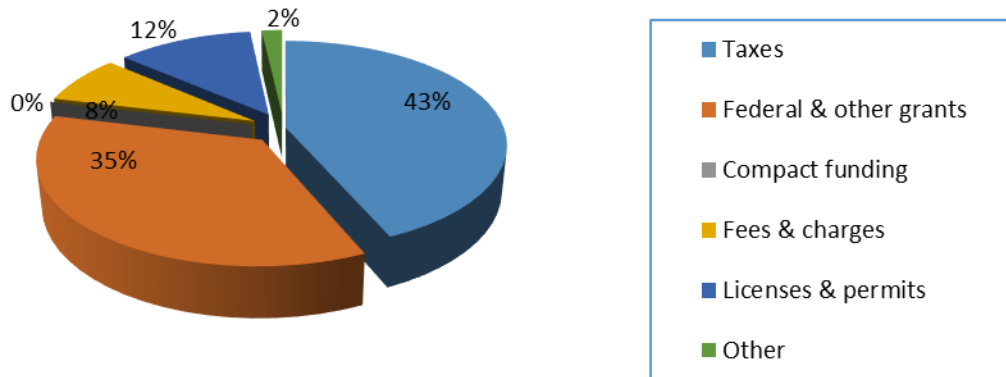
Graph 2
Tax Revenues
For the Years Ended September 30



- Cost of governmental activities increased in the current year by \$3.1 million (or 2.4%) compared with prior year. General government increased by \$4.2 million (or 11.0%) compared with prior year. Cost of Education decreased by \$0.1 million (down 0.9%) in the current year as well as the cost of Health by \$2.6 million (down 11.4%) compared with prior year. Cost of Transportation and commerce also decreased by \$0.2 million (or down 0.8%) from prior.

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, 2019

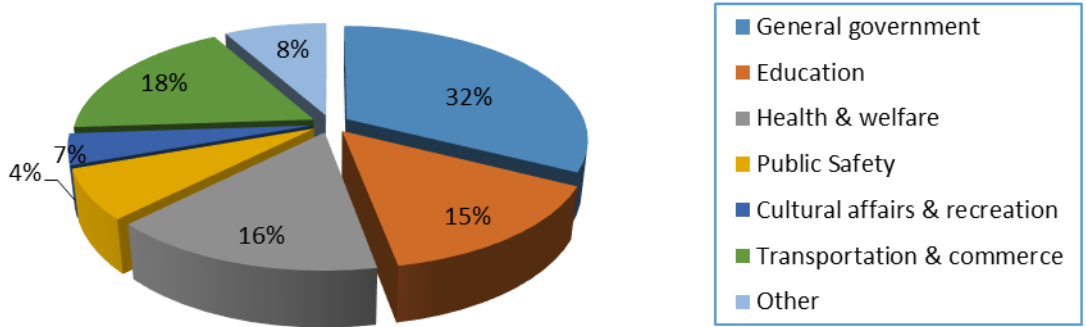


REPUBLIC OF PALAU

Management’s Discussion and Analysis
Year Ended September 30, 2019

Local taxes and federal and other grants are the major sources of revenue for the Republic, which comprise over 92% of the total revenues for the current year. The remaining 8% is primarily comprised of various fees and service charges.

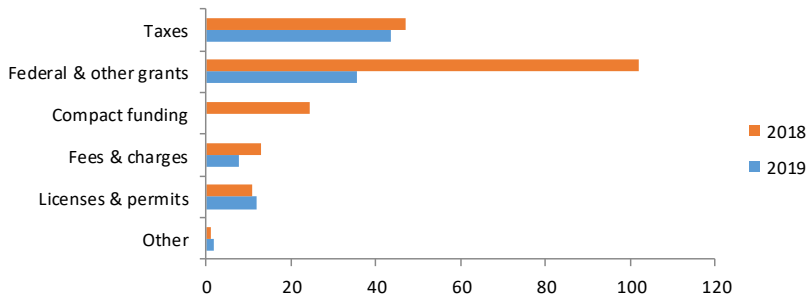
Graph 4
Cost of Governmental Activities
For the Year Ended September 30, 2019



Other expenses that make up a portion of the costs of governmental activities include State government appropriations (\$9 million), unallocated depreciation expense (\$0.8 million), and interest expense (\$0.9 million).

Graphs 5 and 6 below show a comparison of the major components of revenues and cost of governmental activities for fiscal years 2019 and 2018.

Graph 5
Revenue sources
For the Years Ended September 30

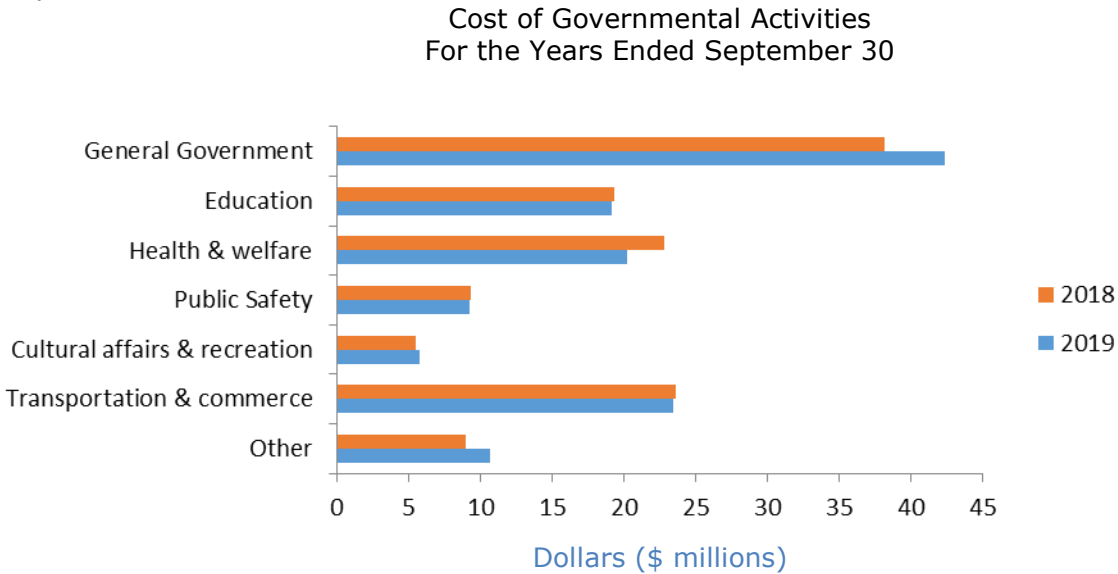


Dollars (\$millions)

REPUBLIC OF PALAU

Management's Discussion and Analysis Year Ended September 30, 2019

Graph 6



Other expenses in the current year include State government appropriations of \$9 million, which increased by \$1.4 million from the prior year. Overall cost of governmental activities increased by \$3.1 million (or 2.4%) compared to prior fiscal year.

General revenues decreased by \$27.7 million (or down 48.2%) from the previous fiscal year. The decrease was primarily due to the ending of compact direct assistance and other grants and contributions of \$23.9 million (or down 93.1%) compared with prior year. Over \$11 million of economic assistance provided by the Government of the United States to fund for Fiscal year 2019 was received in Fiscal year 2018, causing the significant decrease of General Revenues in Fiscal year 2019.

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 \$394.4 million, which represents a decrease of \$8.6 million (or down 2.1%) in comparison with the prior year. Of this total combined fund balance, \$339 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; \$5.3 million is designated as restricted and is constrained for specific purposes which are externally imposed; and \$11 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 \$39.1 million.

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Management's Discussion and Analysis Year Ended September 30, 2019

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 \$39.1 million. Total fund balance was \$93.7 million compared with a total fund balance of \$96.8 million at the end of the prior fiscal year.

The Compact Section 211(f) Trust Fund has a total fund balance of \$286.4 million, all of which is restricted for the funding of future operations of the primary government. The net decrease in fund balance during the current year in the Compact Section 211(f) Trust Fund was \$11.1 million (or down 3.7%), which reflects a transfer of \$15 million to the Republic's General Fund and a net decrease in the value of trust fund investments of \$5.7 million.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the course of the fiscal year, budget revisions of \$3.2 million were made by management and elected officials of the Republic to the General Fund budget. Revenues collected (including other financing sources) of \$87.6 million were slightly lower than budgeted amounts of \$87.9 million due primarily to a decrease in local revenue collections. In addition, charges to appropriations (including other financing uses) of \$83.2 million were lower than budgeted amounts of \$89 million due primarily to expenditures associated with the executive branch and other appropriations of \$44.6 million and \$2.6 million, respectively, which were lower than budgeted amounts of \$49.7 million and \$2.6 million, respectively.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The Republic's investment in capital assets for its governmental activities as of September 30, 2019 amounted to \$468.8 million (including \$8.8 million of land and construction in progress), net of accumulated depreciation of \$355.8 million, leaving a net book value of \$121.8 million. This represents a decrease of \$5 million from the amount of \$126.9 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.

Capital Assets September 30, (Net of depreciation)

	Governmental Activities <u>2019</u>	Governmental Activities <u>2018</u>	Total Percentage Change <u>2019-2018</u>
Buildings and other improvements	\$ 75,357,780	\$ 72,465,474	4.0%
Machinery and equipment	18,156,448	17,552,671	3.4%
Vehicles	1,624,588	1,747,460	-7.0%
Infrastructure	17,885,878	20,729,679	-13.7%
Land	3,899,403	3,899,403	0.0%
Construction in progress	<u>4,923,361</u>	<u>10,513,698</u>	-53.2%
Total	\$ <u>121,847,458</u>	\$ <u>126,908,385</u>	-4.0%

REPUBLIC OF PALAU

Management's Discussion and Analysis
Year Ended September 30, 2019

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	\$ 0.13	\$ 0.13
Aimeliik-Mongami Road	\$ 0.10	\$ 0.10
Airai Road	\$ 0.42	\$0.42
Melekeok Road	\$ 0.12	\$ 0.12
Ngaraard Road	\$ 0.24	\$ 0.24
Ngaremlengui Road	\$ 0.70	\$ 0.70
Ngatpang Road	\$ 0.50	\$ 0.50
Ngchesar Road	\$ 0.57	\$ 0.57
Ngiwal Road	\$ 0.11	\$ 0.11

- Acquisition of the following machinery and equipment:

<u>Machinery & Equipment</u>	<u>Current Year Additions (\$ millions)</u>
Wood Chipper, Wallenstein CR70	\$ 0.06
Speed Boat, 38 Footer	\$ 0.09
Chiller, Supply & Installation	\$ 0.12
Cassette Reader, Digital	\$ 0.06
Generator	\$ 0.33
Generator	\$ 0.33
MOH Electronic Medical Record System	\$ 1.50
Ultrasound	\$ 0.10
Scanner	\$ 0.06

- Ongoing construction in progress of the following infrastructure projects:

<u>Infrastructure Project</u>	<u>Current Year Additions (\$ millions)</u>	<u>Completed (Cost (\$ millions))</u>
New Correctional Facility	\$ 0.82	\$ 1.41
Babeldaob Cross-over Road	\$ 0.09	\$ 0.14
One Stop Shop Ph1	\$ 0.66	\$ 0.97
Judiciary Generator Project	\$ 0.17	\$ 0.17
Capitol Standby Generator	\$ 0.44	\$ 0.44
Capitol Complex Conference Center	\$ 0.14	\$ 0.14
MOJ Surveillance Management System	\$ 0.57	\$ 0.57
MOF Financial Management System	\$ 1.09	\$ 1.09

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

REPUBLIC OF PALAU

Management's Discussion and Analysis Year Ended September 30, 2019

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 \$2.3 million (or 3.8%) in the current fiscal year.

	Outstanding Long-term Debt September 30		Total Percentage Change 2019-2018
	Governmental Activities 2019	Governmental Activities 2018	
Republic of Palau Capitol Building	\$ 1,142,843	\$ 2,285,701	-50.0%
Palau International Airport Repaving	2,514,320	2,971,460	-15.4%
Agriculture & Aquaculture Projects-NDBP	4,714,286	5,000,000	-5.7%
Palau Housing Projects-PHA	4,857,143	5,000,000	-2.9%
Water Sector Improvement (Loan #2691)	8,577,585	9,478,012	-9.5%
Water Sector Improvement (Loan # 2692)	3,376,173	3,472,734	-2.8%
Koror-Airai Sanitation Loan (Loan #3060)	17,255,954	12,211,842	41.3%
Koror-Airai Sanitation Loan SDR (Loan #3061)	1,623,076	1,276,270	27.2%
North Pacific Regional Connectivity Inv. Loan (Loan # 3346)	12,764,697	12,011,324	6.3%
North Pacific Regional Connectivity Inv. Loan (Loan # 3347)	<u>6,485,349</u>	<u>6,233,548</u>	4.0%
Total	\$ <u>63,311,426</u>	\$ <u>59,940,891</u>	5.6%

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

In FY2014 to FY2015 the economy showed positive growth owing to the recovery of tourism and developments of infrastructure activities. In FY2016 and FY2017 the economy experienced a decline associated with the drop in tourist arrivals. In FY2018 the economy recovered showing positive growth at 5.1 percent owing to the positive growth in the information and communication industry and construction industry. In FY2019 growth is estimated at 0.3 percent associated with the continued positive growth in the information and communication industry and construction industry driven primarily by the public sector infrastructure projects.

Tourists arrivals in FY2018 were 115,997, a decline of 5.0 percent over previous year. In FY2019, tourist arrivals were 89,726, a decline of 22.6 percent over the previous year with People's Republic of China comprising 31.8 percent of overall arrivals. The main contributor to the decline is associated with the cessation of charter airlines and a reduced numbers of flights from other airlines. Overall, tourism revenue declined by 12.0 percent while total tourism revenue per visitor night increased by 19.2 percent, respectively. The total tourism revenue per arrival increased by 13.7 percent. This development highlights the importance of a tourism policy that promotes high-value tourism rather than mass tourism, in order to ensure sustainable carrying capacity of our natural environment, which is the key attraction for tourists.

In FY2019, inflation was estimated at 0.6 percent mainly due to increased prices for food, health care, and fuel. Inflation is expected to be in a sluggish growth as global economy is uncertain due to the coronavirus (COVID-19) pandemic.

REPUBLIC OF PALAU

Management's Discussion and Analysis Year Ended September 30, 2019

Total deposits (excluding demand deposits) declined by 16.5 percent in FY2019. Household deposits had the highest percentage share of 47.6 percent, followed by Government (both national and state) at 28.6 percent and Private Non-Financial at 20.5 percent, with the remaining 3.3 percent owned by Public Non-Financial, Financial, Non-Profit Institutions Serving Household (NPISH) and Non-residents. Total loans declined by 7.9 percent from \$36.5m to \$33.7m. Loans increased for Individuals (others) by 0.4 percent or \$123 while Private Non-financial corporation declined by 35.8 percent or -\$3,022.

The number of employed persons in FY2019 declined by 2.3 percent compared to FY2018. Total Palauans employed was 5,680 and 6,070 were foreign workers. Total average wage & salary levels increased by 1.6 percent from \$11,308 in FY2018 to \$11,492 in FY2019. The average wage and salary level for Palauans is \$13,999 and \$9,146 for foreign workers. Gender wise, the total average wage and salary level for females is \$11,847 and \$11,258 for males.

The National Government has six major loans outstanding with an initial value of \$107.8m for the development of infrastructure projects with a current balance of \$62.2m as of FY2019. External debt sustainability is fairly low and favorable as external debt position remains stable. The total debt service as a percent of recurring budget in FY2018 was 3.0 percent and 3.2 percent in FY2019.

The current account deficit is estimated at \$74.9m in FY2019 from \$45.3m in FY2018. Export of goods declined by 18.5 percent while imports of goods increased by 2.9 percent. Additionally, import of services saw a decline of 6.1 percent largely driven by the decline of travel (Health). Export of services also saw a decline of 11.2 percent due to the decline in airport and seaport use fees and fish services.

The resumption of construction activity, alongside the implementation of the \$100 Pristine Paradise Environmental Fee in January 2018 and the funds received through the Compact Review Agreement, government revenues increased in FY2018 by 10.4 percent. However, in FY2019, revenues declined by -3.8 percent, in line with the decrease in tourist arrivals. Tax collections saw a 7.4 percent decline, with non-tax revenues declining by -0.6 percent, and Grants revenues declining by -7.5 percent.

Since the passage of the minimum wage bill in FY2013, salaries and wages continuously increased annually, now at its peak of \$11.4 million in FY2019, a 55.2% increase from FY2013. Grants expenditures in other general government units, as a percentage of the annual national budget was 20.2 percent in FY2018, and 31.6 percent in FY2019.

The cessation of airlines due to COVID-19 is projected to negatively impact growth prospects in the short term. The Republic is unable to reasonably estimate its ultimate financial impact. Construction is anticipated to perform due to continued construction and improvements to new and existing visitor accommodations, various public projects, and road construction.

Palau's reliance on tourism creates important challenges as tourism can be highly susceptible to global economic and financial conditions. Tourism activities raise demand for fuel and food imports that makes Palau vulnerable to global commodity price fluctuations. A strong US dollar can impact Palau's competitiveness particularly in the tourism industry as majority of Palau's visitors are still fairly price sensitive. Slowdown in the Asian economies can further reduce the number of tourists dramatically. The risk of increased frequency and severity of inclement weather conditions resulting from climate change and sea level rise could further erode tourism and growth prospects.

REPUBLIC OF PALAU

Management's Discussion and Analysis
Year Ended September 30, 2019

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, 2019

	Primary Government	Component Units
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 46,449,430	\$ 22,530,699
Investments	7,194,681	4,673,575
Receivables, net of allowance for uncollectibles	19,102,640	7,491,494
Inventories	-	9,974,541
Due from primary government	-	1,025,702
Due from component units	1,070,773	-
Other current assets	735,944	584,386
Restricted assets:		
Cash and cash equivalents	391,002	-
Time certificates of deposit	-	459,060
Total current assets	74,944,470	46,739,457
Noncurrent assets:		
Investments	-	2,647,522
Receivables	-	27,741,022
Capital assets:		
Nondepreciable capital assets	8,822,764	23,848,159
Capital assets, net of accumulated depreciation	113,024,696	89,992,984
Indefeasible right to use	-	6,155,434
Foreclosed real estate	-	547,199
Due from component units	47,027,264	-
Right to Use	6,193,297	-
Other noncurrent assets	1,191,965	101,937
Restricted assets:		
Cash and cash equivalents	-	2,446,818
Investments	286,371,319	5,702,249
Total noncurrent assets	462,631,305	159,183,324
Total assets	537,575,775	205,922,781
<u>DEFERRED OUTFLOWS OF RESOURCES</u>		
Deferred outflows from pensions	37,094,511	12,082,978
	\$ 574,670,286	\$ 218,005,759
<u>LIABILITIES</u>		
Current liabilities:		
Note payable	\$ 198,142	\$ -
Current portion of long-term obligations	4,215,635	3,793,499
Current portion of compensated absences payable	2,328,299	-
Accounts payable	5,903,182	7,742,026
Contracts payable	1,985,235	-
Due to State governments	569,081	-
Due to primary government	-	599,558
Due to fiduciary funds	-	359,704
Accrued payroll and others	3,017,601	2,478,801
Unearned revenue	2,403,304	1,430,811
Other liabilities	864,023	1,857,243
Income tax refunds	951,831	-
Total current liabilities	22,436,333	18,261,642
Noncurrent liabilities:		
Noncurrent portion of long-term obligations	59,095,791	20,395,180
Compensated absences payable, net of current portion	2,542,893	-
Net pension liability	156,146,459	44,668,534
Due to primary government	-	47,643,386
Due to fiduciary funds	-	2,043,083
Total noncurrent liabilities	217,785,143	114,750,183
Total liabilities	240,221,476	133,011,825
<u>DEFERRED INFLOWS OF RESOURCES</u>		
Deferred inflows from pensions	35,529,272	9,905,007
<u>NET POSITION</u>		
Net investment in capital assets:	118,190,296	61,399,796
Restricted for:		
Future operations	286,371,319	-
Endowment	-	5,451,819
Debt service	-	10,046,189
Compact related	8,640,557	-
Other purposes	10,999,914	19,571,919
Unrestricted	(125,282,548)	(21,380,796)
Total net position	298,919,538	75,088,927
	\$ 574,670,286	\$ 218,005,759

See accompanying notes to basic financial statements.

REPUBLIC OF PALAU

Statement of Activities
Year Ended September 30, 2019

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	\$ 42,407,746	\$ 19,575,485	\$ 6,650,514	\$ -	\$ (16,181,747)	\$ -
Education	19,104,915	993,213	2,451,271	-	(15,660,431)	-
Health and welfare	20,191,616	3,782,317	5,703,055	-	(10,706,244)	-
Public safety	9,199,088	57,015	10,100,571	-	958,498	-
Cultural affairs and recreation	5,696,015	-	49,216	-	(5,646,799)	-
Transportation and commerce	23,387,323	400	10,345,585	206,408	(12,834,930)	-
State government appropriations	9,010,355	-	-	-	(9,010,355)	-
Depreciation - unallocated	814,055	-	-	-	(814,055)	-
Interest (unallocated)	897,623	-	-	-	(897,623)	-
Total primary government	<u>\$ 130,708,736</u>	<u>\$ 24,408,430</u>	<u>\$ 35,300,212</u>	<u>\$ 206,408</u>	<u>(70,793,686)</u>	<u>-</u>
Component units:						
National Development Bank of Palau	\$ 1,478,353	\$ 2,697,419	\$ -	\$ -	-	1,219,066
Palau Community College	6,804,942	654,849	3,564,155	-	-	(2,585,938)
Palau National Communications Corporation	15,037,288	13,734,502	-	-	-	(1,302,786)
Palau International Coral Reef Center	1,804,882	881,849	926,499	-	-	3,466
Palau Visitors Authority	1,983,551	108,300	-	-	-	(1,875,251)
Public Utilities Corporation	34,829,004	25,567,880	45,000	844,597	-	(8,371,527)
Palau District Housing Authority	361,613	142,288	-	-	-	(219,325)
Protected Areas Network Fund	1,903,536	-	-	-	-	(1,903,536)
Belau Submarine Cable Corporation	2,248,653	2,972,950	-	-	-	724,297
Total component units	<u>\$ 66,451,822</u>	<u>\$ 46,760,037</u>	<u>\$ 4,535,654</u>	<u>\$ 844,597</u>	<u>-</u>	<u>(14,311,534)</u>
General revenues:						
Taxes:						
Business gross receipts					14,110,933	-
Salary and wage					10,900,157	-
Alcohol and tobacco					10,195,541	-
Hotel occupancy					3,458,908	-
Travelers head					-	-
General import					2,589,261	-
Road use					803,586	-
Fuel export					753,014	-
Other					2,558,724	-
Grants and contributions not restricted for specific programs					-	-
Unrestricted investment earnings					771,664	609,362
Contributions from primary government					-	6,852,235
Other					1,000,899	-
Total general revenues					<u>47,142,687</u>	<u>7,461,597</u>
Contributions from permanent funds					<u>5,737,570</u>	<u>-</u>
Total general revenues and contributions					<u>52,880,257</u>	<u>7,461,597</u>
Change in net position					(17,913,429)	(6,849,937)
Net position at beginning of year					<u>316,832,967</u>	<u>81,938,864</u>
Net position at end of year					<u>\$ 298,919,538</u>	<u>\$ 75,088,927</u>

See accompanying notes to basic financial statements.

REPUBLIC OF PALAU

**Balance Sheet
Governmental Funds
September 30, 2019**

	General	Special Revenue Grants	Permanent Funds	Other Governmental Funds	Total
ASSETS					
Cash and cash equivalents	\$ 44,417,350	\$ 2,032,080	\$ -	\$ -	\$ 46,449,430
Investments	4,892,029	-	-	2,302,652	7,194,681
Receivables, net:					
Taxes	4,753,645	-	-	-	4,753,645
General	2,160,709	6,530,069	-	229,549	8,920,327
Federal agencies	-	5,428,668	-	-	5,428,668
Due from component units	48,098,037	-	-	-	48,098,037
Due from other funds	9,137,640	3,823,005	-	8,802,597	21,763,242
Advances	247,573	465,528	-	6,493	719,594
Prepaid items	231	13,519	-	2,600	16,350
Other assets	1,191,965	-	-	-	1,191,965
Restricted assets:					
Cash and cash equivalents	391,002	-	-	-	391,002
Investments	-	-	286,371,319	-	286,371,319
	<u>\$ 115,290,181</u>	<u>\$ 18,292,869</u>	<u>\$ 286,371,319</u>	<u>\$ 11,343,891</u>	<u>\$ 431,298,260</u>

LIABILITIES AND FUND BALANCES

Liabilities:					
Note payable	\$ 198,142	\$ -	\$ -	\$ -	\$ 198,142
Accounts payable	4,236,312	1,328,249	-	338,621	5,903,182
Contracts payable	-	1,985,235	-	-	1,985,235
Due to State governments	569,081	-	-	-	569,081
Due to other funds	12,625,602	9,136,018	-	1,622	21,763,242
Accrued payroll and others	2,213,118	-	-	5,356	2,218,474
Other liabilities	619,012	245,011	-	-	864,023
Unearned revenues	180,453	2,222,851	-	-	2,403,304
Income tax refunds	951,831	-	-	-	951,831
Total liabilities	<u>21,593,551</u>	<u>14,917,364</u>	<u>-</u>	<u>345,599</u>	<u>36,856,514</u>
Fund balances:					
Nonspendable	49,290,233	3,374,167	286,371,319	-	339,035,719
Restricted	5,279,909	-	-	-	5,279,909
Committed	-	-	-	10,999,914	10,999,914
Unassigned:					
General fund	39,126,488	-	-	-	39,126,488
Special revenue funds	-	1,338	-	(1,622)	(284)
Total fund balances	<u>93,696,630</u>	<u>3,375,505</u>	<u>286,371,319</u>	<u>10,998,292</u>	<u>394,441,746</u>
	<u>\$ 115,290,181</u>	<u>\$ 18,292,869</u>	<u>\$ 286,371,319</u>	<u>\$ 11,343,891</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	121,847,460
Right to Use in governmental activities are not financial resources and, therefore, are not reported in the funds	6,193,297
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	(63,311,426)
Compensated absences	(4,871,192)
Accrued interest payable	(799,127)
Net pension liability	(156,146,459)
	(225,128,204)
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	37,094,511
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	(35,529,272)
Net position of governmental activities	<u>\$ 298,919,538</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, 2019

	General	Special Revenue Grants	Permanent Compact	Other Governmental Funds	Total
Revenues:					
Taxes	\$ 43,465,822	\$ -	\$ -	\$ 1,904,302	\$ 45,370,124
Federal and other grants	-	35,300,212	-	-	35,300,212
Net change in the fair value of investments	769,012	-	5,737,570	2,652	6,509,234
Fees and charges	7,566,644	-	-	4,839,247	12,405,891
Licenses and permits	11,941,201	-	-	61,338	12,002,539
Other	1,000,899	-	-	-	1,000,899
Total revenues	64,743,578	35,300,212	5,737,570	6,807,539	112,588,899
Expenditures:					
Current:					
Judicial Branch	3,183,081	-	-	-	3,183,081
Legislative Branch	5,914,979	-	-	-	5,914,979
Office of the President	1,719,824	1,205,740	-	-	2,925,564
Office of the Vice-President	553,601	13,035	-	-	566,636
Ministry of Finance	4,299,065	1,614,385	-	-	5,913,450
Ministry of State	4,226,103	4,018	-	7,918	4,238,039
Ministry of Community and Cultural Affairs	1,418,030	49,216	-	-	1,467,246
Ministry of Education	8,869,705	2,451,271	-	-	11,320,976
Ministry of Public Infrastructure, Industry and Commerce	6,786,751	582,926	-	294,451	7,664,128
Ministry of Justice	6,569,922	6,739,923	-	103,216	13,413,061
Ministry of Health	10,856,072	5,703,055	-	3,724,566	20,283,693
Ministry of Natural Resources, Environment and Tourism	1,700,231	2,247,353	-	65,557	4,013,141
Boards, Commissions, and Authorities	1,121,624	-	-	-	1,121,624
State Block Grants	9,010,355	-	-	-	9,010,355
Independent Agencies	3,700,638	1,142,700	-	9,570	4,852,908
Other Agencies and Activities	7,651,556	-	-	-	7,651,556
Education assistance	6,448,865	-	-	-	6,448,865
Inauguration ceremony	500,000	-	-	-	500,000
Financial and Compliance Audit	-	623,085	-	-	623,085
16th Pacific Games	200,000	-	-	-	200,000
Investment management fees	-	-	1,818,879	-	1,818,879
Saipan-Belau Bai Project	50,000	-	-	-	50,000
Wheelchair Accessible Vehicle	35,795	-	-	-	35,795
Guam Palauan Community Cultural Center	25,000	-	-	-	25,000
Other	15,000	-	-	-	15,000
Capital projects	1,092,732	9,762,659	-	-	10,855,391
Debt service:					
Principal retirement	4,392,977	-	-	-	4,392,977
Interest	475,682	-	-	-	475,682
Total expenditures	90,817,588	32,139,366	1,818,879	4,205,278	128,981,111
Excess of revenues over expenditures	(26,074,010)	3,160,846	3,918,691	2,602,261	(16,392,212)
Other financing sources (uses):					
Loan proceeds	7,763,512	-	-	-	7,763,512
Operating transfers in	15,521,405	311,363	-	-	15,832,768
Operating transfers out	(311,363)	(94,012)	(15,000,000)	(427,393)	(15,832,768)
Total other financing sources (uses), net	22,973,554	217,351	(15,000,000)	(427,393)	7,763,512
Net change in fund balances	(3,100,456)	3,378,197	(11,081,309)	2,174,868	(8,628,700)
Fund balances at beginning of year	96,797,086	(2,692)	297,452,628	8,823,424	403,070,446
Fund balances at end of year	\$ 93,696,630	\$ 3,375,505	\$ 286,371,319	\$ 10,998,292	\$ 394,441,746

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, 2019

Net change in fund balances - total governmental funds \$ (8,628,700)

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

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	\$ 9,467,758	
Depreciation expense, net	<u>(14,528,683)</u>	(5,060,925)

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	\$ (7,763,512)	
Repayment of MICB loans	2,028,569	
Repayment of ADB loan	<u>2,364,408</u>	(3,370,535)

Long term prepayments are not reported in the governmental funds:

Right to Use	\$ 6,339,352	
Amortization	<u>(146,055)</u>	6,193,297

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	\$ (224,655)	
Change in accrued interest payable	(199,294)	
Net pension activity	<u>(6,622,617)</u>	<u>(7,046,566)</u>

Change in net position of governmental activities. \$ (17,913,429)

See accompanying notes to basic financial statements.

REPUBLIC OF PALAU

Statement of Fiduciary Net Position Fiduciary Funds September 30, 2019

	<u>Private Purpose Trust</u>	<u>Pension (and Other Employee Benefit) Trust</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 2,240,131	\$ 481,412	\$ 2,721,543
Time certificates of deposit	-	1,878,801	1,878,801
Receivables, net:			
Contributions	4,252,278	287,616	4,539,894
Accrued interest and dividends	270,277	-	270,277
Other	400,294	62,296	462,590
Investments	118,835,621	25,931,203	144,766,824
Due from component units	2,402,787	-	2,402,787
Prepaid items	68,818	-	68,818
Capital assets, net	<u>29,928</u>	<u>21,872</u>	<u>51,800</u>
Total assets	<u>128,500,134</u>	<u>28,663,200</u>	<u>157,163,334</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			
Deferred outflows from pensions	<u>527,852</u>	<u>155,592</u>	<u>683,444</u>
	<u>\$ 129,027,986</u>	<u>\$ 28,818,792</u>	<u>\$ 157,846,778</u>
<u>LIABILITIES</u>			
Benefits payable	\$ 1,391,267	\$ -	\$ 1,391,267
Other liabilities and accruals	28,298	17,173	45,471
Net pension liability	<u>2,696,839</u>	<u>834,733</u>	<u>3,531,572</u>
Total liabilities	<u>4,116,404</u>	<u>851,906</u>	<u>4,968,310</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Deferred inflows from pensions	<u>679,248</u>	<u>208,139</u>	<u>887,387</u>
<u>NET POSITION</u>			
Held in trust for:			
Social security benefits	124,232,334	-	124,232,334
Pension benefits	<u>-</u>	<u>27,758,747</u>	<u>27,758,747</u>
Total net position	<u>124,232,334</u>	<u>27,758,747</u>	<u>151,991,081</u>
	<u>\$ 129,027,986</u>	<u>\$ 28,818,792</u>	<u>\$ 157,846,778</u>

See accompanying notes to basic financial statements.

REPUBLIC OF PALAU

Statement of Changes in Fiduciary Net Position
Fiduciary Funds
Year Ended September 30, 2019

	<u>Private Purpose Trust</u>	<u>Pension (and Other Employee Benefit) Trust</u>	<u>Total</u>
Additions:			
Contributions:			
Government employees	\$ 13,798,356	\$ -	\$ 13,798,356
Private employees	13,310,782	-	13,310,782
Employer contributions	-	3,596,124	3,596,124
Plan member contributions	381,524	3,598,146	3,979,670
Penalties and interest	<u>313,975</u>	<u>-</u>	<u>313,975</u>
	27,804,637	7,194,270	34,998,907
Allowance for doubtful accounts	<u>(22,489)</u>	<u>-</u>	<u>(22,489)</u>
Total contributions	<u>27,782,148</u>	<u>7,194,270</u>	<u>34,976,418</u>
Investment income:			
Net change in the fair value of investments	2,518,026	386,421	2,904,447
Interest and dividends	<u>2,170,548</u>	<u>814,178</u>	<u>2,984,726</u>
Total investment income	4,688,574	1,200,599	5,889,173
Less investment expense	<u>169,335</u>	<u>195,486</u>	<u>364,821</u>
Net investment income	<u>4,519,239</u>	<u>1,005,113</u>	<u>5,524,352</u>
Other	<u>606,269</u>	<u>1,384,745</u>	<u>1,991,014</u>
Total additions	<u>32,907,656</u>	<u>9,584,128</u>	<u>42,491,784</u>
Deductions:			
Benefits	31,014,670	9,934,096	40,948,766
General and administrative	<u>1,658,527</u>	<u>504,391</u>	<u>2,162,918</u>
Total deductions	<u>32,673,197</u>	<u>10,438,487</u>	<u>43,111,684</u>
Change in net position held in trust for:			
Social security benefits	234,459	-	234,459
Pension benefits	<u>-</u>	<u>(854,359)</u>	<u>(854,359)</u>
	234,459	(854,359)	(619,900)
Transfer from primary government	<u>2,100,000</u>	<u>-</u>	<u>2,100,000</u>
Change in fiduciary net position	2,334,459	(854,359)	1,480,100
Net position at beginning of year	<u>121,897,875</u>	<u>28,613,106</u>	<u>150,510,981</u>
Net position at end of year	<u>\$ 124,232,334</u>	<u>\$ 27,758,747</u>	<u>\$ 151,991,081</u>

See accompanying notes to basic financial statements.

REPUBLIC OF PALAU

**Combining Statement of Net Position
Component Units
September 30, 2019**

	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 Housing Authority	Protected Areas Network Fund	Belau Submarine Cable Corporation	Total
Assets										
Current assets:										
Cash and cash equivalents	\$ 6,066,759	\$ 60,245	\$ 296,738	\$ 1,361,789	\$ 536,272	\$ 8,768,581	\$ 867,624	\$ 2,007,864	\$ 2,564,827	\$ 22,530,699
Restricted time certificates of deposit	459,060	-	-	-	-	-	-	-	-	459,060
Investments	-	-	-	-	-	-	3,243,784	1,429,791	-	4,673,575
Receivables, net	49,919	2,092,124	1,988,686	373,316	29,418	2,322,556	131,075	-	504,400	7,491,494
Inventories	93,776	319,444	519,658	16,278	-	9,025,385	-	-	-	9,974,541
Due from primary government	-	-	-	-	2,343	754,714	-	268,645	-	1,025,702
Due from grantor agency	-	-	-	-	-	-	-	-	-	-
Prepaid expenses and other	16,398	-	217,705	8,355	27,599	310,454	-	3,875	-	584,386
Total current assets	6,685,912	2,471,813	3,022,787	1,759,738	595,632	21,181,690	4,242,483	3,710,175	3,069,227	46,739,457
Noncurrent assets:										
Investments	-	-	2,222,750	424,772	-	-	-	-	-	2,647,522
Receivables	24,509,909	-	-	-	-	280,287	2,950,826	-	-	27,741,022
Capital assets:										
Nondepreciable capital assets	-	-	2,558,003	200,000	-	21,031,725	-	-	58,431	23,848,159
Capital assets, net of accumulated depreciation	682,664	1,132,670	19,709,829	1,569,244	68,374	54,939,135	454,995	6,871	11,429,202	89,992,984
Indefeasible right of use	-	-	-	-	-	-	-	-	6,155,434	6,155,434
Foreclosed real estate	547,199	-	-	-	-	-	-	-	-	547,199
Other noncurrent assets	-	-	60,773	-	-	-	-	-	41,164	101,937
Restricted assets:										
Cash and cash equivalents	-	2,196,705	250,113	-	-	-	-	-	-	2,446,818
Investments	-	5,702,249	-	-	-	-	-	-	-	5,702,249
Total noncurrent assets	25,739,772	9,031,624	24,801,468	2,194,016	68,374	76,251,147	3,405,821	6,871	17,684,231	159,183,324
Total assets	32,425,684	11,503,437	27,824,255	3,953,754	664,006	97,432,837	7,648,304	3,717,046	20,753,458	205,922,781
Deferred Outflows of Resources										
Deferred outflows from pensions	509,559	1,831,337	2,000,476	453,551	477,546	6,756,793	53,716	-	-	12,082,978
	\$ 32,935,243	\$ 13,334,774	\$ 29,824,731	\$ 4,407,305	\$ 1,141,552	\$ 104,189,630	\$ 7,702,020	\$ 3,717,046	\$ 20,753,458	\$ 218,005,759
Liabilities										
Current liabilities:										
Current portion of long-term debt	\$ 703,474	\$ -	\$ 1,531,736	\$ -	\$ -	\$ 1,558,289	\$ -	\$ -	\$ -	\$ 3,793,499
Accounts payable	303,679	392,895	1,028,617	52,124	145,001	5,799,435	-	20,275	-	7,742,026
Due to primary government	432,291	-	-	-	24,410	-	142,857	-	-	599,558
Due to fiduciary funds	359,704	-	-	-	-	-	-	-	-	359,704
Accrued payroll and others	-	560,962	465,262	76,320	47,516	1,151,129	16,282	17,090	144,240	2,478,801
Unearned revenues	140,980	507,402	900	-	-	741,543	-	39,986	-	1,430,811
Other liabilities	53,175	-	621,054	-	-	1,170,307	-	12,707	-	1,857,243
Total current liabilities	1,993,303	1,461,259	3,647,569	128,444	216,927	10,420,703	159,139	90,058	144,240	18,261,642
Noncurrent liabilities:										
Long-term debt, net of current portion	1,577,997	-	15,839,333	-	-	2,977,850	-	-	-	20,395,180
Net pension liability	1,954,037	10,702,283	8,712,379	1,898,628	1,111,286	19,976,072	313,849	-	-	44,668,534
Due to primary government	4,679,527	-	-	-	-	18,879,031	4,714,286	-	19,370,542	47,643,386
Due to fiduciary funds	2,043,083	-	-	-	-	-	-	-	-	2,043,083
Total noncurrent liabilities	10,254,644	10,702,283	24,551,712	1,898,628	1,111,286	41,832,953	5,028,135	-	19,370,542	114,750,183
Total liabilities	12,247,947	12,163,542	28,199,281	2,027,072	1,328,213	52,253,656	5,187,274	90,058	19,514,782	133,011,825
Deferred Inflows of Resources										
Deferred inflows from pensions	414,182	3,200,479	1,774,821	564,936	292,028	3,554,703	103,858	-	-	9,905,007
Net Position										
Net position:										
Net investment in capital assets	682,664	1,132,670	4,896,763	1,769,244	68,374	54,115,690	454,995	6,871	(1,727,475)	61,399,796
Restricted:										
Endowment	-	5,451,819	-	-	-	-	-	-	-	5,451,819
Debt service	9,796,076	-	250,113	-	-	-	-	-	-	10,046,189
Other purposes	9,794,374	2,178,880	-	521,858	-	-	3,456,690	3,620,117	-	19,571,919
Unrestricted	-	(10,792,616)	(5,296,247)	(475,805)	(547,063)	(5,734,419)	(1,500,797)	-	2,966,151	(21,380,796)
Total net position	20,273,114	(2,029,247)	(149,371)	1,815,297	(478,689)	48,381,271	2,410,888	3,626,988	1,238,676	75,088,927
	\$ 32,935,243	\$ 13,334,774	\$ 29,824,731	\$ 4,407,305	\$ 1,141,552	\$ 104,189,630	\$ 7,702,020	\$ 3,717,046	\$ 20,753,458	\$ 218,005,759

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, 2019

	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 Housing Authority	Protected Areas Network Fund	Belau Submarine Cable Corporation	Total
Operating revenues:										
Charges for services	\$ 2,074,179	\$ 598,218	\$ 13,486,705	\$ 780,517	\$ -	\$ 24,285,889	\$ 139,818	\$ -	\$ 2,972,950	\$ 44,338,276
Grants and contributions	-	3,564,155	-	926,499	-	-	-	-	-	4,490,654
Other	623,240	56,631	247,797	101,332	108,300	1,281,991	2,470	-	-	2,421,761
Total operating revenues	<u>2,697,419</u>	<u>4,219,004</u>	<u>13,734,502</u>	<u>1,808,348</u>	<u>108,300</u>	<u>25,567,880</u>	<u>142,288</u>	<u>-</u>	<u>2,972,950</u>	<u>51,250,691</u>
Operating expenses:										
Cost of services	-	4,504,017	8,575,171	-	-	24,049,905	-	1,584,129	-	38,713,222
Depreciation	44,194	182,556	2,669,183	233,798	19,679	5,385,231	4,273	862	875,678	9,415,454
Administration costs	1,046,922	2,150,969	2,853,615	1,571,084	1,963,872	2,997,307	372,726	318,545	726,442	14,001,482
Total operating expenses	<u>1,091,116</u>	<u>6,837,542</u>	<u>14,097,969</u>	<u>1,804,882</u>	<u>1,983,551</u>	<u>32,432,443</u>	<u>376,999</u>	<u>1,903,536</u>	<u>1,602,120</u>	<u>62,130,158</u>
Operating income (loss)	<u>1,606,303</u>	<u>(2,618,538)</u>	<u>(363,467)</u>	<u>3,466</u>	<u>(1,875,251)</u>	<u>(6,864,563)</u>	<u>(234,711)</u>	<u>(1,903,536)</u>	<u>1,370,830</u>	<u>(10,879,467)</u>
Nonoperating revenues (expenses):										
Contributions from primary government	-	2,558,000	-	400,000	1,881,000	500,000	70,000	1,443,235	-	6,852,235
Net change in the fair value of investments	-	177,389	118,757	42,959	-	-	(276,646)	494,184	-	556,643
Interest income	46,239	-	-	-	-	2,385	1,412	2,567	116	52,719
Grant revenues	-	-	-	-	-	45,000	-	-	-	45,000
Interest expense	(407,163)	-	(840,515)	-	-	(917,380)	-	-	(646,533)	(2,811,591)
Other, net	19,926	32,600	(98,804)	-	-	(1,479,181)	15,386	-	-	(1,510,073)
Total nonoperating revenues (expenses), net	<u>(340,998)</u>	<u>2,767,989</u>	<u>(820,562)</u>	<u>442,959</u>	<u>1,881,000</u>	<u>(1,849,176)</u>	<u>(189,848)</u>	<u>1,939,986</u>	<u>(646,417)</u>	<u>3,184,933</u>
Capital contributions	-	-	-	-	-	844,597	-	-	-	844,597
Change in net position	1,265,305	149,451	(1,184,029)	446,425	5,749	(7,869,142)	(424,559)	36,450	724,413	(6,849,937)
Net position at beginning of year	<u>19,007,809</u>	<u>(2,178,698)</u>	<u>1,034,658</u>	<u>1,368,872</u>	<u>(484,438)</u>	<u>56,250,413</u>	<u>2,835,447</u>	<u>3,590,538</u>	<u>514,263</u>	<u>81,938,864</u>
Net position at end of year	<u>\$ 20,273,114</u>	<u>\$ (2,029,247)</u>	<u>\$ (149,371)</u>	<u>\$ 1,815,297</u>	<u>\$ (478,689)</u>	<u>\$ 48,381,271</u>	<u>\$ 2,410,888</u>	<u>\$ 3,626,988</u>	<u>\$ 1,238,676</u>	<u>\$ 75,088,927</u>

See accompanying notes to basic financial statements.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2019

(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, 2019

(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* and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – an Amendment of GASB Statements No 14 and 34*. 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, 2019

(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 Housing Authority (PHA): PHA was created by an act of the Congress of Micronesia in 1973, the "Territory Community Housing Act". PHA 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. PHA is authorized to finance and construct homes as needed. The Republic provides financial support to PHA 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, 2019

(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 Medical Savings Fund and 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, 2019

(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 \$306,011,790 of restricted net position, of which \$10,999,914 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, 2019

(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, 2019

(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, 2019

(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, 2019

(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; and has been designated as nonspendable in the fund balance.

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, 2019

(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 that equal or exceed \$50,000 are capitalized. Vehicles that equal to or exceed \$5,000 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, 2019.

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, 2019

(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, 2019

(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 2019, the Republic implemented the following pronouncements:

- GASB 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.
- GASB 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 implementation of these statements did not have a material effect on the accompanying 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.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2019

(1) Summary of Significant Accounting Policies, Continued

V. New Accounting Standards, Continued

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 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.

In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*, which clarifies the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The provisions in Statement No. 91 are effective for fiscal years beginning after December 15, 2020. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In May 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postpones the effective dates of GASB Statement No. 84, 89, 90 and 91 by one year and GASB Statement No. 87 by 18 months; however, earlier application of the provisions addressed in GASB Statement No. 95 is encouraged and is permitted to the extent specified in each pronouncement as originally issued. Management has yet to ascertain whether implementation of these statements will be postponed as provided in GASB Statement No. 95.

W. Encumbrances

The Republic utilizes encumbrance accounting to identify fund obligations. Encumbrances represent commitments related to unperformed contracts for goods. At September 30, 2019, 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>2,054,342</u>	\$ <u>5,377,478</u>	\$ <u>10,039,748</u>	\$ <u>1,157,341</u>	\$ <u>18,628,909</u>

REPUBLIC OF PALAU

Notes to Financial Statements September 30, 2019

(1) Summary of Significant Accounting Policies, Continued

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, 2018 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;
 - 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).

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2019

(2) Deposits and Investments, Continued

- (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.

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.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2019

(2) Deposits and Investments, Continued

A. Deposits, Continued

As of September 30, 2019, the carrying amount of the primary government's total cash and cash equivalents was \$46,840,432 and the corresponding bank balances were \$49,054,665. Of the bank balances, \$49,054,593 is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2019, bank deposits in the amount of \$500,000 were FDIC insured. The remaining bank deposits of \$72 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, 2019, the carrying amount of the fiduciary fund's total cash and cash equivalents was \$2,721,543 and the corresponding bank balances were \$2,833,634, which are maintained in financial institutions subject to FDIC insurance. As of September 30, 2019, 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, 2019, the carrying amount in the aggregate of the discretely presented component units' total cash and cash equivalents and time certificates of deposit was \$25,436,577 and the corresponding bank balances were \$26,413,533, 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, 2019, bank deposits in the amount of \$4,567,684 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, 2019, investments of the primary government are as follows:

General Fund:	
Fixed income	\$ 921,336
Equities	3,194,473
Mutual funds	658,059
Money market funds	<u>118,161</u>
	<u>4,892,029</u>
Permanent Fund:	
Fixed income	67,834,549
Equities	178,675,225
Real estate and tangibles	17,494,456
Alternatives	14,573,857
Mutual funds	550,011
Money market funds	<u>7,243,221</u>
	<u>286,371,319</u>
Other Governmental Funds:	
Equities	2,284,649
Money market funds	<u>18,003</u>
	<u>2,302,652</u>
	<u>\$ 293,566,000</u>

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2019

(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, 2019.

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, 2019, 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	\$525,037	\$ -	\$ 91,438	\$330,515	\$103,084	AAA
Federal Agencies	30,022	30,022	-	-	-	AA+
Corporate Bonds	16,193	-	-	16,193	-	AA
Corporate Bonds	99,958	-	36,114	37,340	26,504	A
Corporate Bonds	10,149	-	10,149	-	-	AA-
Corporate Bonds	57,663	-	46,759	10,904	-	A-
Corporate Bonds	57,601	-	41,500	16,101	-	BBB+
Corporate Bonds	114,117	-	41,776	72,341	-	BBB
Corporate Bonds	<u>10,596</u>	<u>-</u>	<u>10,596</u>	<u>-</u>	<u>-</u>	BBB-
	<u>\$921,336</u>	<u>\$30,022</u>	<u>\$278,332</u>	<u>\$483,394</u>	<u>\$129,588</u>	

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2019

(2) Deposits and Investments, Continued

B. Investments, Continued

Primary Government, Continued

As of September 30, 2019, 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	\$ 225,670	\$ -	\$ -	\$ 225,670	\$ -	AA+
Asset-backed Security	1,443,668	-	-	22,830	1,420,838	Not Rated
Corporate Bonds	1,533,443	349,773	725,384	131,778	326,508	AAA
Corporate Bonds	585,107	-	328,645	125,976	130,486	AA+
Corporate Bonds	191,328	75,005	-	116,323	-	AA
Corporate Bonds	1,823,478	205,036	1,202,236	268,190	148,016	AA-
Corporate Bonds	1,984,500	-	1,394,425	350,987	239,088	A+
Corporate Bonds	4,070,837	437,199	2,792,326	480,675	360,637	A
Corporate Bonds	6,385,523	584,078	4,938,589	315,850	547,006	A-
Corporate Bonds	2,981,267	55,037	1,906,846	940,780	78,604	BBB+
Corporate Bonds	824,915	-	225,839	252,142	346,934	BBB
Corporate Bonds	238,754	-	101,271	137,483	-	BBB-
Corporate Bonds	966,569	-	221,788	701,789	42,992	BB+
Corporate Bonds	1,057,127	-	642,716	414,411	-	BB
Corporate Bonds	2,553,945	-	1,159,301	1,394,644	-	BB-
Corporate Bonds	2,448,468	-	702,580	1,745,888	-	B+
Corporate Bonds	1,712,388	-	915,450	796,938	-	B
Corporate Bonds	1,278,029	-	703,266	574,763	-	B-
Corporate Bonds	295,499	-	159,900	135,599	-	CCC+
Corporate Bonds	501,301	-	397,129	104,172	-	None
Corporate Bonds	6,479,991	38,570	4,638,637	1,388,915	413,869	Not Rated
Federal Agencies	3,764,922	234,993	2,086,831	1,129,679	313,419	AA+
Federal Agencies	595,740	-	150,740	445,000	-	Not Rated
International	8,856,031	8,856,031	-	-	-	Not Rated
Municipal Bonds	21,711	-	21,711	-	-	AAA
Municipal Bonds	298,314	-	228,238	-	70,076	AA+
Municipal Bonds	55,342	-	55,342	-	-	AA
Municipal Bonds	298,020	125,214	-	-	172,806	A+
Municipal Bonds	834,953	204,140	381,473	249,340	-	None
Treasury Securities	496,448	-	101,652	303,561	91,235	AAA
Treasury Securities	<u>13,031,261</u>	<u>503,280</u>	<u>2,296,096</u>	<u>7,823,347</u>	<u>2,408,538</u>	AA+
	<u>\$67,834,549</u>	<u>\$11,668,356</u>	<u>\$28,478,411</u>	<u>\$20,576,730</u>	<u>\$7,111,052</u>	

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2019

(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, 2019:

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	\$ 525,037	\$ -	\$ 525,037	\$ -
U.S. Government Agencies	30,022	-	30,022	-
Corporate bonds	<u>366,277</u>	<u>-</u>	<u>366,277</u>	<u>-</u>
	921,336	-	921,336	-
Equity securities:				
U.S. equities	<u>3,194,473</u>	<u>3,194,473</u>	<u>-</u>	<u>-</u>
Total investments by fair value level	4,115,809	\$ <u>3,194,473</u>	\$ <u>921,336</u>	\$ <u>-</u>
Investments measured at NAV:				
Mutual funds	658,059			
Investments measured at amortized cost:				
Cash management account	<u>118,161</u>			
	\$ <u>4,892,029</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	\$ 13,527,709	\$ -	\$ 13,527,709	\$ -
U.S. Government Agencies	4,360,661	-	4,360,661	-
Asset-backed Securities	1,669,338	-	1,669,338	-
Municipal obligations	1,508,340	-	1,508,340	-
International Equity	8,856,031	8,856,031	-	-
Corporate notes	<u>37,912,470</u>	<u>-</u>	<u>37,912,470</u>	<u>-</u>
	67,834,549	8,856,031	58,978,518	-
Equity securities:				
U.S. equities	102,531,876	102,531,876	-	-
Non-US Equities	76,143,349	76,143,349	-	-
Real Estate and tangibles	<u>17,494,456</u>	<u>-</u>	<u>-</u>	<u>17,494,456</u>
Total investments at fair value	264,004,230	\$ <u>187,531,256</u>	\$ <u>58,978,518</u>	\$ <u>17,494,456</u>
Investments measured at NAV:				
Alternatives	14,573,857			
Mutual Funds	550,011			
Investments measured at amortized cost:				
Cash management account	<u>7,243,221</u>			
	\$ <u>286,371,319</u>			

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2019

(2) Deposits and Investments, Continued

B. Investments, Continued

Fiduciary Funds

Republic of Palau Social Security Retirement Fund:

As of September 30, 2019, investments of the Republic of Palau Social Security Retirement Fund are as follows:

Fixed income	\$ 34,071,968
Mutual funds	84,540,251
Money market funds	<u>223,402</u>
	\$ <u>118,835,621</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, 2019

(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, 2019, 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 notes	\$ 3,828,763	\$ 1,144,067	\$ 2,364,035	\$ 320,661	\$ -	Aaa	AAA
U.S. Treasury bonds	4,141,246	-	-	-	4,141,246	Aaa	AAA
Municipal bonds	516,756	230,393	-	-	286,363	A2	A+
Municipal bonds	105,653	-	105,653	-	-	Aa1	AA
Municipal bonds	354,196	-	354,196	-	-	Unrated	AA+
Municipal bonds	473,746	-	-	473,746	-	AAA	Unrated
Municipal bonds	129,675	25,517	-	104,158	-	Aa2	N/A
Municipal bonds	86,680	-	-	-	86,680	Aaa	AA+
Municipal bonds	57,364	-	57,364	-	-	Unrated	AAA
Municipal bonds	158,713	-	-	158,713	-	A+	Unrated
Corporate bonds	574,810	-	-	574,810	-	A1	A
Corporate bonds	171,390	-	-	171,390	-	Unrated	A-
Corporate bonds	130,238	-	-	130,238	-	Unrated	A+
Corporate bonds	543,800	-	239,134	162,856	141,810	Unrated	AA-
Corporate bonds	1,322,217	350,948	447,396	388,697	135,176	A2	A
Corporate bonds	909,325	-	683,241	226,084	-	Unrated	A-
Corporate bonds	211,632	-	-	211,632	-	Unrated	A+
Corporate bonds	159,347	-	159,347	-	-	Unrated	BBB+
Corporate bonds	167,215	-	-	-	167,215	A3	A+
Corporate bonds	364,423	105,071	259,352	-	-	Unrated	BBB+
Corporate bonds	160,094	160,094	-	-	-	Aa1	AA-
Corporate bonds	277,023	-	152,471	-	124,552	Unrated	AA+
Corporate bonds	860,492	250,185	310,494	-	299,813	Aa2	A+
Corporate bonds	282,667	-	282,667	-	-	Unrated	AA
Corporate bonds	101,565	-	101,565	-	-	Unrated	AA-
Corporate bonds	209,164	-	209,164	-	-	Aa3	A
Corporate bonds	364,656	-	-	-	364,656	Unrated	A-
Corporate bonds	390,981	-	390,981	-	-	Unrated	A+
Corporate bonds	432,715	325,074	107,641	-	-	Unrated	AA-
Corporate bonds	361,075	-	-	361,075	-	Unrated	AA+
Corporate bonds	201,562	-	-	201,562	-	Aaa	AA+
Corporate bonds	2,465,883	614,690	1,092,644	132,485	626,064	Unrated	AAA
Corporate bonds	436,335	-	436,335	-	-	Aaa	Unrated
Corporate bonds	350,980	-	-	350,980	-	Aaa	AA+
Corporate bonds	1,341,187	300,144	436,552	398,289	206,202	Unrated	AAA
Corporate bonds	266,982	-	-	-	266,982	Baa1	A
Corporate bonds	845,001	-	-	-	845,001	Unrated	A-
Corporate bonds	361,735	-	-	161,314	200,421	Unrated	BBB
Corporate bonds	934,689	-	466,576	468,113	-	Unrated	BBB+
Corporate bonds	236,200	-	-	236,200	-	Baa2	A-
Corporate bonds	185,784	-	-	-	185,784	Unrated	BBB
Corporate bonds	63,149	-	-	-	63,149	Baa3	BBB
Corporate bonds	210,667	-	-	210,667	-	N/A	AA-
Corporate bonds	250,000	-	-	250,000	-	Aaa	AAA
Government agencies	623,438	-	623,438	-	-	Aaa	Unrated
Government agencies	5,831,120	324,990	2,246,326	2,534,298	725,506	Aaa	AA+
Government agencies	1,619,635	-	322,047	-	1,297,588	Unrated	AAA
	<u>\$ 34,071,968</u>	<u>\$ 3,831,173</u>	<u>\$ 11,848,619</u>	<u>\$ 8,227,968</u>	<u>\$ 10,164,208</u>		

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2019

(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, 2019:

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	\$ 7,970,009	\$ 7,970,009	\$ -	\$ -
State and local government	8,074,193	-	8,074,193	-
Other U.S. Government obligations	1,882,783	-	1,882,783	-
Corporate bonds	<u>16,144,983</u>	<u>-</u>	<u>16,144,983</u>	<u>-</u>
 Total investments by fair value level	 34,071,968	 \$ <u>7,970,009</u>	 \$ <u>26,101,959</u>	 \$ <u>-</u>
Investments measured at NAV:				
Mutual funds	84,540,251			
Investments measured at amortized cost:				
Money market funds	<u>223,402</u>			
	 \$ <u>118,835,621</u>			

Republic of Palau Civil Service Pension Trust Fund:

As of September 30, 2019, investments of the Republic of Palau Civil Service Pension Trust Fund are as follows:

Equities	\$ 13,485,520
Fixed income	9,306,838
Mutual Funds	2,517,662
Money market funds	<u>621,183</u>
	 \$ <u>25,931,203</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, 2019

(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, 2019

(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 managers 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, 2019

(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, 2019, 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	\$ 1,638,496	\$ 269,800	\$ 1,368,696	\$ -	\$ -	Aaa
Mortgage and asset backed securities	53,692	-	53,692	-	-	Not rated
Government bonds	2,094,844	-	94,852	-	1,999,992	Aaa
Corporate bonds	115,959	-	115,959	-	-	Aa1
Corporate bonds	1,262,971	-	1,262,971	-	-	A1
Corporate bonds	2,160,753	-	2,023,033	137,720	-	A2
Corporate bonds	1,668,937	-	1,341,124	327,813	-	A3
Corporate bonds	311,186	-	311,186	-	-	Not rated
	<u>\$ 9,306,838</u>	<u>\$ 269,800</u>	<u>\$ 6,571,513</u>	<u>\$ 465,533</u>	<u>\$ 1,999,992</u>	

The Republic of Palau Civil Service Pension Trust Fund has the following fair value measurements as of September 30, 2019:

Investments by fair value level:	Total	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Debt securities				
U.S. Treasury Bonds	\$ 2,094,844	\$ 2,094,844	\$ -	\$ -
Federal Home Loan Mortgage Corporation	1,638,496	-	1,638,496	-
Federal National Mortgage Association	53,692	-	53,692	-
Corporate bonds	<u>5,519,806</u>	<u>-</u>	<u>5,519,806</u>	<u>-</u>
	<u>9,306,838</u>	<u>2,094,844</u>	<u>7,211,994</u>	<u>-</u>
Equity securities:				
Real Estate Investment Trusts	2,297,465	2,297,465	-	-
Other - U.S. equities	4,596,652	4,596,652	-	-
Other - Non- U.S. equities	<u>6,591,403</u>	<u>6,591,403</u>	<u>-</u>	<u>-</u>
	<u>13,485,520</u>	<u>13,485,520</u>	<u>-</u>	<u>-</u>
Total investments by fair value level	22,792,358	\$ <u>15,580,364</u>	\$ <u>7,211,994</u>	\$ <u>-</u>
Investments measured at NAV:				
Mutual funds	2,517,662			
Investments measured at amortized cost:				
Money market funds	<u>621,183</u>			
	<u>\$ 25,931,203</u>			

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2019

(2) Deposits and Investments, Continued

B. Investments, Continued

Discretely Presented Component Units

As of September 30, 2019, investments of the discretely presented component units are as follows:

Palau Community College (PCC):

Fixed income	\$ 1,706,354
Domestic equities	1,720,819
Non-U.S. equities	1,603,884
Real estate and tangibles	544,203
Cash and cash alternatives	<u>126,989</u>
	<u>\$ 5,702,249</u>

The investment policy of PCC is as follows:

- All individual fixed income securities held in the portfolio shall have a Moody's, Standard & Poor's or Fitch 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.
- Total portfolio quality (capitalization weighted) shall maintain an "A" minimum rating.

As of September 30, 2019, maturities of investments in fixed income securities for PCC are as follows:

Investment Type	Investment Maturities (In Years)					Ratings	
	Fair Value	Less Than 1	1 - 5	6 - 10	More than 10	Moody	Standard & Poor's
Corporate bonds	\$ 12,725	\$ -	\$ 12,725	\$ -	\$ -	BAA2	BBB
Corporate bonds	4,294	-	4,294	-	-	A3	A-
Government securities	104,586	-	104,586	-	-	AAA	AA+
Mutual funds	247,456	247,456	-	-	-	No rating	No rating
US Treasury securities	216,656	-	216,656	-	-	AAA	No rating
Corporate bonds	44,479	-	-	44,479	-	A2	A
Corporate bonds	172,417	-	-	172,417	-	A2	A-
Corporate bonds	54,651	-	-	54,651	-	A3	A-
Corporate bonds	89,203	-	-	89,203	-	A3	BBB+
Corporate bonds	36,158	-	-	36,158	-	BAA2	BBB
Corporate bonds	47,000	-	-	47,000	-	BAA3	BBB
Government securities	119,471	-	-	119,471	-	AAA	AA+
US Treasury securities	241,978	-	-	241,978	-	AAA	No rating
Corporate bonds	32,712	-	-	-	32,712	A3	A-
Corporate bonds	45,015	-	-	-	45,015	BAA1	A-
Corporate bonds	31,262	-	-	-	31,262	BAA1	BBB+
Corporate bonds	40,009	-	-	-	40,009	BAA2	BBB
US Treasury securities	<u>166,282</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>166,282</u>	AAA	No rating
	<u>\$ 1,706,354</u>	<u>\$ 247,456</u>	<u>\$ 338,261</u>	<u>\$ 805,357</u>	<u>\$ 315,280</u>		

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2019

(2) Deposits and Investments, Continued

B. Investments, Continued

Discretely Presented Component Units, Continued

Palau Community College (PCC), Continued:

PCC has the following fair value measurements as of September 30, 2019:

	Total	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Investments by fair value level:				
Debt securities:				
U.S. Treasury securities	\$ 624,915	\$ 624,915	\$ -	\$ -
Government securities	224,057	-	224,057	-
Corporate bonds	<u>609,926</u>	<u>-</u>	<u>609,926</u>	<u>-</u>
	1,458,898	624,915	833,983	-
Equity securities:				
Common stock	<u>3,868,921</u>	<u>3,868,921</u>	<u>-</u>	<u>-</u>
Total investments by fair value level	5,327,819	\$ <u>4,493,836</u>	\$ <u>833,983</u>	\$ <u>-</u>
Investments measured at the NAV:				
Mutual funds	247,456			
Investments measured at amortized cost				
Cash management account	<u>126,974</u>			
	<u>\$ 5,702,249</u>			

Palau National Communications Corporation (PNCC):

	Actual Allocation	Allocation Per Policy	
Fixed income	29%	36%	\$ 634,336
Domestic equities	49%	43%	1,084,607
Non-U.S. equities	10%	19%	225,014
Exchange-traded funds	1%	1%	36,315
Cash and cash equivalents	11%	1%	<u>242,478</u>
			<u>\$ 2,222,750</u>

The investment policy of PNCC is as follows:

General:

- Any restrictions set forth by applicable law governing limits, size or quality of investments, if more stringent than those of this investment policy, will be the governing restriction.
- U.S. and non-US common stocks, ADRs (American Depository Receipts), convertible bonds, preferred stocks, fixed-income securities, mutual funds and short-term securities are permissible investments.
- No individual security of any issuer, other than that of the United States Government, shall constitute more than 10% (at cost) of any Investment Manager's portfolio.
- Holdings of any issuer shall constitute no more than 5% of the outstanding securities of such issuer.
- Investments in a registered mutual fund managed by the Investment Manager are subject to prior approval by the Board of Directors.
- The following securities and transactions are not authorized: letter stock and other unregistered securities; non-negotiable securities; commodities or other commodity contracts; and short sales or margin transactions. Options and futures are restricted, except by petition to the Board of Directors for approval.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2019

(2) Deposits and Investments, Continued

B. Investments, Continued

Discretely Presented Component Units, Continued

Palau National Communications Corporation (PNCC), Continued:

Equities:

- 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 manager's stated strategy and style.
- Equity holdings shall be restricted to readily marketable securities of corporations that are actively traded on the major exchanges and over the counter.
- 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.
- Common stock and preferred stock of any institution or entity created or existing under the laws of the United States of America or any state, district, territory, or District of Columbia, or of any foreign country are permissible investments.

U.S. Fixed Income:

- All fixed income securities (with the exception of U.S. Treasury or Agency securities which are unrated) shall have a Moody's, Standard & Poor's and/or a Fitch's credit quality rating of no less than "BBB".
- 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 written authorization. Total portfolio quality (capitalization weighted) shall maintain an "A" minimum rating.

Cash/Cash Equivalents:

- The following investments will be 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 Corporation and a "P-1" rating by Moody's Investor Service and be issued by corporations having total assets in excess of one billion dollars (\$1,000,000,000).
 3. Certificates 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 Statement and with a market value of 102%, marked to market daily.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2019

(2) Deposits and Investments, Continued

B. Investments, Continued

Discretely Presented Component Units, Continued

Palau National Communications Corporation (PNCC), Continued:

Cash/Cash Equivalents, Continued:

5. Money Market Funds: Money Market Funds must be registered with the Securities and Exchange Commission (SEC) under the Investment Company Act of 1940.

- No single issue shall have a maturity of greater than one (1) year.
- The money market funds must have an average maturity of less than one (1) year.

As of September 30, 2019, maturities of investments in fixed income securities for PNCC are as follows:

Investment type	Fair Value	Investment maturities (in years)				Credit Rating	
		Less than		More than		Moody	Standard & Poor
		1	1-5	6-10	10		
Corporate bonds	\$ 20,025	\$ -	\$ -	20,025	\$ -	Baa2	BBB
Corporate bonds	19,668	-	-	19,668	-	A3	A-
Corporate bonds	19,280	-	-	19,280	-	A2	A
Corporate bonds	20,207	-	-	20,207	-	A2	A-
Corporate bonds	19,928	-	-	19,928	-	Baa3	BBB
Corporate bonds	19,664	-	-	19,664	-	Baa2	BBB
Corporate bonds	19,528	-	-	19,528	-	A3	A-
Corporate bonds	19,148	-	-	19,148	-	A3	A-
Corporate bonds	19,162	-	-	19,162	-	A3	BBB+
Corporate bonds	20,000	-	-	20,000	-	A2	A-
Corporate bonds	19,090	-	-	19,090	-	Baa2	BBB
Corporate bonds	19,931	-	-	-	19,931	Baa1	A-
Corporate bonds	20,498	-	-	20,498	-	A2	A-
Federal agencies	51,149	-	51,149	-	-	Aaa	AA+
Federal agencies	19,293	-	19,293	-	-	Aaa	AA+
U.S. Treasury	307,765	-	58,408	179,845	69,512	Aaa	No rating
	<u>\$ 634,336</u>	<u>\$ -</u>	<u>\$ 128,850</u>	<u>\$ 416,043</u>	<u>\$ 89,443</u>		

Investments by fair value level:	Total	Fair Value Measurement Using		
		Level 1	Level 2	Level 3
Fixed income securities:				
Corporate bonds	\$ 256,129	\$ -	\$ 256,129	\$ -
U.S. Treasury securities	307,765	307,765	-	-
Federal agencies	70,442	-	70,442	-
	634,336	307,765	326,571	-
Equity securities:				
U.S. equities	1,084,607	1,084,607	-	-
Non-U.S. equities	225,014	225,014	-	-
Total investments by fair value level	1,943,957	\$ 1,617,386	\$ 326,571	\$ -
Investments measured at NAV:				
Exchange-traded funds	36,315			
Investments measured at amortized cost:				
Cash management account	242,478			
	<u>\$ 2,222,750</u>			

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2019

(2) Deposits and Investments, Continued

B. Investments, Continued

Discretely Presented Component Units, Continued

Palau International Coral Reef Center (PICRC):

Cash management account	\$ 9,294
Exchange-traded and closed-end funds	<u>415,478</u>
	\$ <u>424,772</u>

The investment policy of the PICRC is as follows:

1. Any pertinent restrictions existing under the laws of the Republic with respect to PICRC, 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.
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:

1. 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.
2. Equity holdings shall be restricted to readily marketable securities of corporations that are actively traded on the major exchanges and over the counter.
3. 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.
4. 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.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2019

(2) Deposits and Investments, Continued

B. Investments, Continued

Discretely Presented Component Units, Continued

Palau International Coral Reef Center (PICRC), Continued

Fixed Income:

1. 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.
2. 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.
3. 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.
4. Total portfolio quality (capitalization weighted) shall maintain an “A” rating.

Cash and Cash Equivalents:

1. 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.
2. 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.
3. No single issue shall have a maturity of greater than two years.
4. Custodial Sweep Account or similar money market portfolios are permitted and must have an average maturity of less than one year.

PICRC has the following fair value measurement as of September 30, 2019:

	<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:				
Exchange traded funds	\$ <u>415,478</u>	\$ <u>415,478</u>	\$ _____ -	\$ _____ -
Total investments by fair value level	415,478	\$ <u>415,478</u>	\$ _____ -	\$ _____ -
Investments measured at amortized cost:				
Cash management account	<u>9,294</u>			
	<u>\$ 424,772</u>			

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2019

(2) Deposits and Investments, Continued

B. Investments, Continued

Discretely Presented Component Units, Continued

Palau Housing Authority (PHA):

Equities	\$ 2,036,453
Fixed income	682,949
Money market funds	<u>524,382</u>
	\$ <u>3,243,784</u>

The investment policy of the PHA is as follows:

1. Any pertinent restrictions existing under the laws of ROP with respect to the Authority, that may exist now or in the future, will be the governing restriction.
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.
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. 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 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:

A. Equity Investments

1. 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 sector allocations of the individual index benchmarks set for each Investment Manager.
2. Equity holdings shall be restricted to readily marketable securities of corporations that are actively traded on the major exchanges and over the counter.
3. 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.
4. 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.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2019

(2) Deposits and Investments, Continued

B. Investments, Continued

Discretely Presented Component Units, Continued

Palau Housing Authority (PHA), Continued

B. Fixed Income Investments

1. 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.
2. 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.
3. 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 Commissioners.
4. Total portfolio quality (capitalization weighted) shall maintain an "A" rating.

C. Cash and Cash Equivalents

1. 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, bankers' acceptances, certificates 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.
2. In the case of certificates of deposit, they must be issued by FDIC insured institutions. Deposits in institutions with less than \$10,000,000 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.
3. No single issue shall have a maturity of greater than two (2) years.
4. Custodial sweep accounts or similar money market portfolios are permitted and must have an average maturity of less than one (1) year.

All fixed income securities have a credit rating of AAA based on Moody's credit quality rating and mature within one to five years.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2019

(2) Deposits and Investments, Continued

B. Investments, Continued

Discretely Presented Component Units, Continued

Palau Housing Authority (PHA), Continued

The PHA has the following fair value measurements as of September 30, 2019:

	<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:				
Exchange trade funds and closed-end funds:				
Equities	\$ <u>2,719,402</u>	\$ <u>2,719,402</u>	\$ _____	\$ _____
Total investments by fair value level	2,719,402	\$ <u>2,719,402</u>	\$ _____	\$ _____
Investments measured at amortized cost:				
Cash management account	<u>524,382</u>			
	<u>\$ 3,243,784</u>			

Protected Areas Network Fund (PANF):

Equities	\$ 845,660
Money market funds	290,328
Fixed income	<u>293,803</u>
	<u>\$ 1,429,791</u>

The investment policy of the PANF 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.
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.

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.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2019

(2) Deposits and Investments, Continued

B. Investments, Continued

Discretely Presented Component Units, Continued

Protected Areas Network Fund (PANF), Continued

- (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).

For assets managed by Investment Committee – From time to time Investment Committee may choose to invest working capital and pending loan funds in certificates of deposit offered by minority and/or community financial institutions. These financial institutions may not meet the minimum capital requirements set forth above.

- (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.
- (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:

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2019

(2) Deposits and Investments, Continued

B. Investments, Continued

Discretely Presented Component Units, Continued

Protected Areas Network Fund (PANF), Continued

Fixed Income, Continued:

- (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, 2019, investments in debt securities for the Protected Areas Network Fund were as follows:

<u>Investment Type</u>	<u>Investment Maturities (In Years)</u>					<u>Moody's Rating</u>
	<u>Fair Value</u>	<u>Less Than 1</u>	<u>1 - 5</u>	<u>6 - 10</u>	<u>More Than 10</u>	
U.S. Treasury notes	\$ 93,224	\$ -	\$ 49,763	\$ 43,461	\$ -	Aaa
U.S. Treasury bond	35,363	-	-	-	35,363	Aaa
Other U.S. Government obligation	44,412	-	44,412	-	-	Aaa
Corporate bonds	36,217	-	-	36,217	-	A2
Corporate bonds	43,482	-	8,587	34,895	-	A3
Corporate bonds	13,890	-	-	-	13,890	Baa1
Corporate bonds	18,215	-	8,483	9,732	-	Baa2
Corporate bonds	9,000	-	-	9,000	-	Baa3
	<u>\$ 293,803</u>	<u>\$ -</u>	<u>\$ 111,245</u>	<u>\$ 133,305</u>	<u>\$ 49,253</u>	

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2019

(2) Deposits and Investments, Continued

B. Investments, Continued

Discretely Presented Component Units, Continued

Protected Areas Network Fund (PANF), Continued

The PANF has the following fair value measurements as of September 30, 2019:

	<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	\$ 128,587	\$ 128,587	\$ -	\$ -
Other U.S. Government obligations	44,412	-	44,412	-
Corporate bonds	<u>120,804</u>	<u>-</u>	<u>120,804</u>	<u>-</u>
	293,803	128,587	165,216	-
Equity securities:				
Common stock	<u>845,660</u>	<u>845,660</u>	<u>-</u>	<u>-</u>
Total investments by fair value level	1,139,463	\$ <u>974,247</u>	\$ <u>165,216</u>	\$ <u>-</u>
Investments measured at amortized cost:				
Cash management account	<u>290,328</u>			
	<u>\$ 1,429,791</u>			

(3) Receivables

Primary Government

Receivables as of September 30, 2019, 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	5,891,709	6,530,069	-	5,448,179	-	17,869,957
Federal agencies	-	5,428,668	-	-	-	5,428,668
Contributions	-	-	-	-	6,866,134	6,866,134
Accrued interest	-	-	-	-	270,277	270,277
Other	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>462,590</u>	<u>462,590</u>
	10,645,353	11,958,737	-	5,448,179	7,599,001	35,651,270
for uncollectibles	<u>(3,731,000)</u>	<u>-</u>	<u>-</u>	<u>(5,218,630)</u>	<u>(2,326,240)</u>	<u>(11,275,870)</u>
Net receivables	<u>\$ 6,914,353</u>	<u>\$ 11,958,737</u>	<u>\$ -</u>	<u>\$ 229,549</u>	<u>\$ 5,272,761</u>	<u>\$ 24,375,400</u>

Certain receivables due from federal grantor agencies recorded within the Special Revenue Grants Fund remain uncollected. The Republic is currently negotiating with these grantors for a final determination insofar as collection on these amounts. Management is of the opinion that collection efforts will be favorable and thus no allowance for uncollectible accounts is considered necessary.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2019

(3) Receivables, Continued

Discretely Presented Component Units

Receivables as of September 30, 2019, 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 Housing Authority</u>	<u>Belau Submarine Cable Corporation</u>	<u>Total</u>
General	\$ -	\$ 3,658,665	\$ 3,109,464	\$ 198,152	\$ -	\$ 4,532,711	\$ 157	\$ 504,400	\$ 12,003,549
Federal agencies	-	940,014	-	-	-	-	-	-	940,014
Loans	25,744,132	-	-	-	-	-	3,173,531	-	28,917,663
Accrued interest	139,543	-	-	-	-	-	13,816	-	153,359
Other	<u>85,155</u>	<u>292,163</u>	<u>15,173</u>	<u>189,895</u>	<u>34,598</u>	<u>34,204</u>	<u>4,943</u>	-	<u>656,131</u>
	25,968,830	4,890,842	3,124,637	388,047	34,598	4,566,915	3,192,447	504,400	42,670,716
Less allowance for uncollectible	<u>(1,409,002)</u>	<u>(2,798,718)</u>	<u>(1,135,951)</u>	<u>(14,731)</u>	<u>(5,180)</u>	<u>(1,964,072)</u>	<u>(110,546)</u>	-	<u>(7,438,200)</u>
	\$ <u>24,559,828</u>	\$ <u>2,092,124</u>	\$ <u>1,988,686</u>	\$ <u>373,316</u>	\$ <u>29,418</u>	\$ <u>2,602,843</u>	\$ <u>3,081,901</u>	\$ <u>504,400</u>	\$ <u>35,232,516</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, 2019, are summarized as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Grants	\$ 9,136,018
General	Nonmajor governmental funds	1,622
Grants	General	3,823,005
Nonmajor governmental funds	General	<u>8,802,597</u>
		\$ <u>21,763,242</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, 2019

(4) Interfund Receivables and Payables, Continued

Primary Government, Continued

Receivables and payables between funds reflected as due to/from component units at September 30, 2019, are summarized as follows:

	Due From	Due To
General Fund:		
National Development Bank of Palau	\$ 5,111,818	\$ -
Palau District Housing Authority	4,857,143	-
Palau Public Utilities Corporation	18,879,031	-
Belau Submarine Cable Corporation	<u>19,250,045</u>	<u>-</u>
	<u>48,098,037</u>	<u>-</u>
Republic of Palau Social Security Retirement Fund:		
National Development Bank of Palau	<u>2,402,787</u>	<u>-</u>
	<u>\$ 50,500,824</u>	<u>\$ -</u>

The amount recorded as due from component units by the General Fund of \$48,098,037 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.

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, 2019

(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 SDR 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 \$2,402,787 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 \$433,395 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</u> <u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 1,900,492	\$ 1,268,928	\$ 3,169,420
2021	2,430,768	1,469,188	3,899,956
2022	2,944,792	1,394,817	4,339,609
2023	2,839,733	1,283,115	4,122,848
2024	2,856,716	1,210,768	4,067,484
2025 - 2029	12,926,175	4,659,856	17,586,031
2030 - 2034	12,321,776	2,793,028	15,114,804
2035 - 2039	10,464,642	959,390	11,424,032
2040 - 2044	1,781,896	65,660	1,847,556
Thereafter	<u>33,834</u>	<u>254</u>	<u>34,088</u>
	<u>\$ 50,500,824</u>	<u>\$ 15,105,004</u>	<u>\$ 65,605,828</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 \$1,025,702 due to the timing differences recorded by Public Utilities Corporation (PPUC) of \$754,714, Protected Areas Network of \$268,645, and Palau Visitors Authority of \$2,343.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2019

(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, 2019, are summarized as follows:

	Due From	Due To
National Development Bank of Palau	\$ -	\$ 5,111,818
Belau Submarine Cable Corporation	-	19,370,542
Republic of Palau Social Security Retirement Fund	-	2,402,787
Palau District Housing Authority	-	4,857,143
Palau Public Utilities Corporation	754,714	18,879,031
Protected Areas Network Fund	268,645	-
Palau Visitors Authority	<u>2,343</u>	<u>24,410</u>
	<u>\$ 1,025,702</u>	<u>\$ 50,645,731</u>

(5) Capital Assets

Capital asset activities for the year ended September 30, 2019, are as follows:

Primary Government

	Balance at October 1, 2018	Additions	Deletions and Transfers	Balance at September 30, 2019
Depreciable capital assets:				
Building and other improvements	\$170,027,817	\$10,291,487	\$ -	\$180,319,304
Machinery and equipment	43,579,986	2,633,006	(1,000,785)	45,212,207
Vehicles	7,792,670	756,024	(510,925)	8,037,769
Infrastructure	<u>232,345,071</u>	<u>2,889,288</u>	<u>-</u>	<u>235,234,359</u>
Total capital assets being depreciated	<u>453,745,544</u>	<u>16,569,805</u>	<u>(1,511,710)</u>	<u>468,803,639</u>
Accumulated Depreciation:				
Building and other improvements	(97,562,343)	(7,399,182)	-	(104,961,525)
Machinery and equipment	(26,027,315)	(2,029,229)	1,000,785	(27,055,759)
Vehicles	(6,045,210)	(878,896)	510,925	(6,413,181)
Infrastructure	<u>(211,615,392)</u>	<u>(5,733,086)</u>	<u>-</u>	<u>(217,348,478)</u>
Total accumulated depreciation	<u>(341,250,260)</u>	<u>(16,040,393)</u>	<u>1,511,710</u>	<u>(355,778,943)</u>
Total depreciable capital assets, net	<u>112,495,284</u>	<u>529,412</u>	<u>-</u>	<u>113,024,696</u>
Non-depreciable capital assets:				
Land	3,899,403	-	-	3,899,403
Construction in progress	<u>10,513,698</u>	<u>4,486,150</u>	<u>(10,076,487)</u>	<u>4,923,361</u>
Total non-depreciable capital assets	<u>14,413,101</u>	<u>4,486,150</u>	<u>(10,076,487)</u>	<u>8,822,764</u>
Capital assets, net	<u>\$126,908,385</u>	<u>\$ 5,015,562</u>	<u>\$(10,076,487)</u>	<u>\$121,847,460</u>

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

General government	\$ 517,609
Education	395,920
Health and welfare	1,243,428
Public safety	1,225,478
Cultural affairs and recreation	186,195
Transportation and commerce	11,657,710
Unallocated	<u>814,053</u>
Total depreciation expense	<u>\$ 16,040,393</u>

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2019

(5) Capital Assets, Continued

Fiduciary Funds

	Estimated Useful Lives	Balance at October 1, 2018	Additions	Transfers / Disposals	Balance at September 30, 2019
Depreciable capital assets:					
Office equipment and furniture	4 - 13 yrs	\$ 559,247	\$ 1,362	\$ (2,060)	\$ 558,549
Building and improvements	30 yrs	201,448	7,939	(194,581)	14,806
Vehicles	5 yrs	<u>152,527</u>	<u>6,501</u>	<u>(27,814)</u>	<u>131,214</u>
		913,222	15,802	(224,455)	704,569
Less accumulated depreciation		<u>(809,493)</u>	<u>(18,437)</u>	<u>175,161</u>	<u>(652,769)</u>
		<u>\$ 103,729</u>	<u>\$ (2,635)</u>	<u>\$ (49,294)</u>	<u>\$ 51,800</u>

Discretely Presented Component Units

	Estimated Useful Lives	Balance October 1, 2018	Additions	Transfers / Disposals	Balance September 30, 2019
Depreciable capital assets:					
Buildings	3 - 30 yrs	\$ 23,376,875	\$ 887,990	\$ 128,810	\$ 24,393,675
Utility plant	2 - 30 yrs	197,033,979	2,880,405	(42,828)	199,871,556
Machinery and equipment	2 - 20 yrs	15,248,410	261,231	(854,988)	14,654,653
Infrastructure	2 - 15 yrs	<u>3,418,046</u>	<u>14,248</u>	<u>-</u>	<u>3,432,294</u>
		239,077,310	4,043,874	(769,006)	242,352,178
Less accumulated depreciation		<u>(143,973,495)</u>	<u>(9,148,792)</u>	<u>763,093</u>	<u>(152,359,194)</u>
Total depreciable capital assets, net		95,103,815	(5,104,918)	(5,913)	89,992,984
Nondepreciable capital assets:					
Construction in progress		<u>18,490,888</u>	<u>7,943,560</u>	<u>(2,586,289)</u>	<u>23,848,159</u>
		<u>\$ 113,594,703</u>	<u>\$ 2,838,642</u>	<u>\$ (2,592,202)</u>	<u>\$ 113,841,143</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 BSCC 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"). The total purchase price of \$6,666,534 has been fully paid as of September 30, 2019. The BSCC recognized amortization expense totaling \$266,661 for the year ended September 30, 2019.

(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, 2019. No change occurred in the loan payable during the year ended September 30, 2019. This loan is in noncompliance with local requirements since only the President of the Republic is authorized to enter into debt agreements.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2019

(8) Long-Term Obligations

Primary Government

Under 40 PNC §504, the Republic, by and through the President, shall have authority to borrow money and incur long-term obligations backed by the full faith and credit of the Republic. Any borrowing in excess of \$35,000,000 must be approved by joint resolution of the same by the Olbiil era Kelulau. As of September 30, 2019, the primary government had the following long-term debt outstanding and payable:

	<u>Dated Date</u>	<u>Interest Rate</u>	<u>Final Maturity</u>	<u>Outstanding Amount</u>
Asian Development Bank (ADB)				
Loan No. 2691-PAL Water Sector Improvement Project	October 6, 2011	2.90%	November 1, 2025	\$ 8,577,585
Loan No. 2692-PAL (SF) Water Sector Improvement Project	October 6, 2011	1.00%	November 1, 2034	3,376,173
Loan No. 3060-PAL Koror-Airai Sanitation Project	March 28, 2014	3.13%	October 1, 2037	17,255,954
Loan No. 3061-PAL (SF) Koror-Airai Sanitation Project	March 28, 2014	1.00%	October 1, 2044	1,623,076
Loan No. 3346-PAL (BSCC) North Pacific Regional Connectivity Project	March 7, 2016	3.13%	December 1, 2040	12,764,697
Loan No. 3347-PAL (SF) North Pacific Regional Connectivity Project	March 7, 2016	2.00%	December 1, 2040	<u>6,485,349</u>
				<u>50,082,834</u>
Mega International Commercial Bank (MICB)				
Loan No. 070021 Capital Relocation Project	July 4, 2000	3.50%	July 7, 2020	1,142,843
Loan No. 070026 Palau International Airport Repaving Project	August 24, 2004	3.50%	October 28, 2024	2,514,320
Loan No. 025-105002 Agriculture and Aquaculture Development Project	March 31, 2016	3.06%	March 31, 2036	4,714,286
Loan No. 025-105003 Housing Project	April 8, 2016	3.65%	April 8, 2036	<u>4,857,143</u>
				<u>13,228,592</u>
				<u>\$ 63,311,426</u>

Asian Development Bank (ADB):

Loan Number 2691 PAL in the amount of \$12,600,000 is to finance the establishment of an autonomous independent water and sewer authority (Palau Water and Sewer Corporation) to control, manage and operate water and sewer services. Refer to note (1)A for the merger of Palau Water and Sewer Corporation with PUC operations.

Loan Number 2692 PAL (SF) in an amount of various currencies equivalent to SDR 2,230,000 is to finance the establishment of an autonomous independent water and sewer authority (Palau Water and Sewer Corporation) to control, manage and operate water and sewer services. Refer to note (1)A for the merger of Palau Water and Sewer Corporation with PUC operations.

Loan Number 3060 PAL in the amount of \$26,900,000 is to be lent to Palau Public Utilities Corporation to finance sanitation improvement projects.

Loan Number 3061 PAL (SF) in an amount of various currencies equivalent to SDR 1,258,000 is to be lent to Palau Public Utilities Corporation to finance sanitation improvement projects.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2019

(8) Long-Term Obligations, Continued

Primary Government, Continued

Asian Development Bank (ADB), Continued:

Loan Number 3346 PAL in the amount of \$16,470,000 is to be lent to Belau Submarine Cable Corporation (BSCC) to finance a submarine cable connection from Palau to the submarine cable system owned by SEA-US Consortium that connects to the international cable hub in Guam.

Loan Number 3347 PAL (SF) in an amount of various currencies equivalent to SDR 6,032,000 is to be lent to BSCC to finance a submarine cable connection from Palau to the submarine cable system owned by SEA-US Consortium that connects to the international cable hub in Guam.

The abovementioned ADB loans payable are uncollateralized.

ADB loans are governed by Loan Regulations, which set forth certain terms and conditions applicable to these loans as follows:

Events of default with finance related consequences – in the event that the Borrower shall have failed to make payment of principal, interest charge or any other charge required under the Loan Agreement, the ADB may by notice to the Borrower suspend in whole or in part the right of the Borrower to make any further withdrawals from the Loan Account. The right of the Borrower to make withdrawals from the Loan Account shall continue to be suspended in whole or in part, as the case maybe, until the event which gave rise to such suspension shall have in reasonable opinion of the ADB, ceased to exist or until the ADB shall have notified the Borrower that the right to make withdrawals has been restored in whole or in part, whichever is the earlier. If the right of the Borrower to make withdrawals from the Loan Account shall have been suspended with respect to any amount of the Loan for a continuous period of 30 days, the ADB may by notice to the Borrower terminate the right of the Borrower to make withdrawals. Upon the giving of such notice, the Loan shall be cancelled.

Acceleration of maturity – the regulations specify that in the case of default that has occurred and continues for a period of 30 days, the ADB, at its option, may by notice to the Borrower declare the principal of the loans then outstanding, together with all accrued interest and other charges thereon, to be due and payable immediately.

Mega International Commercial Bank (MICB):

Loan Number 70021 in the amount of \$20,000,000 is to finance the relocation of capital building.

Loan Number 70026 in the amount of \$8,000,000 is to finance the repair, improvement and maintenance of Palau International Airport and surrounding areas.

Loan Number 025-105002 in the amount of \$5,000,000 is to finance the development of agriculture and aquaculture projects through National Development Bank of Palau.

Loan Number 025-105003 in the amount \$5,000,000 is to finance the development of housing through Palau District Housing Authority.

The abovementioned MICB loans payable are uncollateralized.

REPUBLIC OF PALAU

Notes to Financial Statements September 30, 2019

(8) Long-Term Obligations, Continued

Primary Government, Continued

Mega International Commercial Bank (MICB), Continued:

The loans are governed by Covenants of the Borrower, so long as the loan, any interest accrued thereon or any other amounts payable by the Borrower under the Loan Agreement shall remain outstanding and until payment in full. The Borrower hereby agrees and covenants that it will:

- (a) Ensure that its obligations under this Agreement shall at all times rank at least pari passu with all its other External Indebtedness and similar external obligations of the Borrower outstanding from time to time;
- (b) Obtain and keep in full force and effect all governmental approvals required in connection with this Agreement and will promptly from time to time obtain any and all such exchange control authorizations and other governmental consents, approvals, licenses, authorizations, filings and registrations as may be or become necessary from time to time for the Borrower to make and perform this Agreement;
- (c) Promptly inform the Lender, upon becoming aware of any occurrence or circumstance of, including, without limitation, any substantial dispute which may exist between the Borrower and any international agency, which might adversely affect its ability to perform its obligations under this agreement and of any Event of Default; and
- (d) Furnish or cause to be furnished to the Lender all such information and documents as the Lender may reasonable request in connection with the Borrowers' obligations under this Agreement.

Events of default with finance related consequences – events of default under the Agreement are as follows:

- (a) Payment default - the Borrower shall default in the payment of any amount due and such default shall continue beyond any grace period specified for such payment;
- (b) Status of Borrower - the legislation from which the Borrower obtains its basic authority to make the borrowing under this Agreement is repealed or modified resulting in a diminution of the right of the Lender under the Agreement;
- (c) Material Adverse Change – any event or series of events or any circumstances whether related or not occur(s) or arise(s) which, in the reasonable opinion of the Lender, may or would have a material adverse effect on the Borrower or its ability or willingness to perform or comply with any of its respective obligations under the Agreement;
- (d) Moratorium Default – the Borrower or any competent authority of the Republic shall declare a moratorium on the payment of any External Indebtedness incurred by the Borrower.
- (e) Illegal Default – It becomes unlawful, or in the Lender's opinion is contrary to any applicable official statement, guidelines or policy or any authority of the country of any party hereto, for the Loan to be maintained by the Borrower to perform any obligation.

Acceleration of maturity – If an Event of Default shall occur under the Agreement and is continuing, the Lender may by written notice to the Borrower cancel any part or all of the Commitment and/or declare the entire Loan and interest thereon under the Agreement to be immediately due and payable without presentment, demand, protest or notice of any kinds all of which are expressly waived by the Borrower.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2019

(8) Long-Term Obligations, Continued

Primary Government, Continued

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

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 4,215,635	\$ 1,574,632	\$ 5,790,267
2021	3,779,956	1,704,835	5,484,791
2022	4,497,317	1,593,176	6,090,493
2023	4,618,220	1,438,400	6,056,620
2024	4,751,516	1,318,739	6,070,255
2025 - 2029	17,155,340	4,660,832	21,816,172
2030 - 2034	14,303,164	2,517,295	16,820,459
2035 - 2039	9,131,906	3,723,246	12,855,152
2040 - 2044	824,538	26,214	850,752
2045	<u>33,834</u>	<u>254</u>	<u>34,088</u>
	<u>\$ 63,311,426</u>	<u>\$ 18,557,623</u>	<u>\$ 81,869,049</u>

Changes in long-term debt of the primary government for the year ended September 30, 2019, are as follows:

	<u>Balance October 1, 2018</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance September 30, 2019</u>	<u>Due Within One Year</u>
Loans payable:					
ADB loans	\$ 44,683,730	\$ 7,763,512	\$ (2,364,408)	\$ 50,082,834	\$ 2,044,224
MICB loans	<u>15,257,161</u>	-	<u>(2,028,569)</u>	<u>13,228,592</u>	<u>2,171,411</u>
	<u>\$ 59,940,891</u>	<u>\$ 7,763,512</u>	<u>\$ (4,392,977)</u>	<u>\$ 63,311,426</u>	<u>\$ 4,215,635</u>

Discretely Presented Component Units

As of September 30, 2019, the discretely presented component units had the following long-term debt outstanding and payable:

	<u>Dated Date</u>	<u>Interest Rate</u>	<u>Final Maturity</u>	<u>Outstanding Amount</u>
National Development Bank of Palau:				
Mega International Commercial Bank (MICB)	March 5, 2004	3.50%	July 1, 2024	\$ 1,428,550
European Investment Bank (EIB)	December 5, 2006	3.70%	September 10, 2021	<u>852,921</u>
				2,281,471
Palau National Communications Corporation:				
Rural Utilities Services	1992	4.59%	October 2029	17,371,069
Palau Public Utilities Corporation:				
Mega International Commercial Bank	September 4, 2006	3.50%	December 11, 2026	3,000,000
National Development Bank of Palau	April 21, 2010	7.50%	April 21, 2025	<u>1,536,139</u>
				<u>4,536,139</u>
				<u>\$ 24,188,679</u>

National Development Bank of Palau (NDBP):

MICB

The loan is to be used as capital funds; is uncollateralized and guaranteed by the primary government.

Events of default with finance related consequences – events of default under the Agreement are as follows:

- (a) Payment default - the Borrower shall default in the payment of any amount due and such default shall continue beyond any grace period specified for such payment;

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2019

(8) Long-Term Obligations, Continued

Discretely Presented Component Units

National Development Bank of Palau (NDBP), Continued:

- (b) Status of Borrower - the legislation from which the Borrower obtains its basic authority to make the borrowing under this Agreement is repealed or modified resulting in a diminution of the right of the Lender under the Agreement;
- (c) Material Adverse Change - any event or series of events or any circumstances whether related or not occur(s) or arise(s) which, in the reasonable opinion of the Lender, may or would have a material adverse effect on the Borrower or its ability or willingness to perform or comply with any of its respective obligations under the Agreement;
- (d) Moratorium Default - the Borrower or any competent authority of the Republic shall declare a moratorium on the payment of any External Indebtedness incurred by the Borrower.
- (e) Illegal Default - It becomes unlawful, or in the Lender's opinion is contrary to any applicable official statement, guidelines or policy or any authority of the country of any party hereto, for the Loan to be maintained by the Borrower to perform any obligation.

The loan agreement contains a provision that in an event of default, the Lender may by written notice to the Bank cancel the loan agreement and/or the entire loan and other sums payable may be declared to become immediately due and payable and the loan and such other sums shall become due and payable without presentment, demand, protest or notice of any kind (other than the notice specifically required by the loan agreement), all of which are hereby expressly waived by the Bank.

EIB

The agreement is backed by the full faith and credit of the primary government.

On December 12, 2011, EIB cancelled the remaining balance of the NDBP's credit line of \$1,739,427 euros.

The loan contains (1) a provision that in an event of default, the timing of repayment of outstanding amounts may become immediately due if: the capital to total assets ratio is not above 20%; nonperforming loans to total loans ratio exceeds 10%; provision for loan losses to nonperforming loans ratio is less than 90%, and (2) a provision that the NDBP shall repay the loan or any part thereof, together with accrued interest and other accrued sums immediately, forthwith upon demand by the Lender if:

- a. NDBP fails on due date to repay any part of the loan, to pay interest thereon or to make any other payment to the Lender;
- b. NDBP is unable to pay its debts, or makes or seeks to make a composition with its creditors;
- c. an order is made or an effective resolution is passed for the winding up of the NDBP, or NDBP takes steps towards a substantial reduction in its capital, is declared insolvent or ceases or resolves to cease to carry on the whole or any substantial part of its business or activities;

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2019

(8) Long-Term Obligations, Continued

Discretely Presented Component Units

National Development Bank of Palau (NDBP), Continued:

- d. an incumbrancer takes possession of, or a receiver, liquidator, administrator, administrative receiver or similar officer is appointed, whether by a court of competent jurisdiction or by any competent administrative authority or by any person, any part of the business or assets; if any distress, execution, sequestration, or other process is levied or enforced upon the property of the Bank and is not discharged or stayed within 14 days; or if any event occurs which is likely to jeopardize the servicing of the loan or adversely affect any security therefor;
- e. if any other financial indebtedness is either not paid when due, or following any default in relation thereto, is capable of being declared due and payable prior to its scheduled maturity;
- f. if NDBP is liable, by reason of any default, to be required to effect immediate prepayment of any loan granted to it by the lender from the resources of the NDBP or of the European Community.

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>
2020	\$ 706,587	\$ 82,716	\$ 789,303
2021	716,811	54,084	770,895
2022	<u>858,073</u>	<u>44,997</u>	<u>903,070</u>
	\$ <u>2,281,471</u>	\$ <u>181,797</u>	\$ <u>2,463,268</u>

Palau National Communications Corporation (PNCC):

The RUS note is collateralized by substantially all of PNCC's assets and a pledge of its revenues. The note stipulates that the Republic will make debt service payments to RUS in the event of default. On April 8, 2009, RUS approved the request of PNCC to rescind the remaining balance of \$395,047 of the mortgage note which had not been advanced. The RUS Mortgage and Security Agreement sets our certain financial ratios that must be met before a dividend can be declared. If the ratios are not met, dividends may only be declared with a written approval of RUS.

The management of PNCC believes it is in compliance with the RUS mortgage loan covenants.

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>
2020	\$ 1,531,736	\$ 774,440	\$ 2,306,176
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	1,850,906	455,266	2,306,172
2025 - 2029	<u>8,948,780</u>	<u>916,511</u>	<u>9,865,291</u>
	\$ <u>17,371,069</u>	\$ <u>4,025,086</u>	\$ <u>21,396,155</u>

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2019

(8) Long-Term Obligations, Continued

Discretely Presented Component Units, Continued

Palau Public Utilities Corporation (PPUC):

This loan is 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.

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>
2020	\$ 626,180	\$ 205,540	\$ 831,720
2021	643,738	173,982	817,720
2022	662,661	141,059	803,720
2023	683,052	106,668	789,720
2024	705,026	70,694	725,720
2025 - 2027	<u>1,215,482</u>	<u>51,585</u>	<u>1,267,067</u>
	<u>\$ 4,536,139</u>	<u>\$ 749,528</u>	<u>\$ 5,235,667</u>

Changes in long-term debt of the discretely presented component units for the year ended September 30, 2019, are as follows:

	<u>Balance October 1, 2018</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance September 30, 2019</u>	<u>Due Within One Year</u>
Loans payable:					
NDBP	\$ 2,968,253	\$ -	\$ (686,782)	\$ 2,281,471	\$ 703,474
PNCC	18,836,699	-	(1,465,630)	17,371,069	1,531,736
PPUC	<u>5,225,955</u>	<u>-</u>	<u>(689,816)</u>	<u>4,536,139</u>	<u>626,180</u>
	<u>\$ 27,030,907</u>	<u>\$ -</u>	<u>\$ (2,842,228)</u>	<u>\$ 24,188,679</u>	<u>\$ 2,861,390</u>

(9) Change in Other Long-term Obligations

Primary Obligations

Other long-term liabilities will be liquidated in the future primarily from the General Fund. During the year ended September 30, 2019, the following changes occurred in liabilities reported as part of the primary government's long-term liabilities in the statement of net position:

	<u>Balance October 1, 2018</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance September 30, 2019</u>	<u>Due Within One Year</u>
Other liabilities:					
Compensated absences	\$ 4,646,537	\$ 1,841,266	\$ (1,616,611)	\$ 4,871,192	\$ 2,328,299
Net pension liability	<u>162,657,949</u>	<u>-</u>	<u>(6,511,490)</u>	<u>156,146,459</u>	<u>-</u>
	<u>\$ 167,304,486</u>	<u>\$ 1,841,266</u>	<u>\$ (8,128,101)</u>	<u>\$ 161,017,651</u>	<u>\$ 2,328,299</u>

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2019

(9) Change in Other Long-term Obligations, Continued

Changes in other long-term liabilities of the discretely presented component units for the year ended September 30, 2019, are as follows:

	Balance October <u>1, 2018</u>	<u>Additions</u>	<u>Reductions</u>	Balance September <u>30, 2019</u>	Due Within <u>One Year</u>
Other liabilities:					
Net pension liability	\$ 43,348,290	\$ 2,530,748	\$ (1,210,504)	\$ 44,668,534	\$ -
Due to primary government					
NDBP	5,541,229	-	(429,411)	5,111,818	432,291
PPUC	13,290,735	6,137,917	(549,621)	18,879,031	-
PHA	5,000,000	-	(142,857)	4,857,143	142,857
BSCC	18,733,998	636,544	-	19,370,542	-
Due to fiduciary funds					
NDBP	<u>2,680,142</u>	<u>-</u>	<u>(277,355)</u>	<u>2,402,787</u>	<u>359,704</u>
	\$ <u>88,594,394</u>	\$ <u>9,305,209</u>	\$ <u>(2,609,748)</u>	\$ <u>95,289,855</u>	\$ <u>934,852</u>

The above does not include \$24,410 of the Palau Visitors Authority as it is presented as a current liability in the discretely presented component units financial statements.

(10) Restricted Assets

Primary Government

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

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>391,002</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.	\$ 281,940,879
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>4,430,440</u>
	\$ <u>286,371,319</u>

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2019

(10) 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. \$ 459,060

Palau Community College:

Deposit accounts established for library fund and endowment fund. 2,196,705

Palau National Communications Corporation:

Account established in accordance with Rural Utilities Service loan agreement for the purposes of a reserve account. 250,113

\$ 2,905,878

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

Palau Community College:

Investments held for endowment purposes. \$ 5,702,249

(11) 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.

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>

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2019

(11) Pension Plan, Continued

A. General Information About the Pension Plan, Continued:

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, 2019

(11) 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, 2019

(11) 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, 2019, 2018 and 2017 were \$2,216,549, \$2,182,564, and \$2,107,926, 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, 2018, for the same measurement date, using the following actuarial assumptions:

Valuation Date:	October 01, 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
Retirement age:	100% at age 60

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2019

(11) Pension Plan, Continued

A. General Information About the Pension Plan, Continued:

Disability:	<table border="0"> <tr> <td style="text-align: center;"><u>Age</u></td> <td style="text-align: center;"><u>Disability</u></td> </tr> <tr> <td style="text-align: center;">25</td> <td style="text-align: center;">0.21%</td> </tr> <tr> <td style="text-align: center;">30</td> <td style="text-align: center;">0.18%</td> </tr> <tr> <td style="text-align: center;">35</td> <td style="text-align: center;">0.25%</td> </tr> <tr> <td style="text-align: center;">40</td> <td style="text-align: center;">0.35%</td> </tr> <tr> <td style="text-align: center;">45</td> <td style="text-align: center;">0.50%</td> </tr> <tr> <td style="text-align: center;">50</td> <td style="text-align: center;">0.76%</td> </tr> <tr> <td style="text-align: center;">55</td> <td style="text-align: center;">1.43%</td> </tr> <tr> <td style="text-align: center;">60</td> <td style="text-align: center;">2.12%</td> </tr> </table>	<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%
<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, 2018, 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>
US Large Cap Equity	20%	8.70%
US Small/Mid Cap Equity	5%	9.13%
International Equity	15%	9.19%
Emerging Markets	10%	12.52%
US Aggregate Fixed Income	35%	3.82%
Global Broad Fixed Income	10%	3.40%
Global REIT	5%	8.33%
	<u>100%</u>	

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2019

(11) 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 4.16% at the current measurement date from 3.62% 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 2023 for the 2017 measurement date. For years after 2023, a discount rate of 4.09% 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 4.16% 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 (4.16%) in measuring the 2017 Net Pension Liability.

	1% Decrease in Discount Rate <u>3.16%</u>	Current Discount Rate <u>4.16%</u>	1% Increase in Discount Rate <u>5.16%</u>
Net Pension Liability	<u>\$ 179,580,202</u>	<u>\$ 156,146,459</u>	<u>\$ 136,603,691</u>

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

Pension Liability: At September 30, 2019, the Republic reported a liability of \$156,146,459 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, 2019, the Republic's proportion was 62.24%.

Pension Expense: For the year ended September 30, 2019, the Republic recognized pension expense of \$6,622,617.

Deferred Outflows and Inflows of Resources: At September 30, 2019, 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, 2019

(11) 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	\$ 12,313,592	\$ 2,331,679
Change of assumptions	13,961,198	21,552,797
Net difference between projected and actual earnings on pension plan investments	444,446	680,439
Contributions subsequent to the measurement date	2,216,549	-
Changes in proportion and difference between Republic contributions and proportionate share of contributions	<u>8,158,726</u>	<u>10,964,357</u>
	<u>\$ 37,094,511</u>	<u>\$ 35,529,272</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions at September 30, 2019 will be recognized in pension expense as follows:

<u>Year Ended September 30</u>	
2020	\$ 4,521,224
2021	1,827,628
2023	1,395,654
2024	1,014,014
2025	(2,445,520)
Thereafter	<u>(2,851,830)</u>
	<u>\$ 3,461,170</u>

(12) 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, 2019, are as follows:

	<u>Transfer Out</u>	<u>Transfer In</u>
General Fund:		
Grants Fund	\$ 311,363	\$ 94,012
Other Governmental Funds	-	427,393
Compact Section 211(f) Fund	<u>-</u>	<u>15,000,000</u>
	<u>311,363</u>	<u>15,521,405</u>
Grants Fund:		
General Fund	<u>94,012</u>	<u>311,363</u>
Compact Section Fund:		
General Fund	<u>15,000,000</u>	<u>-</u>
Other governmental funds:		
Infrastructure maintenance fund	<u>427,393</u>	<u>-</u>
	<u>\$ 15,832,768</u>	<u>\$ 15,832,768</u>

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2019

(12) Transfers In/Out, Continued

Operating Fund Transfers, Continued

Operating transfers out were provided for under appropriation by the OEK. Transfers are used to (1) move revenues from the fund that statute requires to collect them to the fund that statute requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

(13) 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:					
Cash and cash equivalent	\$ -	\$ 2,032,080	\$ -	\$ -	\$ 2,032,080
UMDA investment	1,191,965	-	-	-	1,191,965
Loan receivable	48,098,037	-	-	-	48,098,037
Due from other funds	-	1,328,568	-	-	1,328,568
Prepayments	231	13,519	-	-	13,750
Permanent fund principal	-	-	286,371,319	-	286,371,319
	<u>49,290,233</u>	<u>3,374,167</u>	<u>286,371,319</u>	<u>-</u>	<u>339,035,719</u>
Restricted:					
Compact related	<u>5,279,909</u>	-	-	-	<u>5,279,909</u>
	<u>5,279,909</u>	-	-	-	<u>5,279,909</u>
Committed:					
Environmental protection	-	-	-	543,489	543,489
Hospital	-	-	-	2,146,781	2,146,781
Road maintenance	-	-	-	2,615,069	2,615,069
Publication law access unit	-	-	-	76,881	76,881
Forfeited property	-	-	-	92,537	92,537
Non-Communicable Diseases	-	-	-	2,676,524	2,676,524
Fisheries Protection	-	-	-	2,771,662	2,771,662
Other	-	-	-	76,971	76,971
	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,999,914</u>	<u>10,999,914</u>
Unassigned	<u>39,126,488</u>	<u>1,338</u>	<u>-</u>	<u>(1,622)</u>	<u>39,126,204</u>
	<u>\$93,696,630</u>	<u>\$ 3,375,505</u>	<u>\$286,371,319</u>	<u>\$10,998,292</u>	<u>\$394,441,746</u>

(14) 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, 2019, amounted to \$10,492,830.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2019

(14) Commitments and Contingencies, Continued

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, 2019, 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, 2019. 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. An actuarial valuation of the Healthcare Fund has determined that the Healthcare Fund has an actuarial deficiency of approximately \$161,947,603 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, 2019 to correct this funding deficiency. No recognition is given in the accompanying financial statements to the present value of liabilities of prospective benefit payments or the present value of future contributions required from employees or employers.

F. Litigation

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

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2019

(14) Commitments and Contingencies, Continued

G. Debt Commitments

Significant commitments of the primary government as of September 30, 2019, are as follows:

- a) Guaranteed bank debt of the National Development Bank of Palau (NDBP) with letters of guarantee. At September 30, 2019, NDBP had guaranteed debt totaling \$2,281,471.
- 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, 2019, NDBP had guaranteed debt associated with this loan totaling \$2,402,787.
- 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, 2019, PNCC had guaranteed debt totaling \$17,371,069.
- d) Guaranteed bank debt of the Palau Public Utilities Corporation (PPUC) with a letter of guarantee. At September 30, 2019, PUC had guaranteed debt totaling \$3,000,000.
- e) Guaranteed a debt of PPUC in respect of a loan from NDBP with a letter of guarantee. At September 30, 2019, PUC had guaranteed debt associated with this loan totaling \$1,536,139.

H. Civil Service Pension Trust Fund

The Pension Fund's actuarial valuation has determined that the Fund has a net pension liability of \$250,868,784 which would cause the Fund's fiduciary net position to become negative in 2023.

I. Asian Development Bank (ADB) Loans

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, 2019, the Republic had drawn down \$18,079,031 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, 2019, the Republic had drawn \$19,250,046 against these lines.

On October 17, 2018, the Republic entered into a \$15,000,000 loan agreement (Loan Number 3725-PAL) with the Asian Development Bank for disaster resilience program. As of September 30, 2019, the Republic had not drawn funds against this loan.

REPUBLIC OF PALAU

Notes to Financial Statements
September 30, 2019

(14) Commitments and Contingencies, Continued

J. Mega International Commercial Bank (MICB) Loans

On September 6, 2019, the Republic entered into a \$15,000,000 loan agreement with Mega International Commercial Bank (Loan Number 025-107001) for housing development. As of September 30, 2019, the Republic had not drawn funds against this loan.

K. Leases

The Republic entered into seven lease agreements with state government and private landowners for approximately 25 years for exclusive use of certain land by the United States for defense sites. As of September 30, 2019, the Republic had paid for all the leases. Annual lease requirements to expiration of the lease terms are as follows:

<u>Year Ending</u> <u>September 30,</u>	<u>Lease</u>
2020	\$ 247,622
2021	247,622
2022	247,622
2023	247,622
2024	247,622
2025 - 2029	1,238,110
2030 - 2034	1,238,110
2035 - 2039	1,238,110
2040 - 2044	<u>1,240,857</u>
	\$ <u>6,193,297</u>

L. 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, 2019, will not have a material impact on the accompanying financial statements.

(15) Subsequent Events

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. As of February 15, 2021, there have been no confirmed cases of COVID-19 in the Republic. The Republic has determined that should the pandemic reach the Republic, it may negatively impact the Republic's results of operations and financial position and future available funding may be limited. Therefore, while the Republic expects this matter to potentially have a negative impact on its operations and financial position, the related financial impact cannot be reasonably estimated at this time.

On March 30, 2020, the Republic entered into a \$5,000,000 loan agreement with International Cooperation Development Fund (Taiwan ICDF). The proceeds are to be on lent to the National Development Bank of Palau under a separate Financing Agreement for the purpose of lending to women and young entrepreneurs.

On August 3, 2020, the Republic entered into a \$20,000,000 loan agreement (Loan Number 3955-PAL(COL)) with the Asian Development Bank for strengthening the health system's response measure for COVID-19, implementation of social assistance to compensate for economic losses borne by unemployed workers, and delivery of economic relief for affected businesses.

REPUBLIC OF PALAU
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED SEPTEMBER 30, 2019

REPUBLIC OF PALAU

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual General Fund (Fund 100100) Year Ended September 30, 2019

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual - Budgetary Basis (see note 1)</u>	<u>Variance</u>
Revenues:				
Local revenue	\$ 62,087,700	\$ 63,272,700	\$ 56,375,712	\$ (6,896,988)
Net change in the fair value of investments	-	-	387,065	387,065
Other	-	<u>2,033,491</u>	<u>301,860</u>	<u>(1,731,631)</u>
Total revenues	<u>62,087,700</u>	<u>65,306,191</u>	<u>57,064,637</u>	<u>(8,241,554)</u>
Expenditures - budgetary basis:				
Office of the President	1,221,728	1,514,799	1,448,476	66,323
Office of the Vice-President	610,614	610,614	573,750	36,864
Ministry of Finance	4,072,706	4,173,135	4,095,977	77,158
Ministry of State	4,340,603	4,480,603	4,210,546	270,057
Ministry of Community and Cultural Affairs	1,569,761	1,549,761	1,380,910	168,851
Ministry of Education	9,321,505	9,306,505	8,778,137	528,368
Ministry of Public Infrastructure, Industry and Commerce	7,981,966	7,898,966	6,435,800	1,463,166
Ministry of Justice	6,409,093	6,986,093	6,028,058	958,035
Ministry of Health	11,152,676	11,475,676	10,051,493	1,424,183
Ministry of Natural Resources, Environment and Tourism	1,712,284	1,692,284	1,547,923	144,361
Boards, Commissions and Authorities	1,196,849	1,168,849	971,652	197,197
Judicial Branch	3,192,000	3,192,000	3,183,081	8,919
Legislative Branch	6,360,260	6,585,260	6,019,706	565,554
State Block Grants	8,056,000	8,056,000	8,056,000	-
Independent Agencies	3,451,806	3,936,806	3,703,184	233,622
Other Agencies and Activities	1,887,525	1,892,525	1,794,174	98,351
Education Assistance	3,458,000	3,508,000	3,508,000	-
Other Appropriations	40,470	<u>2,626,461</u>	<u>2,621,786</u>	<u>4,675</u>
Total expenditures	<u>76,035,846</u>	<u>80,654,337</u>	<u>74,408,653</u>	<u>6,245,684</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(13,948,146)</u>	<u>(15,348,146)</u>	<u>(17,344,016)</u>	<u>(1,995,870)</u>
Other financing sources (uses):				
Loan proceeds	-	-	7,763,512	7,763,512
Operating transfers in	19,610,000	22,610,000	22,821,405	211,405
Operating transfers out	<u>(6,833,700)</u>	<u>(8,433,700)</u>	<u>(8,752,880)</u>	<u>(319,180)</u>
Total other financing sources (uses), net	<u>12,776,300</u>	<u>14,176,300</u>	<u>21,832,037</u>	<u>7,655,737</u>
	<u>(1,171,846)</u>	<u>(1,171,846)</u>	4,488,021	5,659,867
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>1,171,846</u>	<u>1,171,846</u>	<u>724,222</u>	<u>(447,624)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,212,243</u>	<u>\$ 5,212,243</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, 2019

(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</u> <u>Fund Balance</u>	<u>Encumbrances</u>
General Fund (Fund 100100):		
Budgetary basis	\$ <u>5,212,243</u>	\$ <u>724,222</u>
GASB 54 Funds included within the General Fund:		
PAN Fund (Fund 100110)	462,868	-
Financial Institutions Commission Fund (Fund 100116)	(24,155)	3,869
Scholarship Fund (Fund 100150)	90,354	356
Non-Lapsing Fund (Fund 100200)	(6,956,247)	48,481
Receivable Fund (Fund 100900)	(139,997)	48,079
Compact Section 213 Fund (Fund 313000)	355,607	-
Local CIP Fund (Fund 410100)	(162,526)	1,229,335
Debt Service Fund (Fund 600000)	<u>(1,938,603)</u>	<u>-</u>
	<u>(8,312,699)</u>	<u>1,330,120</u>
	\$ <u>(3,100,456)</u>	\$ <u>2,054,342</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

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

	2019	2018	2017	2016	2015	2014
Pension Fund total net pension liability	\$ 250,853,059	\$ 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	\$ 156,146,459	\$ 162,657,269	\$ 157,823,499	\$ 137,096,288	\$ 129,957,796	\$ 117,770,883
The Republic's proportion of the net pension liability	62.25%	62.71%	63.27%	63.60%	63.62%	64.68%
The Republic's covered employee payroll**	\$ 23,064,929	\$ 23,235,459	\$ 23,443,403	\$ 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	676.99%	700.04%	673.21%	377.73%	551.30%	491.39%
Pension Fund fiduciary net position as a percentage of the total pension liability	10.24%	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 * (Unaudited)

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Statutorily required contribution	\$ 2,216,549	\$ 2,177,688	\$ 1,982,972	\$ 6,932,790	\$ 4,269,025	\$ 4,068,739
Contribution in relation to the contractually required contribution	<u>2,107,926</u>	<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>\$ 108,623</u>	<u>\$ 69,762</u>	<u>\$ (33,850)</u>	<u>\$ 5,074,312</u>	<u>\$ 2,483,936</u>	<u>\$ 2,402,022</u>
The Republic's covered-employee payroll**	<u>\$ 46,953,332</u>	<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	4.49%	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, 2019

REPUBLIC OF PALAU

GENERAL FUND

September 30, 2019

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.

PAN Fund – This fund was established in 2016 to account for green fees that are collected for the Protected Areas Network Fund.

Financial Institutions Commission – This fund accounts for all fees paid to the Financial Institution Commission (FIC), not subject to the reprogramming authority of the President of the Republic, and shall be used exclusively for the administration of the statutory duties of the FIC.

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.

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, 2019

	100150	313000	321000
	General	Scholarship	Compact Section 213
			Compact Section 221 (b)
<u>ASSETS</u>			
Cash and cash equivalents	\$ 44,417,350	\$ -	\$ -
Investments	-	-	4,892,029
Receivables, net:			
Taxes	4,753,645	-	-
General	2,160,709	-	-
Due from component units	48,098,037	-	-
Due from other funds	33,352,710	-	-
Advances	247,573	-	-
Prepaid items	231	-	-
Other assets	1,191,965	-	-
Restricted assets:			
Cash and cash equivalents	391,002	-	-
Total assets	<u>\$ 134,613,222</u>	<u>\$ -</u>	<u>\$ 4,892,029</u>
<u>LIABILITIES AND FUND BALANCES</u>			
<u>(DEFICIT)</u>			
Liabilities:			
Note payable	\$ 198,142	\$ -	\$ -
Accounts payable	4,111,464	686	-
Due to State governments	569,081	-	-
Due to other funds	45,611,514	282,502	-
Accrued payroll and others	1,971,304	4,243	-
Other liabilities and accruals	619,012	-	-
Unearned revenue	-	-	-
Income tax refunds	951,831	-	-
Total liabilities	<u>54,032,348</u>	<u>287,431</u>	<u>-</u>
Fund balances (deficit):			
Nonspendable	49,290,233	-	-
Restricted	5,279,909	-	-
Unassigned	26,010,732	(287,431)	4,892,029
Total fund balances (deficit)	<u>80,580,874</u>	<u>(287,431)</u>	<u>4,892,029</u>
Total liabilities and fund balances (deficit)	<u>\$ 134,613,222</u>	<u>\$ -</u>	<u>\$ 4,892,029</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

GENERAL FUND

Combining Balance Sheet, Continued
September 30, 2019

	410100	430100	600000		
	Local CIP	DOI CIP	Debt Service	Elimination	Total
<u>ASSETS</u>					
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ 44,417,350
Investments	-	-	-	-	4,892,029
Receivables, net:					
Taxes	-	-	-	-	4,753,645
General	-	-	-	-	2,160,709
Due from component units	-	-	-	-	48,098,037
Due from other funds	8,638,190	83,139	332,015	(33,268,414)	9,137,640
Advances	-	-	-	-	247,573
Prepaid items	-	-	-	-	231
Other assets	-	-	-	-	1,191,965
Restricted assets:					
Cash and cash equivalents	-	-	-	-	391,002
Total assets	<u>\$ 8,638,190</u>	<u>\$ 83,139</u>	<u>\$ 332,015</u>	<u>\$ (33,268,414)</u>	<u>\$ 115,290,181</u>
<u>LIABILITIES AND FUND BALANCES</u>					
<u>(DEFICIT)</u>					
Liabilities:					
Note payable	\$ -	\$ -	\$ -	\$ -	\$ 198,142
Accounts payable	124,162	-	-	-	4,236,312
Due to State governments	-	-	-	-	569,081
Due to other funds	-	-	-	(33,268,414)	12,625,602
Accrued payroll and others	1,747	-	235,824	-	2,213,118
Other liabilities and accruals	-	-	-	-	619,012
Unearned revenue	-	180,453	-	-	180,453
Income tax refunds	-	-	-	-	951,831
Total liabilities	<u>125,909</u>	<u>180,453</u>	<u>235,824</u>	<u>(33,268,414)</u>	<u>21,593,551</u>
Fund balances (deficit):					
Nonspendable	-	-	-	-	49,290,233
Restricted	-	-	-	-	5,279,909
Unassigned	<u>8,512,281</u>	<u>(97,314)</u>	<u>96,191</u>	<u>-</u>	<u>39,126,488</u>
Total fund balances (deficit)	<u>8,512,281</u>	<u>(97,314)</u>	<u>96,191</u>	<u>-</u>	<u>93,696,630</u>
Total liabilities and fund balances (deficit)	<u>\$ 8,638,190</u>	<u>\$ 83,139</u>	<u>\$ 332,015</u>	<u>\$ (33,268,414)</u>	<u>\$ 115,290,181</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, 2019

	100150	313000	321000	
	<u>General</u>	<u>Scholarship</u>	<u>Compact Section 213</u>	<u>Compact Section 221 (b)</u>
Taxes	\$ 43,465,822	\$ -	\$ -	\$ -
Net change in the fair value of investments	387,065	-	381,947	-
Fees and charges	7,293,205	273,439	-	-
Licenses and permits	11,221,427	719,774	-	-
Other	743,503	35,006	-	-
Total revenues	<u>63,111,022</u>	<u>1,028,219</u>	<u>381,947</u>	<u>-</u>
Expenditures:				
Current:				
Judicial Branch	3,183,081	-	-	-
Legislative Branch	5,914,979	-	-	-
Office of the President	1,719,824	-	-	-
Office of the Vice-President	553,601	-	-	-
Ministry of Finance	4,299,065	-	-	-
Ministry of State	4,226,103	-	-	-
Ministry of Community and Cultural Affairs	1,418,030	-	-	-
Ministry of Education	8,869,705	-	-	-
Ministry of Public Infrastructure, Industry and Commerce	6,786,751	-	-	-
Ministry of Justice	6,569,922	-	-	-
Ministry of Health	10,856,072	-	-	-
Ministry of Natural Resources, Environment and Tourism	1,700,231	-	-	-
Boards, Commissions, and Authorities	1,121,624	-	-	-
State Block Grants	9,010,355	-	-	-
Independent Agencies	3,700,638	-	-	-
Other Agencies and Activities	6,936,281	-	26,340	-
Education assistance	3,508,000	2,940,865	-	-
PPUC AFPAC	500,000	-	-	-
16th Pacific Games	200,000	-	-	-
Saipan-Belau Bai Project	50,000	-	-	-
Wheelchair Accessible Vehicle	35,795	-	-	-
Guam Palauan Community Cultural Center	25,000	-	-	-
PCS Oceans Stewards	15,000	-	-	-
Capital projects	-	-	-	-
Debt service:				
Principal retirement	1,795,991	-	-	-
Interest	-	-	-	-
Total expenditures	<u>82,996,048</u>	<u>2,940,865</u>	<u>26,340</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(19,885,026)</u>	<u>(1,912,646)</u>	<u>355,607</u>	<u>-</u>
Other financing sources (uses):				
Loan proceeds	7,763,512	-	-	-
Operating transfers in	27,039,105	2,003,000	-	-
Operating transfers out	(16,362,879)	-	-	-
Total other financing sources (uses), net	<u>18,439,738</u>	<u>2,003,000</u>	<u>-</u>	<u>-</u>
Net change in fund balances (deficit)	<u>(1,445,288)</u>	<u>90,354</u>	<u>355,607</u>	<u>-</u>
Fund balances (deficit) at beginning of year	<u>82,026,162</u>	<u>(377,785)</u>	<u>4,536,422</u>	<u>-</u>
Fund balances (deficit) at end of year	<u>\$ 80,580,874</u>	<u>\$ (287,431)</u>	<u>\$ 4,892,029</u>	<u>\$ -</u>

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, 2019

	410100	430100	600000		
	Local CIP	DOI CIP	Debt Service	Elimination	Total
Revenues:					
Taxes	\$ -	\$ -	\$ -	\$ -	\$ 43,465,822
Net change in the fair value of investments	-	-	-	-	769,012
Fees and charges	-	-	-	-	7,566,644
Licenses and permits	-	-	-	-	11,941,201
Other	222,390	-	-	-	1,000,899
Total revenues	<u>222,390</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>64,743,578</u>
Expenditures:					
Current:					
Judicial Branch	-	-	-	-	3,183,081
Legislative Branch	-	-	-	-	5,914,979
Office of the President	-	-	-	-	1,719,824
Office of the Vice-President	-	-	-	-	553,601
Ministry of Finance	-	-	-	-	4,299,065
Ministry of State	-	-	-	-	4,226,103
Ministry of Community and Cultural Affairs	-	-	-	-	1,418,030
Ministry of Education	-	-	-	-	8,869,705
Ministry of Public Infrastructure, Industry and Commerce	-	-	-	-	6,786,751
Ministry of Justice	-	-	-	-	6,569,922
Ministry of Health	-	-	-	-	10,856,072
Ministry of Natural Resources, Environment and Tourism	-	-	-	-	1,700,231
Boards, Commissions, and Authorities	-	-	-	-	1,121,624
State Block Grants	-	-	-	-	9,010,355
Independent Agencies	-	-	-	-	3,700,638
Other Agencies and Activities	-	-	688,935	-	7,651,556
Education assistance	-	-	-	-	6,448,865
PPUC AFPAC	-	-	-	-	500,000
16th Pacific Games	-	-	-	-	200,000
Saipan-Belau Bai Project	-	-	-	-	50,000
Wheelchair Accessible Vehicle	-	-	-	-	35,795
Guam Palauan Community Cultural Center	-	-	-	-	25,000
PCS Oceans Stewards	-	-	-	-	15,000
Capital projects	1,092,732	-	-	-	1,092,732
Debt service:					
Principal retirement	-	-	2,596,986	-	4,392,977
Interest	-	-	475,682	-	475,682
Total expenditures	<u>1,092,732</u>	<u>-</u>	<u>3,761,603</u>	<u>-</u>	<u>90,817,588</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(870,342)</u>	<u>-</u>	<u>(3,761,603)</u>	<u>-</u>	<u>(26,074,010)</u>
Other financing sources (uses):					
Loan proceeds	-	-	-	-	7,763,512
Operating transfers in	707,816	-	1,823,000	(16,051,516)	15,521,405
Operating transfers out	-	-	-	16,051,516	(311,363)
Total other financing sources (uses), net	<u>707,816</u>	<u>-</u>	<u>1,823,000</u>	<u>-</u>	<u>22,973,554</u>
Net change in fund balances (deficit)	<u>(162,526)</u>	<u>-</u>	<u>(1,938,603)</u>	<u>-</u>	<u>(3,100,456)</u>
Fund balances (deficit) at beginning of year	<u>8,674,807</u>	<u>(97,314)</u>	<u>2,034,794</u>	<u>-</u>	<u>96,797,086</u>
Fund balances (deficit) at end of year	<u>\$ 8,512,281</u>	<u>\$ (97,314)</u>	<u>\$ 96,191</u>	<u>\$ -</u>	<u>\$ 93,696,630</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

GENERAL FUND

Combining Schedule of Expenditures By Object
Year Ended September 30, 2019

	100150	313000	321000
	General	Scholarship	Compact Section 213
			Compact Section 221 (b)
Expenditures:			
Salaries and wages	\$ 40,490,176	\$ 87,437	\$ -
Professional and contractual services	484,539	18	-
Repairs and maintenance	769,952	95	-
Rentals	866,090	70	-
Building remodeling	233,593	-	-
Construction	319,850	-	-
Insurance	78,452	-	-
Advertising	57,710	500	-
Travel	1,457,828	39,237	-
Cleaning services	224,452	-	-
Communications and postage	1,079,583	5,136	-
Supplies and materials	2,121,236	5,220	-
Medical drugs	141,448	-	-
Medical supplies	382,652	-	-
Petroleum products	910,379	574	-
Food stuffs	1,104,072	216	-
Books and library materials	222,104	-	-
Utilities	3,269,421	-	-
Equipment	242,923	-	-
Vehicles	426,168	-	-
Furnitures and fixtures	1,557	-	-
Crafts	73,816	-	-
Computer software	13,625	-	-
Training	18,893	-	-
Medical referrals	5,566	-	-
Donations	1,101,176	-	-
Payments of allotments/benefits	23,986,519	-	-
Freight	37,132	-	-
Representation and entertainment	78,413	-	-
Dues, fees and registration	521,259	-	-
Grants	2,500	1,138,751	-
Student loans	-	1,339,086	-
Scholarships	-	279,021	-
Fellowship award	(70,000)	38,800	-
Compensation	478,824	6,700	-
Employee incentive awards	57,552	-	-
Bank service fee	9,814	-	-
Investment management fees	-	-	26,340
Principal retirement	1,795,991	-	-
Interest charges	-	-	-
Miscellaneous	783	4	-
Total expenditures	<u>\$ 82,996,048</u>	<u>\$ 2,940,865</u>	<u>\$ 26,340</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

GENERAL FUND

Combining Schedule of Expenditures By Object, Continued
Year Ended September 30, 2019

	410100	430100	600000	
	Local CIP	DOI CIP	Debt Service	Total
	_____	_____	_____	_____
Expenditures:				
Salaries and wages	\$ 18,402	\$ -	\$ -	\$ 40,596,015
Professional and contractual services	46,315	-	-	530,872
Repairs and maintenance	35,860	-	-	805,907
Rentals	5,725	-	-	871,885
Building remodeling	-	-	-	233,593
Construction	898,179	-	-	1,218,029
Insurance	-	-	-	78,452
Advertising	-	-	-	58,210
Travel	506	-	-	1,497,571
Cleaning services	-	-	-	224,452
Communications and postage	-	-	-	1,084,719
Supplies and materials	63,674	-	-	2,190,130
Medical drugs	-	-	-	141,448
Medical supplies	-	-	-	382,652
Petroleum products	8,171	-	-	919,124
Food stuffs	-	-	-	1,104,288
Books and library materials	-	-	-	222,104
Utilities	-	-	-	3,269,421
Equipment	-	-	-	242,923
Vehicles	15,900	-	-	442,068
Furnitures and fixtures	-	-	-	1,557
Crafts	-	-	-	73,816
Computer software	-	-	-	13,625
Training	-	-	-	18,893
Medical referrals	-	-	-	5,566
Donations	-	-	-	1,101,176
Payments of allotments/benefits	-	-	672,111	24,658,630
Freight	-	-	-	37,132
Representation and entertainment	-	-	-	78,413
Dues, fees and registration	-	-	16,824	538,083
Grants	-	-	-	1,141,251
Student loans	-	-	-	1,339,086
Scholarships	-	-	-	279,021
Fellowship award	-	-	-	(31,200)
Board compensation	-	-	-	485,524
Employee incentive awards	-	-	-	57,552
Bank service fee	-	-	-	9,814
Investment management fees	-	-	-	26,340
Principal retirement	-	-	2,500,425	4,296,416
Interest charges	-	-	572,243	572,243
Miscellaneous	-	-	-	787
	_____	_____	_____	_____
Total expenditures	\$ 1,092,732	\$ -	\$ 3,761,603	\$ 90,817,588

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

GENERAL FUND

**Schedule of Revenues
Year Ended September 30, 2019**

	<u>2019</u>	<u>2018</u>
Compact funding:		
Section 211(a)	\$ -	\$ 6,000,000
Section 432	-	11,426,909
Section 221(b)	-	2,000,000
Section 215 inflation adjustment	-	5,147,000
Total compact funding	<u>-</u>	<u>24,573,909</u>
Taxes:		
Gross receipts	14,110,933	14,494,423
Salary and wage	10,900,157	10,970,116
Alcohol and tobacco	9,094,825	9,704,970
Hotel occupancy	3,458,908	4,405,299
Travelers head	-	612,240
General import	2,589,261	2,787,294
Penalties, interest and delinquencies	679,734	1,247,290
Fuel excise	753,014	886,990
Beverage container tax	451,493	460,091
Fish export	584,544	765,417
Vessel cabin and foreign water vessel	136,167	140,085
Other	706,786	768,359
Total taxes	<u>43,465,822</u>	<u>47,242,574</u>
Licenses and permits:		
Fishing days fees	9,517,218	8,452,476
Foreign labor permits	1,442,548	1,385,685
Business licenses	296,739	293,734
Foreign investment permits and fees	546,878	436,062
Corporate filing fees	78,747	40,830
Other licenses and permits	348,450	352,383
Total licenses and permits	<u>12,230,580</u>	<u>10,961,170</u>
Fees and charges:		
Pristine Paradise Environmental Fee	3,715,574	7,549,996
Green fees	-	1,706,580
Airport fees and rentals	1,262,198	1,928,755
Postal service	330,659	356,240
Ship registry	1,198,258	872,405
Court fines and fees	135,037	244,164
Palau passport fees	108,371	117,700
Banking fees	121,515	170,663
Seaport fees	23,647	24,352
Water utility charges	-	100
Other	382,004	28,527
Total fees and charges	<u>7,277,263</u>	<u>12,999,482</u>
Net change in the fair value of investments	<u>769,014</u>	<u>385,934</u>
Other:		
Indirect cost recoveries	127,992	89,949
Other	872,907	644,037
Total other	<u>1,000,899</u>	<u>733,986</u>
Total revenues	<u>\$ 64,743,578</u>	<u>\$ 96,897,055</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, 2019

	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Variance</u>
Revenues:				
Local revenue	\$ 62,087,700	\$ 63,272,700	\$ 56,375,712	\$ (6,896,988)
Net change in the fair value of investments	-	-	387,065	387,065
Other	-	2,033,491	301,860	(1,731,631)
Total revenues	<u>62,087,700</u>	<u>65,306,191</u>	<u>57,064,637</u>	<u>(8,241,554)</u>
Expenditures - budgetary basis:				
Office of the President:				
President's Office	919,168	1,051,168	1,003,668	47,500
Official Expenses	30,000	30,000	24,018	5,982
Indirect Cost Recoveries	560	128,552	125,725	2,827
Administrative Overhead	-	22,079	21,872	207
Grants Coordinator Office	76,000	87,000	84,608	2,392
Council of Chiefs	151,000	151,000	143,585	7,415
Presidential Stipend	45,000	45,000	45,000	-
Total Office of the President	<u>1,221,728</u>	<u>1,514,799</u>	<u>1,448,476</u>	<u>66,323</u>
Office of the Vice-President:				
Vice-President's Office	381,503	381,503	378,297	3,206
National Emergency Management Office	229,111	229,111	195,453	33,658
Total Office of the Vice-President	<u>610,614</u>	<u>610,614</u>	<u>573,750</u>	<u>36,864</u>
Ministry of Finance:				
Office of the Minister	258,000	58,000	57,972	28
Administrative Overhead	2,168	59,597	55,746	3,851
Information System Support Service	241,020	241,020	236,454	4,566
Bureau of National Treasury	933,402	1,071,402	1,065,072	6,330
Bureau of Budget and Planning	642,882	737,882	730,027	7,855
Bureau of Public Service System	246,000	251,000	247,396	3,604
Workmen's Compensation	45,000	45,000	43,424	1,576
Bureau of Revenue and Taxation	703,734	663,734	639,984	23,750
Bureau of Customs	1,000,500	1,045,500	1,019,902	25,598
Total Ministry of Finance	<u>4,072,706</u>	<u>4,173,135</u>	<u>4,095,977</u>	<u>77,158</u>
Ministry of State:				
Office of the Minister	58,000	58,000	57,916	84
Consulate Office in Guam	129,000	119,000	116,569	2,431
Consulate Office in Saipan	56,660	61,660	52,753	8,907
Embassy in Washington D.C.	341,020	351,020	347,605	3,415
Embassy in Tokyo, Japan	787,583	767,583	745,722	21,861
Embassy in Taipei, Taiwan	204,792	194,792	181,877	12,915
Embassy in Manila, Philippines	151,000	153,000	152,446	554
United Nations Representative Office	389,000	439,000	360,166	78,834
Office of the Public Defender	363,000	353,000	336,620	16,380
Bureau of Trade and Foreign Affairs	473,093	473,093	466,221	6,872
Bureau of Domestic Affairs	317,577	343,577	338,321	5,256
Passport Office	127,000	214,000	178,648	35,352
International Organizations Obligations	345,000	345,000	345,000	-
Southwest Islands Field Trips	310,000	310,000	301,400	8,600
ROP Embassy for European Union/Climate Change	237,878	252,878	229,282	23,596
ROP Embassy in United Arab Emirates UAE	50,000	45,000	-	45,000
Total Ministry of State	<u>4,340,603</u>	<u>4,480,603</u>	<u>4,210,546</u>	<u>270,057</u>
Ministry of Community and Cultural Affairs:				
Office of the Minister	58,000	58,000	57,972	28
Bureau of National Archives	140,670	129,670	119,044	10,626
Bureau of Youth, Applied Arts and Career	373,506	373,506	327,176	46,330
Bureau of Aging and Gender	377,000	377,000	306,150	70,850
Sports Facilities Maintenance and Utilities	94,000	85,000	71,797	13,203
Bureau of Cultural and Historical Preservation	198,585	198,585	174,791	23,794
Olchotel Belau Fair	30,000	30,000	30,000	-
Palau Severely Disabled Assistance Fund	298,000	298,000	293,980	4,020
Total Ministry of Community and Cultural Affairs	<u>1,569,761</u>	<u>1,549,761</u>	<u>1,380,910</u>	<u>168,851</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, 2019

	Original	Final	Actual	Variance
Ministry of Education:				
Office of the Minister	58,000	58,000	57,972	28
School Books, Supplies and Instructional Equipment	367,573	367,573	294,562	73,011
Bureau of Curriculum and Instruction	508,000	493,000	436,849	56,151
Bureau of School Administration	7,541,432	7,541,432	7,202,738	338,694
Food Services Program	846,500	846,500	786,016	60,484
Total Ministry of Education	<u>9,321,505</u>	<u>9,306,505</u>	<u>8,778,137</u>	<u>528,368</u>
Ministry of Public Infrastructure, Industry and Commerce:				
Office of the Minister	58,000	58,000	57,972	28
FAA, UNDP, & Other Match	665,000	602,000	27,406	574,594
Bureau of Commercial Development	354,610	349,610	306,817	42,793
Palau Small Business Development (UOG)	70,000	70,000	70,000	-
Bureau of Aviation	2,392,331	2,387,331	2,052,309	335,022
Bureau of Communication	154,808	154,808	3,039	151,769
Bureau of Lands and Survey	903,676	898,676	857,358	41,318
Bureau of Public Works	1,406,305	1,401,305	1,351,991	49,314
Palau Energy Administration	372,236	367,236	125,364	241,872
National Capitol Electricity/Maintenance	1,450,000	1,450,000	1,443,614	6,386
Capital Improvement Office Operations	155,000	160,000	139,930	20,070
Total Ministry of Public Infrastructure, Industry and Commerce	<u>7,981,966</u>	<u>7,898,966</u>	<u>6,435,800</u>	<u>1,463,166</u>
Ministry of Justice:				
Office of the Attorney General	649,484	729,484	541,256	188,228
Bureau of Immigration & Labor	1,068,737	1,109,737	958,183	151,554
Bureau of Public Safety	3,324,132	3,619,132	3,351,258	267,874
Bureau of Maritime Security & FWP	1,016,416	1,152,416	932,624	219,792
National Drug Task Force	250,324	250,324	244,737	5,587
Anti Human Trafficking Task Force	100,000	100,000	-	100,000
Juvenile Justice Program	-	25,000	-	25,000
Total Ministry of Justice	<u>6,409,093</u>	<u>6,986,093</u>	<u>6,028,058</u>	<u>958,035</u>
Ministry of Health:				
Office of the Minister	58,000	58,000	57,972	28
NCCP Admin Cost	1,000	31,000	30,000	1,000
Bureau of Public Health	1,366,000	1,483,000	1,128,710	354,290
Health Administration	3,682,506	3,682,506	3,453,463	229,043
Manila Medical Referral	210,000	204,000	65,947	138,053
Hawaii Medical Referral	150,000	145,000	123,357	21,643
Taipei Medical Referral	150,285	161,285	154,102	7,183
Medical Supplies and Drugs	300,000	300,000	258,771	41,229
Hemodialysis	578,498	578,498	487,715	90,783
Hyperbaric Chamber	100,000	95,000	40,526	54,474
Bureau of Clinical Service	1,993,364	2,088,364	1,810,919	277,445
Bureau of Nursing	2,414,023	2,500,023	2,291,011	209,012
Marine Ambulance	149,000	149,000	149,000	-
Total Ministry of Health	<u>11,152,676</u>	<u>11,475,676</u>	<u>10,051,493</u>	<u>1,424,183</u>
Ministry of Natural Resources, Environment and Tourism:				
Office of the Minister	58,000	58,000	57,972	28
Bureau of Marine Resources	673,000	663,000	573,697	89,303
Bureau of Agriculture	722,445	722,445	706,762	15,683
Bureau of Tourism	258,839	248,839	209,492	39,347
Total Ministry of Natural Resources, Environment and Tourism	<u>1,712,284</u>	<u>1,692,284</u>	<u>1,547,923</u>	<u>144,361</u>
Total Executive Branch	<u>48,392,936</u>	<u>49,688,436</u>	<u>44,551,070</u>	<u>5,137,366</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, 2019

	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Variance</u>
Judicial Branch:				
Judiciary	3,192,000	3,192,000	3,183,081	8,919
Total Judicial Branch	<u>3,192,000</u>	<u>3,192,000</u>	<u>3,183,081</u>	<u>8,919</u>
Olbiil Era Kelulau:				
Senate	2,331,113	2,431,113	2,363,992	67,121
Senate Legal Counsel Office	215,000	215,000	209,884	5,116
House of Delegates	2,899,147	2,999,147	2,836,374	162,773
House Legal Counsel Office	215,000	215,000	197,165	17,835
Joint Staff	345,000	370,000	349,707	20,293
Association of Pacific Island Legislatures	15,000	15,000	11,125	3,875
Inter-Parliamentary Union	15,000	15,000	12,244	2,756
Palau Japan Parliamentary Friendship	35,000	35,000	-	35,000
Electricity for Koror Olbiil Era Kelulau Building	30,000	30,000	29,736	264
OEK Koror Office Renovation	250,000	250,000	-	250,000
Pacific Islands Development Bank	10,000	10,000	9,479	521
Total Legislative Branch	<u>6,360,260</u>	<u>6,585,260</u>	<u>6,019,706</u>	<u>565,554</u>
Boards, Commissions and Authorities:				
Foreign Investment Board	218,231	198,231	190,362	7,869
Palau Election Commission	258,000	288,000	224,259	63,741
COFA Board of Trustees	50,000	50,000	43,934	6,066
Palau Code Commission	65,000	59,000	34,341	24,659
Palau Public Lands Authority	122,000	112,000	107,739	4,261
Parole Board	30,000	28,000	26,992	1,008
Palau Housing Authority	70,000	70,000	70,000	-
Ethics Commission	51,000	46,000	29,888	16,112
Financial Institutions Commission	56,618	46,618	36,478	10,140
Financial Investigation Unit	187,000	187,000	162,208	24,792
Language Commission	59,000	54,000	15,451	38,549
Ngardmau Free Trade Zone Authority	30,000	30,000	30,000	-
Total Boards, Commissions and Authorities	<u>1,196,849</u>	<u>1,168,849</u>	<u>971,652</u>	<u>197,197</u>
State Block Grants	<u>8,056,000</u>	<u>8,056,000</u>	<u>8,056,000</u>	<u>-</u>
Independent Agencies:				
Office of the Public Auditor	540,736	540,736	489,595	51,141
Office of the Special Prosecutor	305,000	305,000	275,993	29,007
Palau Environmental Quality Protection Board	509,794	509,794	441,104	68,690
National Postal Service	479,338	509,338	445,960	63,378
Palau Visitors Authority	1,426,000	1,881,000	1,881,000	-
National Aviation Administration	190,938	190,938	169,532	21,406
Total Independent Agencies	<u>3,451,806</u>	<u>3,936,806</u>	<u>3,703,184</u>	<u>233,622</u>
Other Agencies and Activities:				
Palau National Museum	260,325	260,325	243,222	17,103
Micronesia Legal Services	125,000	125,000	125,000	-
Palau Community Action Agency	354,000	354,000	354,000	-
Head Start Program	126,000	126,000	126,000	-
Palau Red Cross	10,000	15,000	10,000	5,000
WIA Grant Contribution	94,000	94,000	93,952	48
Civic Action Team Share	250,000	250,000	250,000	-
PNOC and Sports Organizations	177,000	177,000	177,000	-
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	71,200	71,200	-	71,200
Total Other Agencies and Activities	<u>1,887,525</u>	<u>1,892,525</u>	<u>1,794,174</u>	<u>98,351</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, 2019

	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Variance</u>
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	-
PCC Endowment Fund	75,000	75,000	75,000	-
PCC Navigational Aids	-	50,000	50,000	-
Aid to Non-Public Schools	<u>947,000</u>	<u>947,000</u>	<u>947,000</u>	<u>-</u>
Total Education Assistance	<u>3,458,000</u>	<u>3,508,000</u>	<u>3,508,000</u>	<u>-</u>
Other Appropriations:				
Wheelchair Accessible Vehicle	40,000	40,000	35,795	4,205
16th Pacific Games	-	200,000	200,000	-
Saipan-Belau Bai Project	-	50,000	50,000	-
Guam Palauan Community Cultural Center	-	25,000	25,000	-
Oceans Stewards Initiative	-	15,000	15,000	-
Palau Public Utilities Corporation AFPAC	-	500,000	500,000	-
Loan Repayment	-	1,795,991	1,795,991	-
Other	<u>470</u>	<u>470</u>	<u>-</u>	<u>470</u>
Total Other Appropriations	<u>40,470</u>	<u>2,626,461</u>	<u>2,621,786</u>	<u>4,675</u>
Total expenditures	<u>76,035,846</u>	<u>80,654,337</u>	<u>74,408,653</u>	<u>6,245,684</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(13,948,146)</u>	<u>(15,348,146)</u>	<u>(17,344,016)</u>	<u>(1,995,870)</u>
Other financing sources (uses):				
Loan proceeds	-	-	7,763,512	7,763,512
Operating transfers in:				
Compact Section 211(f) Trust Fund	5,000,000	15,000,000	15,000,000	-
Non Lapsing Fund	14,610,000	7,610,000	7,610,000	-
U.S. Federal Grants	-	-	87,077	87,077
NCD Fund	-	-	84,000	84,000
Operator License Fund	-	-	33,393	33,393
Other Non U.S. Federal Grants Fund	-	-	6,721	6,721
OTIA Direct Grants Fund	-	-	214	214
Total other financing sources	<u>19,610,000</u>	<u>22,610,000</u>	<u>30,584,917</u>	<u>7,974,917</u>
Operating transfers out:				
National Scholarship Fund	(2,003,000)	(2,003,000)	(2,003,000)	-
Debt Service Fund	(1,776,000)	(1,823,000)	(1,823,000)	-
Nonlapsing Fund	(2,554,700)	(3,907,700)	(3,907,700)	-
Local CIP Fund	(500,000)	(700,000)	(707,817)	(7,817)
U.S. Federal Grants Fund	-	-	(301,924)	(301,924)
Other Non U.S. Grants Fund	-	-	(5,397)	(5,397)
OTIA Direct Grants Fund	-	-	(4,042)	(4,042)
Total other financing uses	<u>(6,833,700)</u>	<u>(8,433,700)</u>	<u>(8,752,880)</u>	<u>(319,180)</u>
Total other financing sources (uses), net	<u>12,776,300</u>	<u>14,176,300</u>	<u>21,832,037</u>	<u>7,655,737</u>
	<u>(1,171,846)</u>	<u>(1,171,846)</u>	<u>4,488,021</u>	<u>5,659,867</u>
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>1,171,846</u>	<u>1,171,846</u>	<u>724,222</u>	<u>(447,624)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,212,243</u>	<u>\$ 5,212,243</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

GRANTS FUND

September 30, 2019

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, 2019

	322000	350100	350200	360100	420100	540000	440100	
	COFA S322 <u>Defense Sites</u>	U.S. Federal <u>Grants</u>	OTIA Direct <u>Grants</u>	Other Non U.S. Federal <u>Grants</u>	Non-DOI Capital <u>Projects</u>	COFA S432(5) Infrastructure <u>Grants</u>	Other Country <u>Grants</u>	<u>Total</u>
ASSETS								
Cash equivalent	\$ 2,032,080	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,032,080
Receivables, net:								
General	-	1,277	-	-	-	-	6,528,792	6,530,069
Federal agencies	-	2,271,263	1,471,800	-	593,811	1,091,794	-	5,428,668
Due from other funds	1,328,568	-	-	2,494,437	-	-	-	3,823,005
Advances	-	186,288	22,471	251,895	-	-	4,874	465,528
Prepaid items	-	-	-	13,519	-	-	-	13,519
Total assets	<u>\$ 3,360,648</u>	<u>\$ 2,458,828</u>	<u>\$ 1,494,271</u>	<u>\$ 2,759,851</u>	<u>\$ 593,811</u>	<u>\$ 1,091,794</u>	<u>\$ 6,533,666</u>	<u>\$ 18,292,869</u>
LIABILITIES AND FUND BALANCES								
Liabilities:								
Accounts payable	\$ -	\$ 453,862	\$ 32,089	\$ 466,050	\$ 39,800	\$ 330,194	\$ 6,254	\$ 1,328,249
Contracts payable	-	-	-	-	-	-	1,985,235	1,985,235
Unearned revenues	-	-	-	2,222,851	-	-	-	2,222,851
Other liabilities and accruals	-	159,001	-	70,950	384	-	14,676	245,011
Due to other funds	-	1,839,621	1,453,669	-	553,627	761,600	4,527,501	9,136,018
Total liabilities	<u>-</u>	<u>2,452,484</u>	<u>1,485,758</u>	<u>2,759,851</u>	<u>593,811</u>	<u>1,091,794</u>	<u>6,533,666</u>	<u>14,917,364</u>
Fund balances:								
Nonspendable	3,360,648	-	-	13,519	-	-	-	3,374,167
Unassigned	-	6,344	8,513	(13,519)	-	-	-	1,338
Total fund balances	<u>3,360,648</u>	<u>6,344</u>	<u>8,513</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,375,505</u>
Total liabilities and fund balances	<u>\$ 3,360,648</u>	<u>\$ 2,458,828</u>	<u>\$ 1,494,271</u>	<u>\$ 2,759,851</u>	<u>\$ 593,811</u>	<u>\$ 1,091,794</u>	<u>\$ 6,533,666</u>	<u>\$ 18,292,869</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, 2019

	322000	350100	350200	360100	420100	540000	440100	
	COFA S322 Defense Sites Grants	U.S. Federal Grants	OTIA Direct Grants	Other Non U.S. Grants	Non-DOI Capital Projects	COFA S432(5) Infrastructure Grants	Other Country Grants	Total
Revenues:								
Federal contributions	\$ 9,700,000	\$ 8,615,344	\$ 958,792	\$ -	\$ 70,345	\$ 1,091,794	\$ -	\$ 20,436,275
Other grants	-	-	-	5,101,278	-	-	9,762,659	14,863,937
Total revenues	9,700,000	8,615,344	958,792	5,101,278	70,345	1,091,794	9,762,659	35,300,212
Expenditures:								
Current:								
Office of the President	-	-	-	1,205,740	-	-	-	1,205,740
Office of the Vice President	-	-	-	13,035	-	-	-	13,035
Ministry of Finance	-	-	159,945	362,646	-	1,091,794	-	1,614,385
Ministry of State	-	-	-	4,018	-	-	-	4,018
Ministry of Education	-	2,376,342	-	74,929	-	-	-	2,451,271
Ministry of Public Infrastructure	-	-	-	-	-	-	-	-
Industries & Commerce	-	-	179,052	333,529	70,345	-	-	582,926
Ministry of Justice	6,339,352	21,204	538	378,829	-	-	-	6,739,923
Ministry of Health	-	5,586,252	-	116,803	-	-	-	5,703,055
Ministry of Natural Resources, Environment and Tourism	-	-	-	2,247,353	-	-	-	2,247,353
Ministry of Community and Cultural Affairs	-	-	-	49,216	-	-	-	49,216
Financial and Compliance Audit	-	-	623,085	-	-	-	-	623,085
Independent Agencies	-	846,393	-	296,307	-	-	-	1,142,700
Capital projects	-	-	-	-	-	-	9,762,659	9,762,659
Total expenditures	6,339,352	8,830,191	962,620	5,082,405	70,345	1,091,794	9,762,659	32,139,366
Excess (deficiency) of revenues over (under) expenditures	3,360,648	(214,847)	(3,828)	18,873	-	-	-	3,160,846
Other financing sources (uses):								
Operating transfers in	-	301,924	4,042	5,397	-	-	-	311,363
Operating transfers out	-	(87,077)	(214)	(6,721)	-	-	-	(94,012)
Total other financing sources (uses), net	-	214,847	3,828	(1,324)	-	-	-	217,351
Net change in fund balances	3,360,648	-	-	17,549	-	-	-	3,378,197
Fund balances at beginning of year	-	6,344	8,513	(17,549)	-	-	-	(2,692)
Fund balances at end of year	\$ 3,360,648	\$ 6,344	\$ 8,513	\$ -	\$ -	\$ -	\$ -	\$ 3,375,505

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

GRANTS FUND

Combining Schedule of Expenditures By Object
Year Ended September 30, 2019

	322000	350100	350200	360100	420100	540000	440100	
	COFA S322 Defense Sites Grants	U.S. Federal Grants	OTIA Direct Grants	Other Non U.S. Grants	Non-DOI Capital Projects	COFA S432(5) Infrastructure Grants	Other Country Grants	Total
Expenditures:								
Salaries and wages	\$ -	\$ 3,911,543	\$ -	\$ 1,652,915	\$ 17,956	\$ -	\$ 239,372	\$ 5,821,786
Professional and contractual services	-	787,435	844,075	832,734	47,835	-	1,793,552	4,305,631
Repairs and maintenance	-	63,518	-	27,502	-	-	437,942	528,962
Rentals	6,339,352	245,881	21,885	102,532	-	1,600	7,748	6,718,998
Building remodeling	-	-	-	6,750	-	-	2,250	9,000
Construction	-	-	-	9,990	-	-	5,925,416	5,935,406
Insurance	-	864	-	-	-	-	-	864
Advertising	-	46,702	2,095	29,001	-	385	415	78,598
Travel	-	1,192,230	47,916	857,300	4,551	-	67,656	2,169,653
Communications and postage	-	147,987	-	57,086	-	-	-	205,073
Supplies and materials	-	905,042	23,610	456,850	-	2,729	70,223	1,458,454
Medical supplies	-	131,787	-	-	-	-	-	131,787
Medical drugs	-	13,360	-	-	-	-	-	13,360
Petroleum products	-	95,040	-	115,692	-	-	16,995	227,727
Food stuffs	-	1,674	(1,440)	279,905	-	-	1,695	281,834
Books and periodicals	-	-	-	1,112	-	-	-	1,112
Utilities	-	61,427	-	3,869	-	217	-	65,513
Machinery	-	-	-	70,785	-	-	-	70,785
Equipment	-	244,885	-	22,712	-	120,750	784,200	1,172,547
Vehicles	-	30,553	-	72,140	-	-	18,895	121,588
Computer software	-	20,244	-	-	-	966,113	-	986,357
Administrative costs	-	87,429	22,079	-	-	-	-	109,508
Dues, fees and registration	-	55,660	2,400	12,640	-	-	4,571	75,271
Training	-	227,613	-	64,702	-	-	-	292,315
Payment to state governments	-	2,500	-	2,135	-	-	-	4,635
Payments of allotments/benefits	-	261,794	-	12,500	-	-	-	274,294
Freight	-	21,334	-	423	-	-	-	21,757
Board compensation	-	141,546	-	24,181	-	-	-	165,727
Employee incentive awards	-	1,400	-	-	-	-	-	1,400
Indirect costs	-	127,992	-	-	-	-	-	127,992
Donations	-	-	-	350,377	-	-	391,729	742,106
Representation and entertainment	-	-	-	17,600	-	-	-	17,600
Miscellaneous	-	2,751	-	(1,028)	3	-	-	1,726
Total expenditures	\$ 6,339,352	\$ 8,830,191	\$ 962,620	\$ 5,082,405	\$ 70,345	\$ 1,091,794	\$ 9,762,659	\$ 32,139,366

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

Permanent Funds

Combining Balance Sheet
September 30, 2019

	621100	342100	
	<u>Compact Section 211(f)</u>	<u>Infrastructure Maintenance</u>	<u>Total</u>
<u>ASSETS</u>			
Restricted assets:			
Investments	<u>\$ 281,940,879</u>	<u>4,430,440</u>	<u>\$ 286,371,319</u>
	<u>\$ 281,940,879</u>	<u>\$ 4,430,440</u>	<u>\$ 286,371,319</u>
<u>FUND BALANCES</u>			
Nonspendable	<u>\$ 281,940,879</u>	<u>\$ 4,430,440</u>	<u>\$ 286,371,319</u>
Total fund balances	<u>\$ 281,940,879</u>	<u>\$ 4,430,440</u>	<u>\$ 286,371,319</u>

See accompanying notes to basic financial statements.

REPUBLIC OF PALAU

Permanent Funds

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances Year Ended September 30, 2019

	621100	342100	
	Compact Section 211(f)	Infrastructure Maintenance	Total
Revenues:			
Net change in the fair value of investments	\$ 5,392,032	\$ 345,538	\$ 5,737,570
Total revenues	<u>5,392,032</u>	<u>345,538</u>	<u>5,737,570</u>
Expenditures:			
Investment management fees	<u>1,794,955</u>	<u>23,924</u>	<u>1,818,879</u>
Total expenditures	<u>1,794,955</u>	<u>23,924</u>	<u>1,818,879</u>
Excess of revenues over expenditures	<u>3,597,077</u>	<u>321,614</u>	<u>3,918,691</u>
Other financing sources (uses):			
Operating transfers out	<u>(15,000,000)</u>	<u>-</u>	<u>(15,000,000)</u>
Total other financing sources (uses), net	<u>(15,000,000)</u>	<u>-</u>	<u>(15,000,000)</u>
Net change in fund balances	(11,402,923)	321,614	(11,081,309)
Fund balances at beginning of year	<u>293,343,802</u>	<u>4,108,826</u>	<u>297,452,628</u>
Fund balances at end of year	\$ <u>281,940,879</u>	\$ <u>4,430,440</u>	\$ <u>286,371,319</u>

See accompanying notes to basic financial statements.

REPUBLIC OF PALAU

NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS

September 30, 2019

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, 2019

	100115	100118	100130	100140	100145	100147	100148	100149	100160	100165	100170	300100	
	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	Total
ASSETS													
Receivables, net:													
General	\$ -	\$ -	\$ 1,239	\$ -	\$ -	\$ -	\$ -	\$ 228,330	\$ (20)	\$ -	\$ -	\$ -	\$ 229,549
Due from other funds	-	90,713	2,385,819	2,690,658	77,341	476	11,306	303,810	550,193	2,623,772	6,549	61,960	8,802,597
Investments	-	-	-	-	-	-	-	2,302,652	-	-	-	-	2,302,652
Advances	-	2,913	-	-	-	-	-	-	-	-	-	3,580	6,493
Prepaid Items/Advances	-	2,600	-	-	-	-	-	-	-	-	-	-	2,600
Total assets	\$ -	\$ 96,226	\$ 2,387,058	\$ 2,690,658	\$ 77,341	\$ 476	\$ 11,306	\$ 2,834,792	\$ 550,173	\$ 2,623,772	\$ 6,549	\$ 65,540	\$ 11,343,891
LIABILITIES AND FUND BALANCES													
(DEFICIT)													
Liabilities:													
Accounts payable	\$ -	\$ 3,689	\$ 240,277	\$ 14,134	\$ 460	\$ -	\$ 1,205	\$ 63,130	\$ 6,684	\$ 3,347	\$ 1,391	\$ 4,304	\$ 338,621
Accrued payroll and others	-	-	-	-	-	-	-	-	-	5,356	-	-	5,356
Due to other funds	1,622	-	-	-	-	-	-	-	-	-	-	-	1,622
Total liabilities	1,622	3,689	240,277	14,134	460	-	1,205	63,130	6,684	8,703	1,391	4,304	345,599
Fund balances (deficit):													
Committed	(1,622)	92,537	2,146,781	2,676,524	76,881	476	10,101	2,771,662	543,489	2,615,069	5,158	61,236	10,998,292
Total fund balances (deficit)	(1,622)	92,537	2,146,781	2,676,524	76,881	476	10,101	2,771,662	543,489	2,615,069	5,158	61,236	10,998,292
Total liabilities and fund balances	\$ -	\$ 96,226	\$ 2,387,058	\$ 2,690,658	\$ 77,341	\$ 476	\$ 11,306	\$ 2,834,792	\$ 550,173	\$ 2,623,772	\$ 6,549	\$ 65,540	\$ 11,343,891

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, 2019

	100115	100118	100130	100140	100145	100147	100148	100149	100160	100165	100170	300100	
	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	Total
Revenues:													
Taxes	\$ -	\$ -	\$ -	\$ 1,100,716	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 803,586	\$ -	\$ -	\$ 1,904,302
Fees and charges	-	(60)	3,720,979	-	16,325	-	57,015	806,153	119,416	400	32,044	86,975	4,839,247
Licenses and permits	-	-	61,338	-	-	-	-	-	-	-	-	-	61,338
Net change in the fair value of investments	-	-	-	-	-	-	-	2,652	-	-	-	-	2,652
Total revenues	-	(60)	3,782,317	1,100,716	16,325	-	57,015	808,805	119,416	803,986	32,044	86,975	6,807,539
Expenditures:													
Current:													
Ministry of State	-	-	-	-	7,918	-	-	-	-	-	-	-	7,918
Ministry of Justice	-	79,594	-	-	-	-	23,622	-	-	-	-	-	103,216
Ministry of Health	-	-	3,330,971	393,595	-	-	-	-	-	-	-	-	3,724,566
Ministry of Natural Resources, Environment and Tourism	-	-	-	-	-	-	-	-	-	-	39,513	26,044	65,557
Ministry of Public Infrastructure, Industry and Commerce	-	-	-	-	-	-	-	-	-	294,451	-	-	294,451
Independent Agencies	-	-	-	-	-	-	-	-	9,570	-	-	-	9,570
Total expenditures	-	79,594	3,330,971	393,595	7,918	-	23,622	-	9,570	294,451	39,513	26,044	4,205,278
Excess (deficiency) of revenues over (under) expenditures	-	(79,654)	451,346	707,121	8,407	-	33,393	808,805	109,846	509,535	(7,469)	60,931	2,602,261
Other financing uses:													
Operating transfers out	-	-	-	(84,000)	-	-	(33,393)	-	-	(310,000)	-	-	(427,393)
Net change in fund balances	-	(79,654)	451,346	623,121	8,407	-	-	808,805	109,846	199,535	(7,469)	60,931	2,174,868
Fund balances (deficit) at beginning 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
Fund balances (deficit) at end of year	\$ (1,622)	\$ 92,537	\$ 2,146,781	\$ 2,676,524	\$ 76,881	\$ 476	\$ 10,101	\$ 2,771,662	\$ 543,489	\$ 2,615,069	\$ 5,158	\$ 61,236	\$ 10,998,292

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS

Combining Schedule of Expenditures by Object
Year Ended September 30, 2019

	100115	100118	100130	100140	100145	100147	100148	100149	100160	100165	100170	300100	311120	Total
	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	
Expenditures:														
Salaries and wages	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,073	\$ 135,058	\$ -	\$ -	\$ -	\$ 136,131
Professional	-	5,727	80,400	258,120	-	-	-	-	-	-	-	-	-	344,247
Repairs and maintenance	-	1,690	274,410	-	790	-	7,084	-	2,352	-	2,986	3,581	-	292,893
Rental	-	75	-	250	-	-	-	-	141	470	-	-	-	936
Freight	-	-	15,766	-	-	-	-	-	-	-	-	-	-	15,766
Travel	-	4,578	157,127	-	-	-	-	-	-	3,322	-	8,128	-	173,155
Communications and postage	-	-	-	-	2,681	-	-	-	18	-	-	-	-	2,699
Supplies and materials	-	19,653	37,652	25,414	4,211	-	16,538	-	3,474	35,243	22,283	10,681	-	175,149
Medical drugs	-	-	1,310,834	-	-	-	-	-	-	-	-	-	-	1,310,834
Medical supplies	-	-	1,210,469	-	-	-	-	-	-	-	-	-	-	1,210,469
Medical referrals	-	-	152,383	-	-	-	-	-	-	-	-	-	-	152,383
Petroleum products	-	15,648	-	-	236	-	-	-	161	-	14,014	134	-	30,193
Food stuffs	-	759	14,880	1,941	-	-	-	-	1,148	-	230	370	-	19,328
Payment to state governments	-	-	-	10,000	-	-	-	-	-	-	-	-	-	10,000
Payments of allotments/benefits	-	-	-	91,500	-	-	-	-	-	-	-	-	-	91,500
Utilities	-	-	-	-	-	-	-	-	53	-	-	1,650	-	1,703
Equipment	-	11,464	58,458	-	-	-	-	-	-	-	-	-	-	69,922
Training	-	-	7,333	-	-	-	-	-	-	-	-	-	-	7,333
Dues, fees and registration	-	-	100	50	-	-	-	-	-	-	-	-	-	150
Compensation	-	-	-	6,320	-	-	-	-	1,150	120,358	-	-	-	127,828
Donations	-	20,000	-	-	-	-	-	-	-	-	-	1,500	-	21,500
Miscellaneous	-	-	11,159	-	-	-	-	-	-	-	-	-	-	11,159
Total expenditures	\$ -	\$ 79,594	\$ 3,330,971	\$ 393,595	\$ 7,918	\$ -	\$ 23,622	\$ -	\$ 9,570	\$ 294,451	\$ 39,513	\$ 26,044	\$ -	\$ 4,205,278

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

OTHER INFORMATION

September 30, 2019

A brief discussion of other information presented for additional analysis as of September 30, 2019, 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, 2019

	Special Revenue		Permanent	Other	Total
	General	Grants	Compact Funds	Governmental Funds	
Expenditures:					
Salaries and wages	\$ 40,596,015	\$ 5,821,786	\$ -	\$ 136,131	\$ 46,553,932
Professional and contractual services	530,872	4,305,631	-	344,247	5,180,750
Repairs and maintenance	805,907	528,962	-	292,893	1,627,762
Rentals	871,885	6,718,998	-	936	7,591,819
Construction	1,451,622	5,944,406	-	-	7,396,028
Insurance	78,452	864	-	-	79,316
Advertising	58,210	78,598	-	-	136,808
Travel	1,497,571	2,169,653	-	173,155	3,840,379
Cleaning services	224,452	-	-	-	224,452
Communications and postage	1,084,719	205,073	-	2,699	1,292,491
Supplies and materials	2,190,130	1,458,454	-	175,149	3,823,733
Medical drugs	141,448	13,360	-	1,310,834	1,465,642
Medical supplies	382,652	131,787	-	1,210,469	1,724,908
Medical referrals	5,566	-	-	152,383	157,949
Petroleum products	919,124	227,727	-	30,193	1,177,044
Food stuffs	1,104,288	281,834	-	19,328	1,405,450
Books and periodicals	222,104	1,112	-	-	223,216
Utilities	3,269,421	65,513	-	1,703	3,336,637
Machinery	-	70,785	-	-	70,785
Equipment	242,923	1,172,547	-	69,922	1,485,392
Vehicles	442,068	121,588	-	-	563,656
Furniture and fixture	1,557	-	-	-	1,557
Crafts	73,816	-	-	-	73,816
Computer software	13,625	986,357	-	-	999,982
Training	18,893	292,315	-	7,333	318,541
Administrative costs	-	109,508	-	-	109,508
Dues, fees and registration	538,083	75,271	-	150	613,504
Investment management fees	26,340	-	1,818,879	-	1,845,219
Grants and contributions	1,141,251	-	-	-	1,141,251
Payment to state governments	-	4,635	-	10,000	14,635
Payments of allotments/benefits	24,658,630	274,294	-	91,500	25,024,424
Freight	37,132	21,757	-	15,766	74,655
Student loans	1,339,086	-	-	-	1,339,086
Scholarships	279,021	-	-	-	279,021
Fellowship award	(31,200)	-	-	-	(31,200)
Board compensation	485,524	165,727	-	127,828	779,079
Employee incentive awards	57,552	1,400	-	-	58,952
Indirect costs	-	127,992	-	-	127,992
Donations	1,101,176	742,106	-	21,500	1,864,782
Representation and entertainment	78,413	17,600	-	-	96,013
Bank service fee	9,814	-	-	-	9,814
Principal retirement	4,296,416	-	-	-	4,296,416
Interest charges	572,243	-	-	-	572,243
Miscellaneous	787	1,726	-	11,159	13,672
	<u>\$ 90,817,588</u>	<u>\$ 32,139,366</u>	<u>\$ 1,818,879</u>	<u>\$ 4,205,278</u>	<u>\$ 128,981,111</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

OTHER COUNTRY GRANTS FUND

Schedule of Expenditures of Other Country Grants
Year Ended September 30, 2019

Fund 440100 Grantor Account Title	Budget Authorizations	Receivable from Grantor (Deferred Revenue) at 9/30/2018	Cash Receipts FY2019	Expenditures FY2019	Receivable from Grantor (Deferred Revenue) at 9/30/2019
STIMULUS PACKAGE 2014					
B40802 NGERCHOKL SITE DEVELOPMENT	100,000	(11,740)	-	11,740	-
P4MCSF MICRO CNTR 4 SUST FUTURE	200,000	(5,107)	(3,107)	2,000	-
P4NMS1 PNMS PIF OUTREACH '14	87,000	-	-	-	-
TOTAL FY2014 STIMULUS GRANTS	<u>387,000</u>	<u>(16,847)</u>	<u>(3,107)</u>	<u>13,740</u>	<u>-</u>
STIMULUS PACKAGE 2015					
B50901 NGERBAU REC PARK F15	300,000	(35,506)	(18,657)	(1,985)	(18,834)
B51301 NGCHESAR ROAD IMP F15	300,000	(203,536)	(7,066)	196,470	-
G5SGS2 BBP INSTITUTIONAL STRENGTH	100,000	(14,536)	(14,536)	-	-
G5SGS7 UPR REVIEW	25,000	(5,644)	(5,644)	-	-
G5SG12 13TH ICRS/IUCN	35,000	(21,823)	(21,823)	-	-
TOTAL FY2015 STIMULUS GRANTS	<u>760,000</u>	<u>(281,045)</u>	<u>(67,726)</u>	<u>194,485</u>	<u>(18,834)</u>
STIMULUS PACKAGE 2016					
B60101 COFA MELTELATL RD IMP F16	150,000	(28,384)	(14,884)	13,500	-
B60102 MONGAMI ROAD IMP F16	150,000	-	-	-	-
B60201 AIRAI REC PARK PROJ F16	300,000	-	-	-	-
B60202 PIA ROAD REPAIRS F16	300,000	-	-	-	-
B60602 MEYUNS FIELD LIGHTING FY16	300,000	(45,000)	30,000	215,000	140,000
B60701 NGERUBESANG-DISP ROAD F16	300,000	-	-	-	-
B60801 NGESANG-ELAB RD IMP F16	400,000	-	-	-	-
B60802 ULIMANG-NGKEKLAU RD F16	200,000	-	-	-	-
B60804 NGERCHOKL SITE PROJ F16	100,000	(100,000)	-	21,200	(78,800)
B60901 MENGELLANG-OLLEI WATR F16	250,000	-	-	-	-
B60902 NGERBAU RECREATIONAL PARK	300,000	(82,197)	-	66,672	(15,525)
B61001 NGARDMAU STATE OFFICE F16	300,000	(12,435)	(10,266)	2,169	-
B61101 COFA-IMEONG ROAD F16	200,000	-	-	-	-
B61102 IMEONG-NGERMETENGL RD F16	300,000	-	-	-	-
B61201 NGATPANG ROAD IMP F16	300,000	(185,009)	74,991	260,000	-
B61301 NGCHESAR RD IMP PROJ F16	300,000	(167,182)	105,000	268,047	(4,135)
B61302 TABERNGESANG IMP PROJ F16	100,000	-	-	-	-
B61303 NGCHESAR BAI IMPROVE F16	100,000	-	-	-	-
B61401 NGIWAL ST RD IMPROV F16	300,000	-	-	-	-
B61501 PELELIU CAPITAL BLDG F16	300,000	-	-	-	-
B61502 CAMPBECK-NGEREKLAI WTR 16	250,000	-	-	-	-
C64946 MCCA CIVIC CTR RESTOR F16	300,000	-	-	-	-
F64999 GEN. MANAGEMENT SUPPORT	458,042	(147,666)	-	41,052	(106,614)
G6PPUC PPUC POWER RATE SUBSIDY	250,000	-	-	-	-
G6SGS1 2016 YOUTH PROGRAMS	200,000	(2,059)	-	405	(1,654)
G6SGS2 BBP INSTIT STRENGTH FY16	100,000	(10,098)	(6,534)	3,564	-
G6SGS3 NATIONAL OUTREACH ACTVTS	50,000	(2,545)	(1,712)	833	-
H64857 BNH MED EQUIP UPGRADE F16	425,000	-	-	-	-
H64858 BNH ROOF REPAIRS & IMP 16	275,000	44,000	44,000	-	-
J64924 LAW ENF VEHICLES & EQUIP	600,000	-	-	-	-
M64804 BMR HATCHERY IMP FY16	200,000	50,000	50,000	-	-
M64830 AGRI PRJ/ANI HUSB PRO F16	1,000,000	300,000	-	-	300,000
M64835 BOA NGCHESAR STATN REPAIR	200,000	-	-	-	-
P6PNMS PAL NAT'L MARINE SANCTRY	700,000	-	-	-	-
P6PRS1 INDEPENDENCE DAY CELEB 16	100,000	(1,317)	(1,317)	-	-
Q64803 JUDICIARY INFO SYS UPGRAD	200,000	-	-	-	-
S64804 T8AA FACILITY & EQUIP F16	200,000	-	-	-	-
TOTAL FY2016 STIMULUS GRANTS	<u>10,458,042</u>	<u>(389,892)</u>	<u>269,278</u>	<u>892,442</u>	<u>233,272</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU

OTHER COUNTRY GRANTS FUND

Schedule of Expenditures of Other Country Grants
Year Ended September 30, 2019

Fund 440100 Grantor Account Title	Budget Authorizations	Receivable from Grantor (Deferred Revenue) at 9/30/2018	Cash Receipts FY2019	Expenditures FY2019	Receivable from Grantor (Deferred Revenue) at 9/30/2019
STATE ECONOMIC STIMULUS PACKAGE 2017					
B70101 MELTELATL ROAD IMPROVEMEN	150,000	29,281	75,000	113,437	67,718
B70102 MONGAMI ROAD IMPROVEMENT	150,000	47,168	150,000	102,412	(420)
B70201 AIRAI REC PARK PROJECT	100,000	-	100,000	276,369	176,369
B70202 PIA-KED ROAD SEGMENT	700,000	297,354	672,000	341,849	(32,797)
B70701 MELEKEOK ROAD IMPROVEMENT	300,000	182,996	288,000	116,967	11,963
B70801 NGESANG-ELAB ROAD IMPROVE	300,000	50,327	144,000	227,530	133,857
B70802 ULIMANG-NGKEKLAU ROAD IMP	200,000	185,281	200,000	10,406	(4,313)
B70803 KUABS REC PARK PROJECT	200,000	102,389	120,000	8,634	(8,977)
B70804 NGERCHOKL SITE DEVELOPMEN	250,000	-	25,000	-	(25,000)
B70902 MENGELLANG-OLLEI WATERLIN	700,000	178,889	245,000	403,892	337,781
B71102 IMEONG NGERMETENGL ROAD	800,000	88,901	440,000	700,691	349,592
B71103 NGEREML HEAVY EQUIPMENT	500,000	64,870	400,000	391,834	56,704
B71201 NGATPANG ROAD IMPROVEMENT	300,000	-	75,000	238,315	163,315
B71301 NGCHESAR ROAD IMP PROJECT	300,000	-	111,000	106,124	(4,876)
B71302 TABERNGESANG IMP PROJECT	200,000	18,450	106,000	58,640	(28,910)
B71401 NGIWAL STATE ROAD IMPROVE	300,000	173,944	285,000	112,202	1,146
B71501 PELELIU STATE CAP BUILDIN	300,000	102,844	300,000	167,156	(30,000)
B71502 WATER DIST CAMP BECK NGER	300,000	-	90,000	145,576	55,576
F74999 GEN MANAGMENT SUPPORT 17	290,882	98,828	136,555	192,054	154,327
H7BNH1 BNH GENSET	800,000	-	800,000	713,000	(87,000)
H7BNH2 BNH CHILLER	120,000	-	-	119,200	119,200
M74804 BMR HATCHERY IMPROVEMENTS	30,000	-	-	-	-
M7AGR1 AGRICULTURE/ANIMAL PROJEC	750,000	750,000	-	-	750,000
M7BMR1 BMR FISH HATCHERY IMPROV	200,000	-	-	175,950	175,950
R74804 BABELDAOB SOLAR STRTLIGHT	200,000	136,767	-	63,233	200,000
R7CRS1 COMPACT RD SOLAR LIGHTING	880,000	516,862	792,000	232,440	(42,698)
R7OSP1 ONE STOP SHOP PH 1	700,000	133,366	420,000	660,499	373,865
R7OSP2 ONE STOP SHOP IT INFRUSTR	300,000	172,000	-	-	172,000
TOTAL FY2017 STIMULUS GRANTS	10,320,882	3,330,517	5,974,555	5,678,410	3,034,372
STATE ECONOMIC STIMULUS PACKAGE 2018					
B80202 PIA KED ROAD SEGM PHASE 2	300,000	-	-	81,336	81,336
B81001 NGARDMAU STATE OFFICE BDG	500,000	-	-	207,605	207,605
B81501 PELELIU STATE CAP BUILDIN	300,000	-	-	254,861	254,861
H84859 BNH HIS FY18	1,500,000	296,400	-	1,185,600	1,482,000
J8CCTV BPS SURVEILLANCE PHASE 1	1,000,000	-	-	574,691	574,691
Q84803 JUDICIARY GEN/ELEVATOR	100,000	-	-	99,419	99,419
R84823 CAPITOL COMPLEX CONF CENT	500,000	-	-	143,190	143,190
R8CSG1 CAPITOL STNDBY GNTR SWITC	550,000	-	-	436,880	436,880
TOTAL FY2018 STIMULUS GRANTS	4,750,000	296,400	-	2,983,582	3,279,982
GRAND TOTAL	26,675,924	2,939,133	6,173,000	9,762,659	6,528,792

REPUBLIC OF PALAU

OTHER NON-U.S. FEDERAL GRANTS FUND

**Schedule of Expenditures of Other Non-U.S. Federal Grants
Year Ended September 30, 2019**

Fund 360100 Grantor Account Title	Cost Center	Authorization	Receivable from Grantor (Unearned Revenue) at 9/30/2018	Cash Receipts FY 2019	Expenditures FY 2019	Receivable from Grantor (Unearned Revenue) at 09/30/2019
UNCCD GRANT COMMITTEE						
UNCCD 2018 NAT'L REPORT	M83923	40,000	(37,671)	-	7,634	(30,037)
Total UNCCD		<u>40,000</u>	<u>(37,671)</u>	<u>-</u>	<u>7,634</u>	<u>(30,037)</u>
WORLD HEALTH ORGANIZATION (WHO)						
DSG GRAPHIC HLTH WARNING	H7WHO1	6,350	(7)	-	-	(7)
ANTIBIOTIC AWARENESS WEEK	H7WHO2	7,978	(808)	-	-	(808)
MIGRANT POPULATION SURVEY	H7WHO3	8,790	(260)	-	-	(260)
ANTIMICROBIAL WORKSHOP	H7WHO4	3,205	(1,533)	-	-	(1,533)
ALCOHOL CONTROL ACTIVITY	H7WHO5	864	-	-	-	-
YOUTH TOBACCO SURVEY	H7WHO6	10,009	(158)	-	-	(158)
2017 WORLD HAND WASH DAY	H7WHO7	5,000	(3,708)	-	2,248	(1,460)
WHO IHR WORKSHOP	H8WHO1	5,040	(1,167)	-	413	(754)
2017 ANTIBIOTIC AWARENESS	H8WHO2	4,997	(4,997)	-	-	(4,997)
AIR CAMPAIGN	H8WHO3	5,550	(2,110)	-	2,103	(7)
WORLD NO TOBACCO DAY 2018	H8WHO4	5,470	(2,675)	-	2,278	(397)
ALCOHOL COALITION MEETING	H8WHO5	2,100	(2,100)	-	1,500	(600)
LF WORKSHOP	H8WHO6	1,500	(1,500)	-	1,499	(1)
POLICY DEV FOR LF ELIM	H8WHO7	1,500	-	-	1,500	1,500
DDM MODULE 3-5	H9WHO1	2,750	-	2,750	-	(2,750)
JOINT EXTERNAL EVAL TRNG	H9WHO2	14,830	-	14,830	2,750	(12,080)
NCD INTERVENTION/PEN MGT	H9WHO3	4,184	-	4,184	3,635	(549)
CBR AWARENESS AND DEV	H9WHO4	5,495	-	5,695	3,216	(2,479)
WORLD NO TOBACCO DAY PREP	H9WHO5	8,580	-	8,580	493	(8,087)
DROWNING PREVENTION	H9WHO6	1,000	-	1,000	-	(1,000)
INFECTION PREV & CONTROL	H9WHO7	11,638	-	11,638	6,995	(4,643)
INTL HLTH REGULATIONS JEE	H9WHO8	21,913	-	21,913	1,294	(20,619)
MORBID MORTALITY DATA IMP	H9WHO9	7,550	-	7,550	3,800	(3,750)
Total WHO APW health Career Trng		<u>146,293</u>	<u>(21,023)</u>	<u>78,140</u>	<u>33,724</u>	<u>(65,439)</u>
UNDP PUBLIC SECTOR PROG						
MOS BDA UNDP LGSP PROJ	S93929	17,500	-	17,500	8,750	(8,750)
Total UNDP PUBLIC SECTOR PROG		<u>17,500</u>	<u>-</u>	<u>17,500</u>	<u>8,750</u>	<u>(8,750)</u>
GEF OPERATIONAL FOCAL POINT						
3RD NATIONAL BIOSAFETY REPORT	M73932	25,000	(2,739)	-	2,390	(349)
Total GEF OPERATIONAL FOCAL POINT		<u>25,000</u>	<u>(2,739)</u>	<u>-</u>	<u>2,390</u>	<u>(349)</u>
SPREP						
OZONE DEPLETING SUBSTANCE	A23936	221,625	196	6,000	7,293	1,489
OZONE DEPLETING SUBSTANCE	A33936	50,000	1,299	-	-	1,299
OZONE DEPLETING SUBSTANCE	A73936	26,733	(6,000)	(6,000)	-	-
Total SPREP		<u>298,358</u>	<u>(4,505)</u>	<u>-</u>	<u>7,293</u>	<u>2,788</u>
UN POPS GRANTS						
IMPLEMENT GMP FOR POPS	A63938	61,484	(25,340)	-	13,473	(11,867)
EQPB- UNEP POP/NIP 2013	R33938	99,475	(15,718)	-	13,754	(1,964)
Total UN Pops Grants		<u>160,959</u>	<u>(41,058)</u>	<u>-</u>	<u>27,227</u>	<u>(13,831)</u>
UNESCO-SKILLS DEV. TRNG						
NGARMEDUU MGT AGREEMENT	M83941	1,000	(1,000)	-	-	(1,000)
Total UNESCO-SKILLS DEV. TRNG		<u>1,000</u>	<u>(1,000)</u>	<u>-</u>	<u>-</u>	<u>(1,000)</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, 2019**

<u>Fund 360100</u> <u>Grantor Account Title</u>	<u>Cost</u> <u>Center</u>	<u>Authorization</u>	<u>Receivable</u> <u>from Grantor</u> <u>(Unearned</u> <u>Revenue)</u> <u>at 9/30/2018</u>	<u>Cash</u> <u>Receipts</u> <u>FY 2019</u>	<u>Expenditures</u> <u>FY 2019</u>	<u>Receivable</u> <u>from Grantor</u> <u>(Unearned</u> <u>Revenue)</u> <u>at 09/30/2019</u>
<u>TNC GRANTS</u>						
LAW ENFORCEMENT CAPACITY	J73952	20,000	(16,765)	-	14,381	(2,384)
PAN LEGAL FRAMEWORK FY13	M3TNC1	15,000	(1,957)	-	-	(1,957)
FISHERY DATA COLLECTION	M3TNC2	75,000	(19,207)	10,000	15,985	(13,222)
TUNA FISHERIES PROJECT	M53952	300,000	(1,716)	-	1,028	(688)
PAC TUNA PROJECT	M8TNC3	45,000	(26,466)	-	26,411	(55)
COOP GRANT AGREEMENT WITH PRES	P63952	50,000	(2,882)	-	-	(2,882)
OUR OCEAN CONFERENCE 2020	P93952	50,000	(50,000)	-	-	(50,000)
Total TNC Grants		555,000	(118,993)	10,000	57,805	(71,188)
<u>MARINE SANCTUARY CONTRIBUTIONS</u>						
MARINE SANCTUARY	M6MC01	50,000	(1,579)	-	-	(1,579)
MS ITALY - PICRC	M6MC02	56,000	(16,047)	-	10,449	(5,598)
MARINE SANCTUARY -TNC	M7MC01	125,000	(49,267)	-	27,319	(21,948)
PNMS OCEAN CONSERVATION	P63955	110,652	(34,260)	-	33,173	(1,087)
PNMS NETHERLANDS CONT 2017	P73955	44,425	4,026	-	(4,026)	-
Total Marine Sanctuary		386,077	(97,127)	-	66,915	(30,212)
<u>CANADA FUND</u>						
PROMOTING SUSTAINABLE EGW	R93960	40,257	-	40,257	-	(40,257)
Total Canada Fund		40,257	-	40,257	-	(40,257)
<u>Secretariat Pacific Comm</u>						
GCCA/PSIS OERC 2013	A33961	125,227	3,819	-	-	3,819
PLANTS BRFEEDING PROJ FY2015	A53961	11,264	(1,639)	-	-	(1,639)
PALAU ISSAC PROJECT	F73961	85,000	(30,503)	-	48,972	18,469
ENERGY PLANNER PEO	R53961	14,700	(61)	-	-	(61)
ACP-EU BSRP	V73961	34,403	(4,711)	(2,218)	-	(2,493)
Total SPC Grants		270,594	(33,095)	(2,218)	48,972	18,095
<u>EUROPEAN UNION - ASCE</u>						
ASCE-CCCP-IR-ICC 2016	A6GIZ1	70,000	17,731	17,836	-	(105)
ASCE-CCCP-IR-FPS 2016	A6GIZ2	526,961	151,851	125,009	187,425	214,267
Total European Union Grants		596,961	169,582	142,845	187,425	214,162
<u>FISHERIES FORUM AGENCY</u>						
VESSEL MONITORING SYSTEM	J13971	172,918	(16,572)	-	15,633	(939)
FFA PROJECTS	M4FFA0	444,935	(4,833)	-	-	(4,833)
PALAU PROJ DEV FUND FY18	M83971	234,290	(120,010)	-	108,933	(11,077)
PALAU PDF 15%	R03971	74,774	994	-	-	994
FFA 2013	R33971	25,000	(408)	-	-	(408)
Total Fisheries Forum Agency		951,917	(140,829)	-	124,566	(16,263)
<u>AUSTRALIAN GRANTS</u>						
MCCA-BPNA Palauan Language & CASP	C1ARC1	10,725	(220)	-	-	(220)
TESOL TRAINING 2013	E33975	34,800	(18,960)	-	16,023	(2,937)
Total Australian Grants		45,525	(19,180)	-	16,023	(3,157)
<u>JAPAN GRANTS</u>						
DR. OGATA DONATION FOR CAR	E63976	4,072	(2,977)	-	-	(2,977)
JCM CRT 2015	M53976	43,477	(8,037)	2,632	6,782	(3,887)
AERODROME WORKSHOP	R93976	4,000	-	4,000	-	(4,000)
Total Japan Grants		51,549	(11,014)	6,632	6,782	(10,864)

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, 2019**

Fund 360100 Grantor Account Title	Cost Center	Authorization	Receivable from Grantor (Unearned Revenue) at 9/30/2018	Cash Receipts FY 2019	Expenditures FY 2019	Receivable from Grantor (Unearned Revenue) at 09/30/2019
<u>PACIFIC COMMUNITY GRANTS</u>						
RIDGE TO REEF PROJ 2016	M63978	166,646	(3,368)	75,529	55,759	(23,138)
EU NORTH PACIFIC RENI PRJ	V93978	6,066	-	6,066	13,035	6,969
Total Pacific Community Grants		<u>172,712</u>	<u>(3,368)</u>	<u>81,595</u>	<u>68,794</u>	<u>(16,169)</u>
<u>SPREP GRANTS</u>						
E-WASTE PROJECT - EQPB	A63979	12,000	(4,802)	-	-	(4,802)
MIA ACTIVITIES IMPL	A83979	16,980	(16,047)	-	6,830	(9,217)
GEF POP RELEASE PROJ	A8POP1	4,980	(43)	-	-	(43)
Total SPREP Grants		<u>33,960</u>	<u>(20,892)</u>	<u>-</u>	<u>6,830</u>	<u>(14,062)</u>
<u>PICRC</u>						
DEVELOP CC COM PLAN	F93981	16,000	-	16,000	-	(16,000)
PALAU MARKET STUDY	M6PC01	44,217	(7,538)	-	6,549	(989)
Total PICRC		<u>60,217</u>	<u>(7,538)</u>	<u>16,000</u>	<u>6,549</u>	<u>(16,989)</u>
<u>US NON FED</u>						
ENHANCE ROP ARMS CONTROL	J83990	72,679	(19,426)	-	15,357	(4,069)
Total US NON FED		<u>72,679</u>	<u>(19,426)</u>	<u>-</u>	<u>15,357</u>	<u>(4,069)</u>
<u>MOH SMALL GRANTS - OTHERS</u>						
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		<u>300,000</u>	<u>(8,129)</u>	<u>-</u>	<u>-</u>	<u>(8,129)</u>
<u>LSTA STATE GRANTS</u>						
IMLS LSTA 2017	E73992	42,000	42,000	41,416	-	584
IMLS LSTA 2018	E83992	36,909	-	-	36,909	36,909
IMLS LSTA 2019	E93992	35,500	-	-	-	-
Total LSTA State Grants		<u>114,409</u>	<u>42,000</u>	<u>41,416</u>	<u>36,909</u>	<u>37,493</u>
<u>PROTECTED AREAS NETWORK</u>						
NR MARITIME SURVEILLANCE	J73997	115,153	(72,341)	-	57,616	(14,725)
SUPPORT IMPL OF PNMS	M73997	196,000	(107,485)	-	87,722	(19,763)
Total PAN Grant		<u>311,153</u>	<u>(179,826)</u>	<u>-</u>	<u>145,338</u>	<u>(34,488)</u>
<u>UNDP/UNCCD/GEF</u>						
UNDP-OERC ENVIRONMENT PROJ	F68923	417,259	8,996	232,713	163,892	(59,825)
UNDP GEF 6 PROJECT	M98923	59,235	-	59,235	52,186	(7,049)
M98923 GEF 6 SUB COMP	M9BOA1	42,125	-	42,125	43,086	961
M98923 GEF 6 SUB COMP	M9NRET	44,250	-	44,250	60,632	16,382
Total UNDP		<u>562,869</u>	<u>8,996</u>	<u>378,323</u>	<u>319,796</u>	<u>(49,531)</u>
<u>UNEP GRANTS</u>						
UNEP-SSFA-ODS SURVEY	A68926	35,000	(9,330)	-	5,297	(4,033)
UNEP-SSFA-ODS SURVEY	A88926	86,500	(35,246)	57,500	43,354	(49,392)
UNEP-SSFA-ODS SURVEY	A8KIG1	25,000	(25,000)	-	13,123	(11,877)
HCFC MGT PLAN PHASE II	A98926	16,500	-	16,500	9,625	(6,875)
CHEMICAL/WASTE MANAGEMENT	A9CM1	97,500	-	97,500	-	(97,500)
M7PAN1 SUB CONTRACT	E78926	25,000	(22,663)	-	7,914	(14,749)
SUB CONTRACT M7PAN1	F7MOF1	10,000	-	10,000	-	(10,000)
2ND NAT'L COMM 2013	M38926	50,400	(1,223)	-	-	(1,223)
ADV SUSTAINABLE RES MGT	M78926	2,148,657	(21,706)	540,148	536,615	(25,239)

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REPUBLIC OF PALAU

OTHER NON-U.S. FEDERAL GRANTS FUND

**Schedule of Expenditures of Other Non-U.S. Federal Grants
Year Ended September 30, 2019**

Fund 360100 Grantor Account Title	Cost Center	Authorization	Receivable from Grantor (Unearned Revenue) at 9/30/2018	Cash Receipts FY 2019	Expenditures FY 2019	Receivable from Grantor (Unearned Revenue) at 09/30/2019
M78926 SUB CONTRACT	M7BOA1	300,000	(28,972)	137,000	113,533	(52,439)
M78926 SUB CONTRACT	M7BOT1	174,000	(33,171)	85,000	82,776	(35,395)
M78926 SUB CONTRACT	M7EQPB	53,600	(26,927)	-	18,121	(8,806)
M78926 MNRET SUB CONT	M7NRET	213,500	(6,049)	87,981	63,464	(30,566)
M78926 SUB CONTRACT	M7PAN1	570,496	4,405	436,929	204,307	(228,217)
6TH NAT RPT TO THE CBD	M88926	70,000	(57,254)	-	40,588	(16,666)
NBSAP/ 5TH CBD RPT	R28926	209,000	(2,039)	-	1,376	(663)
Total UNEP Grants		<u>4,085,153</u>	<u>(265,175)</u>	<u>1,468,558</u>	<u>1,140,093</u>	<u>(593,640)</u>
OTHER FOREIGN GRANTS						
2016 SWEDISH UPR-HRC	S68952	38,034	(1,217)	-	381	(836)
Total Other Foreign Grants		<u>38,034</u>	<u>(1,217)</u>	<u>-</u>	<u>381</u>	<u>(836)</u>
ISRAEL GRANTS-DONATIONS						
MOS TRAVEL MEETING EXP	S78953	34,827	(2,209)	-	1,480	(729)
Total Israel Grant-Donations		<u>34,827</u>	<u>(2,209)</u>	<u>-</u>	<u>1,480</u>	<u>(729)</u>
ICT WORLD BANK						
ICT World Bank	F8ICT1	-	-	-	11,500	11,500
Total ICT WORLD BANK		<u>-</u>	<u>-</u>	<u>-</u>	<u>11,500</u>	<u>11,500</u>
INDIA GRANTS						
MCCA-NCD AWARENESS CAMP	C8YS01	10,000	-	10,000	665	(9,335)
SENIOR CITIZENS HEALTH PR	C8YS02	10,000	-	10,000	10,000	-
HEALTH AWARENESS CAMPAIGN	E8YS01	10,000	(10,000)	-	4,083	(5,917)
MOE-YOGA PROGRAM	E8YS02	10,000	(10,000)	-	10,000	-
BPSS-WORKSITE WELLNESS CO	F8YS01	10,000	(10,000)	-	6,655	(3,345)
MEN'S HEALTH PROGRAM	H8YS01	9,630	(1,107)	-	289	(818)
COLONOSCOPY UNIT	H8YS02	10,000	(10,000)	-	10,000	-
RHD SCREENING	H8YS03	10,000	(10,000)	-	3,729	(6,271)
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)
YOUTH PROJECTS	P6YS01	200,000	(5,061)	-	-	(5,061)
YOUTH PROJECTS FY17	P7YS01	200,000	(7,373)	-	7,373	-
YOUTH PROJECTS FY18	P8YS01	90,067	(22,262)	(20,000)	2,262	-
YOUTH PROJECTS FY19	P9YS01	200,000	-	-	10,000	10,000
MPIIC	R8YS01	7,000	(5,190)	-	-	(5,190)
MINISTRY OF STATE EQUIPMENTS	S08968	100,000	(1,219)	-	-	(1,219)
SUBMARINE CABLE FEASABILITY	S18968	100,000	(947)	-	-	(947)
2ND FORUM FOR IPIC	S58968	55,274	(2,215)	-	-	(2,215)
Total India Grants		<u>1,055,274</u>	<u>(118,677)</u>	<u>-</u>	<u>65,056</u>	<u>(53,621)</u>
SASAKAWA PEACE FOUNDATION						
MOJ EMPL & TRAINING GRT	J78971	392,422	33,112	244,361	256,529	45,280
MOJ SPB TRAINEES	J7SPB1	30,263	2,339	17,971	18,606	2,974
Total SASAKAWA PEACE FOUNDATION		<u>422,685</u>	<u>35,451</u>	<u>262,332</u>	<u>275,135</u>	<u>48,254</u>
IWRM Project (SOPAC)						
SOPAC-NGERIKIIL WATER SHED	A98975	765,466	(26,548)	-	407	(26,141)
Total IWRM		<u>765,466</u>	<u>(26,548)</u>	<u>-</u>	<u>407</u>	<u>(26,141)</u>
ENERGY SECT IN 5 ACP ISLS						
TECH COOP FACILITY II	F78979	180,000	(35,963)	-	-	(35,963)
Total Energy Grants		<u>180,000</u>	<u>(35,963)</u>	<u>-</u>	<u>-</u>	<u>(35,963)</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, 2019

Fund 360100 Grantor Account Title	Cost Center	Authorization	Receivable from Grantor (Unearned Revenue) at 9/30/2018	Cash Receipts FY 2019	Expenditures FY 2019	Receivable from Grantor (Unearned Revenue) at 09/30/2019
<u>NEMO PEACESAT ASSISTANCE</u>						
ISC MEETING	V68980	4,253	(20)	-	-	(20)
Total PeaceSat Assistance		<u>4,253</u>	<u>(20)</u>	<u>-</u>	<u>-</u>	<u>(20)</u>
<u>ROC TAIWAN OTHER GRANTS</u>						
MCCA SUMMER YOUTH PROGRAM	C7SYP1	10,000	9,560	-	-	9,560
APAN CONFERENCE	F7APAN	80,000	9,298	-	58,727	68,025
BBP INSTITUTIONAL STRENGT	F7BBP1	100,000	(4,338)	-	2,536	(1,802)
BBP INST STRENGTHENING	F7BIS1	100,000	(17,101)	-	14,416	(2,685)
BBP INST STRENGTH	F8BBP1	100,000	34,326	-	13,758	48,084
DRUG DETECTORS DOG UNIT	F9DDDU	50,000	-	-	42,191	42,191
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)	-	24,156	(844)
FY16 PALAU LEGACY CAMPAIG	P6PLC1	70,000	70,000	-	-	70,000
MPS/PIF/UNGA/UNCC MTGS'17	P78982	80,000	(4,969)	-	4,631	(338)
OTP OUTREACH ACTIVITIES	P7OCP1	500,000	(31,446)	-	19,663	(11,783)
PALAU BASEBALL FEDERATION	P7PBF1	5,000	-	-	5,000	5,000
FY17PALAU LEGACY CAMPAIGN	P7PLC1	60,000	60,000	-	-	60,000
INDEPENDENCE DAY CELEB	P7PRS2	100,000	(33,469)	-	27,459	(6,010)
YOUTH PROGRAMS 2017	P7SGS1	50,000	28,178	-	34,856	63,034
MPS/PIF/UNGA/UNCC MTGS'18	P88982	20,000	7,758	-	10,846	18,604
PVA OTP PROJ '18	P8CCP1	75,000	-	-	75,199	75,199
HOUSING DEVELOPMENT PROJ	P8HDP1	50,000	-	-	29,241	29,241
LEGACY PROJECT OUTREACH	P8LP01	50,000	-	-	26,377	26,377
OTP OUTREACH ACTIVITIES	P8OCP1	500,000	277,690	500,000	210,753	(11,557)
INDEP. DAY CELEBRATION	P8PRS1	100,000	-	100,000	37,368	(62,632)
FY18 SMALL GRANT	P8SGS1	-	-	400,000	60,500	(339,500)
MICRONESIAN ISLAND FAIR	P9MIF1	-	-	-	4,950	4,950
OTP OUTREACH ACTIVITIES	P9OCP1	500,000	-	500,000	307,159	(192,841)
INDEPENDENCE DAY CELEB	P9PRS1	200,000	-	100,000	-	(100,000)
FY19 SMALL GRANTS PROJ	P9SGS1	400,000	-	400,000	-	(400,000)
NGARAARD HEALTHY LIVING	P9SGS2	25,000	-	-	25,000	25,000
CHOLL SUMMER ACTIVITY	P9SGS3	10,000	-	-	10,000	10,000
NGARA SESEB	P9SGS4	-	-	-	25,000	25,000
PEC GOSPEL DAY	P9SGS5	-	-	-	5,000	5,000
NGAREMLENGUI SUMMER PROGR	P9SGS6	-	-	-	10,000	10,000
DOLPHINS PACIFIC PROJ '19	P9SGS7	-	-	-	25,000	25,000
MOS MEDIA & OUTREACH PROJ	S78982	100,000	(1,713)	-	-	(1,713)
UN OCEANS CONFERENCE	S7SGS1	100,000	(6,698)	-	-	(6,698)
Total ROC Taiwan Other Grants		<u>3,885,000</u>	<u>(2,924)</u>	<u>2,000,000</u>	<u>1,109,786</u>	<u>(893,138)</u>
<u>TAIWAN ROC GRANTS</u>						
UNFCC COP 20 Travel Support	A58984	21,107	(527)	-	-	(527)
COMMUNITY ACTVTY SMALL G	C78984	250,000	(45,371)	-	11,264	(34,107)
23RD INDEP DAY CELEBRATIO	C7INDD	50,000	(1,666)	-	-	(1,666)
24TH INDEP DAY CELEBRATIO	C8INDD	50,000	(12,779)	-	12,779	-
25TH INDEPENDCE DAY ACTIVI	C9INDD	50,000	-	50,000	14,508	(35,492)
UNFCC MEETING - OERC	F78984	18,319	(16,626)	-	-	(16,626)
DRUG TASK FORCE	J68984	150,000	(12,678)	-	707	(11,971)
EMPLOYEE APP DAY 2018	P8EMP1	30,000	14,593	-	14,823	29,416
MCSF CONTRIBUTIONS	P8MCS1	90,000	(90,000)	120,000	-	(210,000)
MICRO CNTR 4 SUST FUTURE	P8MCSF	200,000	79,963	200,000	104,897	(15,140)
PVA-OTP HOLIDAY PROJECT	P8OTP1	72,000	72,325	-	-	72,325
MICRO PRESIDENT SUMMIT	P9MPS1	200,000	-	100,000	83,235	(16,765)
SIS LEADERS SPECIAL MTG	S68984	200,000	(7,456)	-	(6,593)	(14,049)
Total ROC Grants		<u>1,381,426</u>	<u>(20,222)</u>	<u>470,000</u>	<u>235,620</u>	<u>(254,602)</u>

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Fund 360100 Grantor Account Title	Cost Center	Authorization	Receivable from Grantor (Unearned Revenue) at 9/30/2018	Cash Receipts FY 2019	Expenditures FY 2019	Receivable from Grantor (Unearned Revenue) at 09/30/2019
RESEARCH CORP UH-RCUH						
PALAU CANCER REGISTRY	H38985	113,277	2,753	-	(2,753)	-
Total RCUH Grants		<u>113,277</u>	<u>2,753</u>	<u>-</u>	<u>(2,753)</u>	<u>-</u>
PALAU CONSERVATION SOCIETY (PCS)						
REVIVE TRADNL CROPLANDS	A78989	25,350	(15,116)	-	9,480	(5,636)
PCS PALARIS 6 NAT RPT CBD	F98989	2,500	-	2,500	-	(2,500)
Total PCS		<u>27,850</u>	<u>(15,116)</u>	<u>2,500</u>	<u>9,480</u>	<u>(8,136)</u>
SAMHSA						
BHSIS 2020	H08993	61,813	-	15,453	2,177	(13,276)
BHSIS 2014	H48993	42,033	(1,071)	-	-	(1,071)
BHSIS 2015	H58993	62,526	(501)	-	-	(501)
BHSIS 2016	H68993	61,813	501	-	-	501
BHSIS 2017	H78993	61,813	(55)	-	-	(55)
BHSIS 2018	H88993	77,266	(29,538)	-	6,415	(23,123)
BHSIS 2019	H98993	61,813	-	46,360	63,224	16,864
Total SAMHSA		<u>429,077</u>	<u>(30,664)</u>	<u>61,813</u>	<u>71,816</u>	<u>(20,661)</u>
ADB - HIES						
PALAU HIES TA8581-REG	F58995	200,000	(79,349)	-	-	(79,349)
Total ADB - HIES		<u>200,000</u>	<u>(79,349)</u>	<u>-</u>	<u>-</u>	<u>(79,349)</u>
PARTIES TO THE NAURU FUND						
OCEANS CONFERENCE 2020	M98996	700,000	-	700,000	650,928	(49,072)
PAN - MPA	R58996	95,715	(211)	-	-	(211)
PAN - MPA 2017	R78996	562,500	(41,510)	400,000	318,397	(123,113)
Total Parties to Nauru Fund		<u>1,358,215</u>	<u>(41,721)</u>	<u>1,100,000</u>	<u>969,325</u>	<u>(172,396)</u>
Total Other Grants		<u>19,195,526</u>	<u>(1,148,436)</u>	<u>6,175,693</u>	<u>5,082,405</u>	<u>(2,241,724)</u>
Reconciliation to financial statements:						
Operating transfers in						(5,397)
Operating transfers out						6,721
Net change in fund balances						<u>17,549</u>
Total unearned revenue						<u>(2,222,851)</u>

See Accompanying Independent Auditors' Report.